Company Registration Number: 10487004

Quadgas Investments BidCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2021

Quadgas Investments BidCo Limited
Strategic Report
For the year ended 31 March 2021

The Directors present their Strategic Report for Quadgas Investments BidCo Limited ("the company") for the year ended 31 March 2021.

Review of business

The principle activity of the company is to hold investments in other Quadgas Holdings TopCo Limited subsidiary companies; the only direct investment currently held is in Quadgas HoldCo 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.

Executive summary

During the year the company incurred asset management fees of £5,718k (2020: £4,216k) in accordance with the Asset Management and Advisory Services Agreement with Macquarie Infrastructure and Real Assets (Europe) Limited.

Results

The company's profit for the year was £223,952k (2020: loss of £123,512k) as disclosed on page 15.

The movement is largely due to the reversal of a previous impairment of investments of £101,000k (2020: £393,939k charge), offset by lower dividend income of £127,400k in 2021 (2020: £274,700k).

Financial position

The financial position of the company is presented in the statement of financial position. Total shareholders' funds at 31 March 2021 were £3,369,044k (2020: £3,255,092k) comprising primarily of investments in Group undertakings of £3,354,125k (2020: £3,253,125k). The company has external borrowings which it passes on to Quadgas HoldCo Limited on identical terms.

Key performance indicators and principal risks and uncertainties

As the company is part of a larger group comprising of its direct holding in Quadgas HoldCo Limited and its indirect subsidiary holdings as set out in note 8 ("the 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 Quadgas Holdings TopCo Limited.

Future developments

By nature of its operating business, Quadgas Investment BidCo Limited has not been significantly impacted by the ongoing COVID-19 pandemic and the Directors believe the company will continue to act as a holding company for the foreseeable future.

S172 Statement

The following statement describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006.

The company has no employees and no operational activities; it is a financing company for shareholder debt. The company's principle activity is to hold investments in the parent company's, Quadgas Holdings TopCo Limited, other subsidiary companies.

As a wholly owned subsidiary holding company, the Directors consider the impact of the company's activities on its stakeholders, consisting of its shareholder, its subsidiaries and other stakeholders including (but not limited to) Ofgem (The Office of Gas and Electricity Markets), the UK Government, banks and other financial institutions, and members of the consortium who together own the parent company. Whilst not directly regulated itself, the company maintains a close relationship with Ofgem, via the indirect subsidiary company Cadent Gas Limited.

The company's stakeholders are consulted routinely on a wide range of matters including funding decisions, investment strategy, delivery of the Group's strategy, governance and compliance with Group policies with the aim of maximising investment returns for the benefit of its shareholder and ensuring that its subsidiaries maintain high standards of business conduct and governance. The Board considers the consequences of its decisions through these consultations to ensure that the long-term interests of the company are protected.

As an investment vehicle for the Group, the company obtains and provides finance to fellow subsidiary companies via intercompany balances. The Board considers the company's investments in light of the Group's environmental, corporate and social responsibility strategies, as such the Board receives information on these topics from management to make better informed Board decisions.

The Directors continue to provide oversight governance of its subsidiaries to ensure that they comply with the Group's policies and maintain high standards of business conduct which are a key priority for the Group. Management provide regular updates on its activities to the Directors.

For further information on the Group activities and disclosure please refer to the Cadent Gas Annual Report and Accounts 2020/21.

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

M W Braithwaite
Director
14 July 2021

Quadgas Investments BidCo Limited
Directors' Report
For the year ended 31 March 2021

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

Future developments

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

Dividends

On the 24 March 2021, an interim dividend of 0.035p per ordinary share amounting to £110,000k was declared and paid on 26 March 2021.

The Directors do not propose a final dividend for the current year.

Political donations and political expenditure

The company did not make any donations during the year (2020: £Nil).

Research and development

The company spent £Nil (2020: £Nil) on research and development during the year.

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, exchange rate risk, interest rate risks, inflation rate risks, and the use of derivative and non-derivative financial instruments.

The company acts as a conduit for finance raised and any related derivative transactions between the market and its immediate subsidiary company, and amounts raised or entered into are usually passed on to its immediate subsidiary on identical terms. The company's exposures are limited to the credit risk on the intercompany loans (as disclosed below and in note 9).

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Quadgas Holdings TopCo Limited's (the immediate parent company) short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of external borrowings and intercompany receivables.

