Interim management report

Cadent
Your Gas Network

Cadent Finance Plc

Report for the six months ended 30 September 2018

Operations

Cadent Finance Plc ("the Company") is a wholly owned subsidiary of Cadent Gas Limited and operates as part of the Cadent Gas group's ("the Group") regulated gas distribution business.

The principal activity of the Company is the provision of long term finance for its immediate parent, Cadent Gas Limited. The directors are not aware at the date of this report, of any likely major changes in the company's activities or prospects in the next year.

In the first half of the year, the Company delivered a loss of £19,000 in line with management expectations. For the full year, the Company is on track to make a small operating loss.

Long-term strategy and business objectives

In our most recent annual report and financial statements, we reported the Company's objective to continue to provide long term finance for its immediate parent.

Funding arrangements

The Company's balance sheet remains robust, and we have maintained our investment grade credit ratings from Moody's, Standard & Poor's and Fitch ratings.

On 19 July 2018, Cadent Finance Plc issued JPY 10,000,000,000 of fixed rate private loan notes which were swapped to GBP at the same time. The proceeds of which were loaned to Cadent Gas Limited in JPY and an internal swap between Cadent Finance Plc and Cadent Gas Limited mirroring the original swap converted the proceeds from JPY to GBP. The loan notes and the swaps will mature in July 2033.

Results for the six months ended 30 September 2018

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

	Six months ended 30 September 2018 £'000	Six months ended 30 September 2017 £'000
(Loss) / profit before tax	**(19)**	(30)
(Loss) / profit after tax	**(19)**	(24)

Interest receivable

Interest received during the period from Cadent Gas Limited, the immediate parent company of Cadent Finance Plc, was £53,130,000 (six months ended 30 September 2017: £52,305,000) arising from the intercompany loans in place.

Interest Payable

Interest payable during the period was £53,130,000 (six months ended 30 September 2017: £52,305,000) due on external borrowings.

Result for the period

The Company made a £19,000 loss for the period (six months ended 30 September 2017: loss £24,000)

Creditors: amounts falling due within one year

Accruals fell by £30m in the six months to 30 September 2018 due to coupon payments made on the sterling and euro debt on 24 September 2018, so there was only six days of accruals on these borrowings.

Financial position

The financial position of the Company is presented in the Statement of Financial Position. Total shareholders' deficit at 30 September were £(1,573,000) (shareholder funds at 31 March 2018: £26,000).

On 19 July 2018, Cadent Finance Plc issued JPY 10,000,000,000 of fixed rate private loan notes which were swapped to GBP at the same time. The proceeds of which were loaned to Cadent Gas Limited in JPY and an internal swap between Cadent Finance Plc and Cadent Gas Limited mirroring the original swap converted the proceeds from JPY to GBP. The loan notes and the swaps will mature in July 2033.

Related party transactions

There has been no material changes in the related party transactions described in the last annual report.

Events after the balance sheet date

On 8 November 2018, National Grid Plc announced its decision to exercise the option over the remaining 39% investment in Quadgas HoldCo Limited (an indirect parent company of Cadent Finance Plc) with an expected completion date of June 2019, subject to regulatory approvals. The option over 25% of the investment in Quadgas HoldCo Limited was entered into on 1 May 2018 and the 14% option in the investment entered into at the time of the original sale of the majority stake in March 2017. Post completion, 100% of the investment in Quadgas HoldCo Limited will be owned by the consortium company, Quadgas Investment BidCo Limited.

Key performance indicators

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of Cadent Gas Limited.

For information on the development, performance, risks, uncertainties and position of Cadent Gas Limited and its subsidiaries and of the key performance indicators used, refer to the Strategic Report included in Cadent Gas Limited's Annual Report and Accounts 2017/18, which does not form part of this report.

Impact of new accounting standards

The 2018 Interim Financial Statements have been prepared under FRS 104. FRS 104 stipulates that the GAAP applicable at the year-end should be applied for the Interim Statements, which in this case is Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) as issued by the Financial Reporting Council. As a result, the new accounting standards under IFRS, namely, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are applicable to reporting periods beginning on or after 1 January 2018, and have therefore been adopted by the Company for the period commencing 1 April 2018 and IFRS 16 Leases will become effective for period commencing 1 April 2019. It should be noted, however, that IFRS 15 and IFRS 16 have no impact on the Company as there is no revenue or leases applicable.

In line with the assessment disclosed in the Cadent Gas Group's Annual Report and Accounts for the year ending 31 March 2018, the adoption of IFRS 9 'Financial Instruments' did not give rise to material transitional adjustments (see note 1 for more detail for the impact on the Company).

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 March 2018. A detailed explanation of the risks and how the Company seeks to mitigate the risks, can be found on pages 3 to 4 of the annual report and financial statements. Below is a summary of our key risks as at 30 September 2018:

- Liquidity risk
- Credit risk
- Interest rate cash flow risk
- Inflation rate cash flow risk
- Foreign exchange risk

Going concern

The balance sheet shows net liabilities of £(1,573,000). As stated in note 1 to the financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor

Following the completion of the 2017/18 audit process, Deloitte LLP has been re-appointed as Auditor of the Quadgas MidCo Limited Group and its subsidiaries including Cadent Finance Plc.