Credit risk

The company raises debt finance for other Group subsidiaries. Amounts raised are usually passed on to subsidiaries on identical terms. The principal risk of these arrangements is that the subsidiary is unable to meet its obligations to the company. The company is exposed to the expected credit losses on its intercompany loan with its subsidiary. The expected credit loss has been calculated by considering the probability of default and the loss given default on the balance outstanding on the intercompany loan.

Interest rate risk

The company has interest bearing intercompany assets. To the extent that the company enters into intercompany loan agreements, the company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon a floating index. There were no such loans at 31 March 2021.

Directors

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

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

Directors' indemnity

Quadgas Holdings TopCo 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 Holdings TopCo Limited places Directors' and Officers' liability insurance for each Director.

Going concern

The statement of financial position shows net assets of £3,369,044k at 31 March 2021 (2020: £3,255,092k). The income statement shows a profit for the year ended 31 March 2021 of £223,952k (2020: loss of £123,512k). The movement is largely due to the reversal of a previous impairment of investments of £101,000k (2020: £393,939k charge), offset by lower dividend income of £127,400k in 2021 (2020: £274,700k).

Going concern (continued)

By the nature of its business, Quadgas Investment BidCo Limited has not been significantly impacted by the ongoing COVID-19 pandemic and 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. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

There were no post balance sheet events.

Disclosure of information to auditors

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 auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The auditors have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

Internal control and risk management

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

- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting.

- 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 Board review the draft financial statements. The Board receive reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Capital structure

The share capital of the company consists of 311,653,789,270 ordinary shares of £0.001 each.

Statement of Directors' responsibilities

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

Statement of Directors' responsibilities (continued)

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). 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 company and of the profit or loss of the 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 United Kingdom Accounting Standards, comprising IFRS, have been followed 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 company will continue in business.

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

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

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

M W Braithwaite
Director
14 July 2021

Registered office:
Ashbrook Court
Prologis Park
Central Boulevard
Coventry
CV7 8PE

Registered in England and Wales
Company registration number: 10487004

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUADGAS INVESTMENTS BIDCO LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Quadgas Investments BidCo Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of total comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

2. 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, 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.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the valuation of unlisted investments. Within this report, key audit matters are identified as follows: Similar level of risk

Materiality	The materiality that we used in the current year was £38.9 million which was determined on the basis of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our approach is largely consistent with the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- analysis of the liquidity position and availability of funds;
- analysis of the covenants compliance during the going concern period;
- assessment of the appropriateness of management's forecasted cash flows and covenants under the base case and the reasonable worst case (RWC) scenario, and whether there were other factors that should be considered in this scenario given the Covid-1 pandemic;
- assessment of the reasonableness of the Covid-19 adjustments within management's models considering any contradictory evidence available from economic forecasts and industry specific data points;
- analysis of management's mitigating factors, such as reduced working capital and dividends distributions and re-profiling of their capital spend; and
- assessment of the disclosures in the financial statements relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of unlisted investments

Key audit matter description	The company has unlisted investments of £3,354 million as at 31 March 2021 (31 March 2020: £3,253 million), valued at cost less impairment. These investments comprise an investment in Quadgas HoldCo Limited and its subsidiaries and are highly material to the company as they account for 78% of total assets (prior year: 78%). An impairment reversal of £101 million has been recognised during the year (prior year: £394 million impairment). Judgement is required by the directors as to whether the investments should be impaired or reversal of impairment loss can be recognised based on the financial position and future prospects of the investments. This takes into consideration a range of factors such as trading performance, the expected revenue growth and discount rates. Further details are included within significant accounting policies in note 1(f) and note 8 (investments in group undertakings) to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls related to the valuation of unlisted investments. We obtained the most recent audited financial information of the related investments to determine whether they supported the carrying value. We reviewed key assumptions used when determining the carrying value and assessed the appropriateness of the reversal of impairment determined by management. We also reviewed the historical accuracy of management's forecasts by comparing the actual results to forecasts.
Key observations	Based on the work performed we concluded that the impairment reversal and the carrying value of unlisted investments is appropriate.

6. Our application of materiality

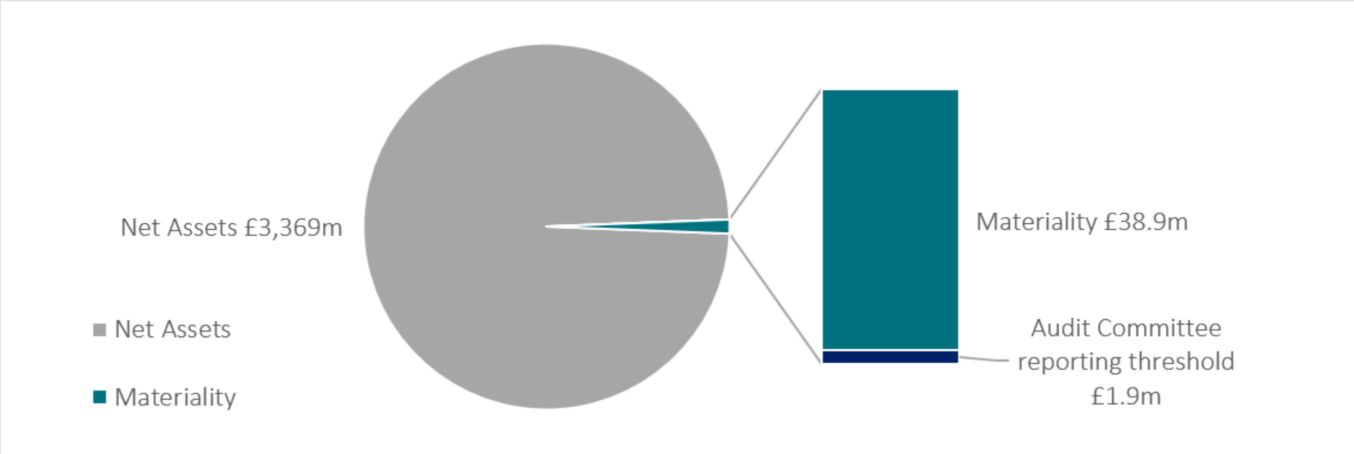
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£38.9 million (2020: £45.1 million)
Basis for determining materiality	Our materiality was determined on the basis of approximately 1.2% (2020: 1.38%) of net assets.

Rationale for the benchmark applied	We determined materiality based on net assets as this is the key metric used by management, investors, analysts and lenders to assess the value of this company.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment;
b. the low number of corrected and uncorrected misstatements in previous audits;
c. the consistency of the business year on year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.9 million (2020: £2.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

The primary purpose of the company is to hold investments in Quadgas HoldCo Limited and its subsidiaries.

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. 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 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 company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit committee and in-house legal counsel and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, model analytics and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. 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.

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 July 2021

Quadgas Investments BidCo Limited
Statement of comprehensive income
For the year ended 31 March 2021

	Notes	2021 £'000s	2020 £'000s
Dividend income from Group undertakings		**127,400**	274,700
Administrative expenses	3	**(5,902)**	(4,363)
Loss allowance	9	**325**	(585)
Operating Profit		**121,823**	269,752
Interest receivable and similar income	5	**60,434**	55,046
Interest payable and similar charges	5	**(60,434)**	(55,047)
Exceptional item - Investment impairment reversal/(impairment)	8	**101,000**	(393,939)
Profit/(Loss) before tax		**222,823**	(124,188)
Tax on profit/(loss) on ordinary activities	6	**1,129**	676
Profit/(Loss) after tax		**223,952**	(123,512)
Total other comprehensive income		**-**	-
Total comprehensive income/(loss) for the year		**223,952**	(123,512)

The results reported above relate to continuing activities. There were no other gains and losses for the period other than those reported above.

The notes on pages 19 to 34 form an integral part of these financial statements.

Quadgas Investments BidCo Limited
Statement of financial position

As at 31 March 2021

	Notes	**2021 £'000s**	2020 £'000s
Non-current assets			
Investments in Group undertakings	8	**3,354,125**	3,253,125
Amounts owed by subsidiary undertakings	9	**901,333**	901,008
Total non-current assets		**4,255,458**	4,154,133
Current assets			
Trade and other receivables	9	**3,172**	2,896
Cash and cash equivalents	11	**19,755**	2,843
Total current assets		**22,927**	5,739
Total assets		**4,278,385**	4,159,872
Current liabilities			
Trade and other payables	12	**(7,341)**	(2,780)
Total current liabilities		**(7,341)**	(2,780)
Net current assets		**15,586**	2,959
Total assets less current liabilities		**4,271,044**	4,157,092
Non-current liabilities			
Borrowings	13	**(902,000)**	(902,000)
Total non-current liabilities		**(902,000)**	(902,000)
Total liabilities		**(909,341)**	(904,780)
Net assets		**3,369,044**	3,255,092
Equity			
Share capital	14	**311,654**	311,654
Share premium	14	**1,621,960**	1,621,960
Retained earnings		**1,435,430**	1,321,478
Total equity		**3,369,044**	3,255,092

The notes on pages 19 to 34 form an integral part of these financial statements.