Cautionary statement

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

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

By order of the Board,

Chris Train
Director
12 December 2018
Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE

Cadent Finance Plc

Responsibility statement

The half year financial information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority.

The Directors confirm that the financial information has been prepared in accordance with FRS 104 Interim Financial Reporting as issued by the Financial Reporting Council, and that the half year report herein includes a fair review of the information required by DTR 4.2.7.

The Directors of Cadent Finance Plc during the period and up to the date of signing the financial statements were:

J Korpancova
C Train
M Braithwaite (appointed 28 November 2018)
C J Waters (resigned 29 October 2018)
M Bradley (resigned 28 November 2018)

By order of the Board,

Chris Train
Director
12 December 2018

Independent review report to Cadent Finance Plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 which comprises the income statement, the balance sheet, the statement of changes in equity and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 101 "Reduced Disclosure Framework"). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting".

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Deloitte LLP
Statutory Auditor, London, United Kingdom
12 December 2018

Cadent Finance Plc

Income statement

Six months ended 30 September 2018

	Notes	**Six months ended 30 September 2018 (unaudited) £'000**	Six months ended 30 September 2017 (unaudited) £'000
Interest receivable and similar income	4	**53,130**	52,305
Interest payable and similar charges	5	**(53,130)**	(52,305)
Net losses on external financial instruments	6	**(2,656)**	(1,340)
Net gains on intercompany financial instruments	6	**2,656**	1,340
Impairment of intercompany loans		**(19)**	-
Other		**-**	(30)
(Loss)/profit before taxation		**(19)**	(30)
Tax	7	**-**	6
(Loss)/profit for the financial year		**(19)**	(24)

The results reported above relate to continuing activities. There was no other comprehensive income for the year other than those reported above

Cadent Finance Plc

Statement of financial position

As at 30 September 2018

	Notes	**30 September 2018 (unaudited) £'000**	31 March 2018 (audited) £'000
Non-current assets			
Debtors: amounts falling due after more than one year (including impairment due to IFRS 9)		**4,691,295**	4,607,109
Derivative financial instruments: amounts falling due after more than one year	9	**22,602**	12,800
		4,713,897	4,619,909
Current assets			
Debtors: amounts falling due within one year (owed to immediate parent company)		**8,805**	38,793
Derivative financial instruments: amounts falling due within one year	9	**-**	1,841
		8,805	40,634
Current liabilities			
Creditors: amounts falling due within one year		**(8,779)**	(38,767)
Derivative financial instruments: amounts owing within one year	9	**-**	(1,841)
		(8,779)	(40,608)
Net current assets/(liabilities)		**26**	26
Total assets less current liabilities		**4,713,923**	4,619,935
Creditors: amounts falling due after more than one year		**(4,692,894)**	(4,607,109)
Derivative financial instruments: amounts owing after more than one year	9	**(22,602)**	(12,800)
Non-current liabilities		**(4,715,496)**	(4,619,909)
Net assets		**(1,573)**	26
Equity			
Share capital		**50**	50
Profit and loss account		**(1,623)**	(24)
Total shareholders' funds		**(1,573)**	26

Cadent Finance Plc

Statement of financial position

As at 30 September 2018

The financial statements on pages 7 to 15 were authorised for issue by the Board of Directors on 12 December 2018 and were signed on its behalf by:

C Train
Director
Cadent Finance Plc
Company registration number: 05895068

Cadent Finance Plc

Statement of changes in equity

Six months ended 30 September 2018

	Share capital £'000	Profit and loss account £'000	Total £'000
Balance at 31 March 2018 (audited)	**50**	**(24)**	**26**
Changes due to the adoption of IFRS 9 (see note 1)	-	**(1,580)**	**(1,580)**
Balance at 1 April 2018 (restated)	**50**	**(1,604)**	**(1,554)**
Loss for the period	**-**	**(19)**	**(19)**
Other comprehensive income for the period	**-**	-	**-**
Total comprehensive income for the period	**-**	**(19)**	**(19)**
At 30 September 2018 (unaudited)	**50**	**(1,623)**	**(1,573)**

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2017	50	(24)	26
Profit for the period	-	(24)	(24)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(24)	(24)
At 30 September 2017 (unaudited)	50	(48)	2

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

The half year financial information covers the six month period ended 30 September 2018 and has been prepared under Financial Reporting Standards (FRS) as issued by the Financial Reporting Council (FRC), in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The half year financial information is unaudited but has been reviewed by the Auditor and their report is attached to this document. The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2018, which were prepared in accordance with applicable UK accounting and financial reporting standards (FRS101) and the Companies' Act 2006, and have been filed with the Registrar of Companies. The Auditor's report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2019 and consistent with those applied with in the preparation of the accounts for the year ended 31 March 2018, with the exception of adopting IFRS 9. In preparing this half year financial information, the areas of judgement made by management in applying Cadent Finance Plc's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

The Company has net liabilities of £1,573,000. Having made enquiries and reassessed the principal risks, and considering the guarantees in place from its immediate parent, the Directors consider that the Company has adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

As noted above, the 2018 Interim Financial Statements have been prepared under FRS 104. FRS 104 stipulates that the GAAP applicable at the year-end should be applied for the Interim Statements, which in this case is Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) as issued by the Financial Reporting Council. As a result, the new accounting standards under IFRS, namely, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are applicable to reporting periods beginning on or after 1 January 2018, and have therefore been adopted by the Company for the period commencing 1 April 2018 and IFRS 16 Leases will become effective for the period commencing 1 April 2019. It should be noted, however, that IFRS 15 and IFRS 16 have no impact on the Company as the Company has no revenue or leases.