The financial statements on pages 15 to 34 were approved by the Board of Directors on 14th July 2021 and were signed on its behalf by:

M W Braithwaite
Director
Quadgas Investments BidCo Limited
Company registration number: 10487004

Quadgas Investments BidCo Limited
Statement of changes in equity
For the year ended 31 March 2021

	Notes	Share capital £'000s	Share premium £'000s	Retained earnings £'000s	Total £'000s
At 1 April 2020		311,654	1,621,960	1,321,478	3,255,092
Total comprehensive income for the year		-	-	223,952	223,952
Equity dividends paid		-	-	(110,000)	(110,000)
At 31 March 2021		**311,654**	**1,621,960**	**1,435,430**	**3,369,044**

	Share capital £'000s	Share premium £'000s	Retained earnings £'000s	Total £'000s
At 1 April 2019	2,960,711	-	(935,767)	2,024,944
Total comprehensive loss for the year	-	-	(123,512)	(123,512)
Issue of ordinary shares	-	1,621,960	-	1,621,960
Capital reduction	(2,649,057)	-	2,649,057	-
Equity dividends paid	-	-	(268,300)	(268,300)
At 31 March 2020	**311,654**	**1,621,960**	**1,321,478**	**3,255,092**

See note 14 for details on issue of ordinary shares and capital reduction.

The notes on pages 19 to 34 form an integral part of these financial statements.

Quadgas Investments BidCo Limited
Statement of cash flows
For the year ended 31 March 2021

	Notes	**2021** **£'000s**	2020 £'000s
Cash flows from operating activities			
Operating Profit		**121,823**	269,752
Adjustments:			
Loss allowance	9	**(325)**	585
Decrease/ (Increase) in receivables	9	**177**	(2,220)
Increase in payables	12	**4,561**	2,737
Cash generated from operations		**126,236**	270,854
Tax received	6	**676**	-
Net cash generated from operating activities		**126,912**	270,854
Cash flows from investing activities			
Acquisition of subsidiary	8	**-**	(1,621,961)
Net cash used in investing activities		**-**	(1,621,961)
Cash flows from financing activities			
Proceeds from issue of shares	14	**-**	1,621,960
Proceeds from borrowings	13	**-**	357,333
Repayment of borrowings	13	**-**	(5,553)
Loan to subsidiary	9	**-**	(351,780)
Interest paid	5	**(60,434)**	(55,047)
Interest received	5	**60,434**	55,046
Dividend paid	7	**(110,000)**	(268,300)
Net cash (used in)/ generated from financing activities		**(110,000)**	1,353,659
Net increase in cash and cash equivalents		**16,912**	2,552
Cash and cash equivalents at the beginning of the year		**2,843**	291
Cash and cash equivalents at end of the year	11	**19,755**	2,843

The notes on pages 19 to 34 form an integral part of these financial statements.

1) Summary of significant accounting policies

The financial statements of Quadgas Investments BidCo Limited have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Quadgas Investment BidCo Limited is exempt from the requirement to prepare consolidated accounts under the Companies Act 2006 section 400 given it is a wholly owned subsidiary of Quadgas Holdings TopCo Limited. Quadgas Holdings TopCo Limited is a company incorporated in Jersey, Channel Islands. Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Registered office, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.

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

(a) Basis of preparation

The financial statements of Quadgas Investments BidCo Limited have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the going concern basis. The financial statements have been prepared on an historical cost basis and modified to include certain items at fair value where applicable. 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.

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of turnover and expenses during the reporting period. Actual results could differ from these estimates.

(b) New IFRS accounting standards and interpretations

As noted above, the 2021 Annual Report and Financial Statements have been prepared under IFRS.

In the current year, the company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- Amendments to IFRS 7, IFRS 9 and IAS 9- Interest rate benchmark reform (phase 1)
- Amendments to IFRS 16- COVID-19 related rent concessions
- Amendments to IFRS 3- Business Combinations; and
- Amendment to IAS 1 and IAS 8- definition of material.

At the date of authorisation of these financial statements, the company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 17 and IFRS 4, Insurance contracts, deferral of IFRS 9
- Amendments to IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform (phase 2)
- Amendments to IFRS 16- COVID-19 related rent concessions
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities*
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16*
- IFRS 17 'Insurance contracts'*; and
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8.

*Denotes that the standard or interpretation has not yet been adopted by the UK (United Kingdom).

1) Summary of significant accounting policies (continued)

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

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods, except as noted below.

Amendment to IFRS 7, IFRS 9 and IAS 39 - Interest rate benchmark reform (phases 1 and 2)

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates (‘IBORs’) has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The IASB has embarked on a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform.

For Phase 1, the IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform and are mandatory for periods beginning on or after 1 January 2020. Our current portfolio of derivatives (cross-currency interest rate swaps) are not accounted for under the hedge accounting method, and underlying hedged items all pay/receive fixed rates of interest, so no impact is anticipated in this context.

There are no financial instruments held currently by the company that directly reference IBOR.

The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. The amendments are mandatory and are applicable for periods beginning on or after 1 January 2021, although earlier application is permitted. As there are no financial instruments held by the company that directly reference IBOR the impact is limited, however there are additional disclosures requirements under IFRS 7 which the company has applied in these financial statements.

The Cadent Group has performed an internal audit to determine those contracts and financial instruments that reference IBOR, with associated findings presented for review to the Finance Committee. The Financial instruments held currently that directly reference IBOR are term debt, liquidity facilities and RPI swaps all of which sit outside Quadgas BidCo Limited. We continue to strive to promote awareness of the issue and introduce a robust internal structure of governance and control to manage the transition. Additionally, we continue to closely monitor external developments in the relevant markets and adoption rates of market participants, as key aspects of the transition are still under discussion.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Net interest costs

Interest income and interest costs are accrued on a timely basis by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in interest receivable and similar income and interest cost is included in the interest payable and similar charges.

(e) Tax

The tax charge for the period is recognised in the statement of total comprehensive income or directly in equity according to the accounting treatment of the related transaction.

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.

1) Summary of significant accounting policies (continued)

(e) Tax (continued)

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.

(f) Investments in Group undertakings

Investments in Group undertakings are held at cost less accumulated impairment losses.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that investments are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed separately. Impairment reversals are recognised when there is an indication that an impairment loss for an investment either no longer exists or has decreased.

Impairments of investments are calculated as the difference between the carrying value of the investment and its 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.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(h) Financial instruments

Initial recognition

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

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

Classification and measurement

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

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FCTOCI); and
- financial assets at fair value through profit or loss (FVTPL).

1) Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Financial liabilities are classified into one of the following two categories

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. 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.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

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.

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

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

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

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

1) Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Impairment of financial assets

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables;
- loan receivables; and
- other receivables.

The company measures the loss allowances for amounts owed by immediate parent company at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the company recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the company recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the company recognises the lifetime expected credit loss.

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

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the company that the company would not consider otherwise; or
- it is probably that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

(i) Dividends distributions

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.

(j) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one period or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1) Summary of significant accounting policies (continued)

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2) Critical accounting judgements and key sources of 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.

Key sources of estimation uncertainty

Key sources of estimation uncertainty that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year are as follows:

(a) Recoverability of intercompany balances

The recoverability of intercompany balances. An assessment of recoverability is performed under IFRS 9 which mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised. The company has a significant intercompany balance which is required to be assessed for impairment using the expected credit loss model - notes 9 and 17.

(b) Estimation of investment in Group undertakings

Review of carrying values of investments and calculation of impairment. Investments are reviewed annually for impairment by comparison of the cost of the investment with equity value, where equity value is equal to the value in use of the company invested in less any external borrowings plus any cash and cash equivalents. The impairment review requires management to calculate the value in use for investments. The key assumptions for the value in use calculation are those regarding the underlying cash flows, discount rate, regulatory weighted average cost of capital, inflation and terminal value cashflow.

A reversal of a previous impairment on the investment in subsidiary of £101,000k (prior year impairment charge of £303,105k) was credited to the Statement of comprehensive income during the year. More details can be found in notes 8 and 17.