The Company has significant intercompany balances of £4,700,100,000 as its principal activity is the provision of long term finance for its immediate parent, Cadent Gas Limited. Under IFRS 9, the Company is required to calculate expected credit losses on all financial assets, including intercompany loans. The expected credit loss for its intercompany loans has been calculated by considering the probability of default and the loss given default on the outstanding balance of the intercompany loans. The probability of default has been derived by using quoted available information for the Company and the loss given default has been determined by management based on available evidence. As Cadent Gas Limited is an asset intensive regulated industry, the loss given default has assumed to be low by management. An impairment loss of £1,580,000 has been included within opening reserves reflecting the initial impairment of intercompany loans on the adoption of IFRS 9. The movement in the impairment charge included in the income statement in the period amounts to £19,000.

	IAS 39 carrying amount at 31 March 2018	Adjustment relating to IFRS 9 transition	IFRS 9 carrying amount at 1 April 2018
	£'000	£'000	£'000
Retained earnings	(24)	(1,580)	(1,604)
Debtors falling due after one year	4,607,109	(1,580)	4,605,529

2. Segmental analysis

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

3. Seasonality

The Company is not impacted by seasonality due to the nature of the Company's activities.

4. Interest receivable and similar income

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
Interest income from immediate parent company	**53,130**	52,305
	53,130	52,305

5. Interest payable and similar charges

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
Interest payable on other borrowings	**(53,130)**	(52,305)
	(53,130)	(52,305)

6. Net gains/(losses) on financial derivatives

	Six months ended 30 September 2018	Six months ended 30 September 2017
External	**£'000**	£'000
Net gains on derivatives not designated in a hedge relationship	**5,944**	20,399
Exchange losses on revaluation of foreign currency denominated loans	**(8,600)**	(21,739)
	(2,656)	(1,340)

	Six months ended 30 September 2018	Six months ended 30 September 2017
Internal	**£'000**	£'000
Net losses on derivatives not designated in a hedge relationship	**(5,944)**	(20,399)
Exchange gains on revaluation of foreign currency denominated loans	**8,600**	21,739
	2,656	1,340

7. Tax

The tax charge for the period from continuing operations is £Nil (six months to 30 September 2017: £6,000). The effective tax rate of Nil for the period (19%) is calculated by applying the main rate of UK corporation tax to the profits before tax after adjusting for the impairment of intercompany loans which is not tax deductible.

The Finance Act 2015 (No.2) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Act 2016 received Royal Assent on 15 September 2016. The Act further reduced the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. 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 Finance Act 2018 was enacted on 15 March 2018. The Act introduced new rules to potentially restrict interest deductibility for the accounting periods starting after 31 March 2017. It is not anticipated that there will be any interest restriction in the group for the foreseeable future.

8. Dividends

No dividends are proposed for the current financial period

9. Fair value measurement

Certain of the Company's financial instruments are measured at fair value. The following table categorises these financial assets and liabilities by the valuation methodology applied in determining their fair value using the fair value hierarchy described below.

	30 September 2018				31 March 2018			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Assets								
Derivative financial instruments	-	22,602	-	22,602	-	14,641	-	14,641
Liabilities								
Derivative financial instruments	-	(22,602)	-	(22,602)	-	(14,641)	-	(14,641)
Total	-	-	-	-	-	-	-	-

Financial assets and liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost.
The estimated fair value of total borrowings using market values at 30 September 2018 is £4,465,000,000 (31 March 2018: £4,540,000,000).

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.

10. Commitments and Contingencies

At 30 September 2018 there were no commitments for future capital expenditure contracted but not provided for (31 March 2018: £nil).

11. Related party transactions

The Company is exempt under FRS 101.8(k) from disclosing transactions with Cadent Gas Limited and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

12. Events occurring after the reporting period

On 8 November 2018, National Grid Plc announced its decision to exercise the option over the remaining 39% investment in Quadgas HoldCo Limited (an indirect parent company of Cadent Finance Plc) with an expected completion date of June 2019, subject to regulatory approvals. The option over 25% of the investment in Quadgas HoldCo Limited was entered into on 1 May 2018 and the 14% option in the investment entered into at the time of the original sale of the majority stake in March 2017. Post completion, 100% of the investment in Quadgas HoldCo Limited will be owned by the consortium company, Quadgas Investment BidCo Limited.