3) Administrative expenses

	2021	2020
	£'000s	£'000s
Audit fees	**29**	27
Legal and professional fees	**155**	120
Asset management fee	**5,718**	4,216
Total administrative expenses	**5,902**	4,363

During the year, the company was charged an annual asset management fee.

4) Directors and employees

There were no employees of the company during the period.

The emoluments of the Directors are not paid to them in their capacity as Directors of the company and are payable for services wholly attributable to other Quadgas Holdings TopCo Limited subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

5) Finance income and costs

	2021	2020
	£'000s	£'000s
Interest income from financial instruments	**60,434**	55,046
Interest receivable and similar income	**60,434**	55,046
Interest expense on financial liabilities held at amortised cost	**(60,434)**	(55,046)
Bank Fees	**-**	(1)
Interest payable and similar charges	**(60,434)**	(55,047)
Net interest costs from continuing operations	**-**	(1)

6) Taxation

	2021	2020
	£'000s	£'000s
Tax before exceptional items and remeasurements	**(1,129)**	(676)
Total tax credit	**(1,129)**	(676)

Taxation as a percentage of profit before tax	**2021**	2020
	%	%
Before exceptional items and remeasurements	**-0.9**	-0.3
After exceptional items and remeasurements	**-0.5**	0.5

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

	2021	2020
Current tax	**£'000s**	£'000s
UK corporation tax at 19% (2020: 19%)	**(1,121)**	(676)
UK corporation tax adjustment in respect of prior years	**(8)**	-
Total current tax credit	**(1,129)**	(676)

The tax credit for the period is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%).

6) Taxation (continued)

	Before Exceptional Items and Remeasurements 2021 £'000s	After Exceptional Items and Remeasurements 2021 £'000s	Before Exceptional Items and Remeasurements 2020 £'000s	After Exceptional Items and Remeasurements 2020 £'000s
Profit before tax				
Before exceptional items and remeasurements	**121,823**	**121,823**	269,751	269,751
Exceptional items and remeasurements	**-**	**101,000**	-	(393,939)
Profit/(loss) before tax	**121,823**	**222,823**	269,751	(124,188)
Profit/(loss) before tax multiplied by UK corporation tax rate of 19% (2020:19%)	**23,146**	**42,336**	51,253	(23,596)
Effect of:				
Expenses not deductible for tax purposes	**-**	**-**	153	153
Non-taxable income	**(24,206)**	**(24,206)**	(52,193)	(52,193)
Loan impairments	**(61)**	**(61)**	111	111
Investment impairment reversal/(impairment)	**-**	**(19,190)**	-	74,849
Prior year adjustment	**(8)**	**(8)**	-	-
Total tax	**(1,129)**	**(1,129)**	(676)	(676)
	%	%	%	%
Effective tax rate	-0.9	-0.5	-0.3	0.5

Factors that may affect future tax charges

The resolution moved by the Chancellor of the Exchequer that the Corporation tax rate for financial year 2021 and 2022 shall be 19% was given statutory effect under the provisions of the Provisional Collection of Taxes Act 1968 on 11 March 2020.

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023.

7) Dividends

	2021 £'000s	2020 £'000s
On the 30 September 2019, an interim dividend of 0.043p per ordinary share amounting to £133,500k was declared and paid.	**-**	133,500
On the 19 March 2020, a second interim dividend of 0.043p per ordinary share amounting to £134,800k was declared and paid on 26 March 2020.	**-**	134,800
On the 24 March 2021, an interim dividend of 0.035p per ordinary share amounting to £110,000k was declared and paid on 26 March 2021.	**110,000**	-
	110,000	**268,300**

The Directors do not propose a final dividend for the current year.

8) Investments in Group undertakings

Quadgas HoldCo Limited is the subsidiary of the company.

	2021 £'000s	2020 £'000s
Cost		
At the opening of the year	**4,592,120**	3,114,405
Acquisition	**-**	1,477,715
Total investment in Group undertakings at the end of the year	**4,592,120**	**4,592,120**

8) Investments in Group undertakings (continued)

	2021 £'000s	2020 £'000s
Provision		
At the opening of the year	**(1,338,995)**	(945,056)
Impairment reversal/(impairment)	**101,000**	(393,939)
Total impairment of Group undertakings at the end of the year	**(1,237,995)**	(1,338,995)
Net book value at the end of the year	**3,354,125**	**3,253,125**
Percentage ownership at the end of the year	**100.00%**	**100.00%**

The company acquired 61% of the share capital in Quadgas HoldCo Limited on 10 February 2017.

In addition, a Further Acquisition Agreement (FAA) was signed in 2017 whereby the company could acquire an additional 14% interest in the Quadgas HoldCo Limited from National Grid Holdings One Plc. On 1 May 2018, the company entered into a Remaining Acquisition Agreement (RAA) with the minority interest shareholder to buy the remaining 25% share in Quadgas HoldCo Limited. On 27 June 2019 and 28 June 2019, the company purchased the remaining shareholdings in Quadgas HoldCo Limited from National Grid Holdings One Plc.

Annual impairment review

The net carrying value of the investment held in Quadgas HoldCo Limited and its subsidiaries was compared to its recoverable amount as part of the annual impairment review carried out by management.

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

The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Final Determination, the acceptance of Cadent’s appeal to the Competition and Markets Authority (“CMA”) and our internal business planning processes. These are all considered in light of their potential impact on the carrying value of investments. The impacts of COVID-19 have also been incorporated into the assumptions applied in the impairment test.

Underlying cash flows

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

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

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

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

8) Investments in Group undertakings (continued)

Discount rate

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

Inflation

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

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

Terminal value cashflow

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

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

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

Further sensitivity and key assumptions are included in note 17.

The receipt of the Ofgem Final Determination and the Group's appeal to the Competition and Markets Authority during the year indicated that the impairment loss recognised in prior years may have decreased. Management calculated an updated recoverable amount, and the calculation indicated that this had had increased over prior year when an impairment loss was recognised as a result of changes in estimates in respect of discount rates, return on equity and Totex, and resulted in an impairment reversal of £101,000k (prior year impairment charge of £303,105k).

8) Investments in Group undertakings (continued)

Carrying value comprised the investment in subsidiary undertakings

Name of Subsidiary	% Holding	Principle activity	Country of Incorporation
Quadgas HoldCo Limited	100%	Intermediate Holding company	England and Wales
Quadgas PledgeCo Limited	100%*	Intermediate Holding company	England and Wales
Quadgas MidCo Limited	100%*	Intermediate Holding company and provision of long term finance	England and Wales
Quadgas Finance Plc	100%*	Provision of long term finance	England and Wales
Cadent Gas Limited	100%*	Gas Distribution	England and Wales
Cadent Finance Plc	100%*	Provision of long term finance	England and Wales
Cadent Services Limited	100%*	Provision of services (including property management)	England and Wales
Cadent Gas Pension Trustee Limited	100%*	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100%*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100%*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100%*	Management of pension services	England and Wales

* Indirect ownership

The registered address of these investments is Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE

9) Trade and other receivables

	2021	2020
	£'000s	£'000s
Amounts falling due within one year:		
Prepayments	1,507	1,132
Amounts owed from subsidiary undertakings	1,665	1,764
Total trade and other receivables	**3,172**	**2,896**
6.7% loan note to Subsidiary	544,120	544,120
6.7% loan note to Subsidiary	6,100	6,100
6.7% loan note to Subsidiary (FAA)	126,280	126,280
6.7% loan note to Subsidiary (RAA)	225,500	225,500
Loss allowance	(667)	(992)
Total loan to Subsidiary	**901,333**	**901,008**

As at 31 March 2021, the company had prepaid its asset management fees to the Consortium for the period up to and including June 2021.

On 31 March 2017, the company entered into two shareholder loan note agreements with the Consortium for a maximum amount of £3,768,000k and £6,100k. The loan notes bear interest of 6.7% and are repayable on 29 March 2043. As at 31 March 2020 and 31 March 2021, £544,120k and £6,100k remained outstanding.

On 28 June 2019, the company entered into two further shareholder loan note agreements with the Consortium of £126,280k and £225,500k. The loan notes bear interest of 6.7% and are repayable on 29 March 2043. As at 31 March 2020 and 31 March 2021, £126,280k and £225,500k remained outstanding.

The company measures the loss allowance for amounts owed by immediate parent company at an amount equal to 12 month expected credit loss, representing a stage 1 financial asset.

9) Trade and other receivables (continued)

The financial asset will move to stage 2 where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the company recognises a loss allowance for lifetime expected credit loss.

A financial asset will move to stage 3 when it has become credit impaired, and the company will recognise the lifetime expected credit loss.

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The company has taken default to be defined as a counterparty that has entered administration.

10) Derivative financial instruments

The company's derivative financial instruments were put and call options. These options were exercised as part of the increase in investment in the prior year (see note 8).

Below is a summary of the balances of the company's derivative financial (liabilities)/assets as at 31 March:

	2021	2020
	£'000s	£'000s
At the beginning of the year	-	(144,246)
Fair value movement	-	-
Settlement	-	144,246
At the end of the year	**-**	**-**

There was no movement in the fair value of the put and call options between 31 March 2019 and the date of settlement on the 27 June 2019 and 28 June 2019.

11) Cash and cash equivalents

	2021	2020
	£'000s	£'000s
Cash at bank and in hand	19,755	2,843
Total cash and cash equivalents	**19,755**	**2,843**

12) Trade and other payables

	2021	2020
	£'000s	£'000s
Amounts falling due within one year:		
Trade payables	7,312	2,717
Accruals	29	63
Total trade and other payables	**7,341**	**2,780**

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

13) Borrowings

	2021	2020
	£'000s	£'000s
Amounts falling due after more than one year:		
6.7% Loan notes from Consortium	550,220	550,220
6.7% Additional loan notes from Consortium	351,780	351,780
Total borrowings	**902,000**	**902,000**

During the prior year, the company placed £351,780,000 of private loan notes with the Consortium of shareholders. The loan notes were placed on the same terms as the original loan notes with a rate of 6.7% per annum and maturing on 29 March 2043. The loan notes are unsecured and are listed on The International Stock Exchange (TISE).

14) Share capital and share premium

Ordinary shares are classified as equity and have a par value of £0.001. The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

As at 31 March 2021, the share capital, amounting to £311,654k, is represented by 311,653,789,270 ordinary shares with nominal value of £0.001. Below is a breakdown of the issued share capital as at the reporting date.

	2021 Number of Shares	2021 Par Value £'000s	2021 Share Premium £'000s	2021 Total £'000s
At 31 March 2020 - fully paid	311,653,789,270	311,654	1,621,960	1,933,614
Total equity at 31 March 2021	**311,653,789,270**	**311,654**	**1,621,960**	**1,933,614**

	2020 Number of Shares	2020 Par Value £'000s	2020 Share Premium £'000s	2020 Total £'000s
At 31 March 2019 - fully paid	311,653,789,170	2,960,711	-	2,960,711
Issue of ordinary shares	100	-	1,621,960	1,621,960
Reduction of shares	-	(2,649,057)	-	(2,649,057)
Total equity at 31 March 2020	**311,653,789,270**	**311,654**	**1,621,960**	**1,933,614**

15) Financial risk management

The company's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risks limits and other controls. The process of risk management is critical to the company's continuing profitability. The company is exposed to market risk (which namely includes interest rate risk), credit risk and liquidity risk arising from the financial instruments it holds.

The company's senior management oversees the management of those risks. Management reviews and agrees policies for managing each of those risks, which are summarised below.

(a) Market risk

Market risk comprises the following types of risk: interest rate risk and currency risk. The maximum risk resulting from financial instruments equals their carrying amount.

Interest rate risk

The company is not exposed to changes in interest rates, as the company's Loan Notes are issued at a fixed interest rate of 6.7%.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the presentation currency and functional currency of the company is the same, i.e. GBP, the company has minimal exposure to foreign currency risk.

(b) Credit risk

The company passes debt finance from the Consortium to its immediate subsidiary Quadgas HoldCo Limited on identical terms. The principal risk of these arrangements is that Quadgas HoldCo Limited is unable to meet its obligations to the company. The company is exposed to the expected credit losses on its intercompany loan with Quadgas HoldCo Limited. The expected credit loss has been calculated by considering the probability of default and the loss given default on the balance outstanding on the intercompany loan.

Credit risk also arises from cash and cash equivalents held in banks and other financial institutions. Cash and cash equivalents are invested in major banks. The management of the company believes that the financial institutions that ·hold the company's investments are financially sound and accordingly, minimal credit risk exists with respect to cash and cash equivalents of the company.

(c) Liquidity risk

Liquidity risk is defined as the risk the company will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risks arises because of the possibility that the company could be required to pay its liabilities earlier than expected.

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments as at 31 March 2021:

	Less than 1 year £'000s	Between 1 and 5 years £'000s	More than 5 years £'000s	Total £'000s
Loan notes	-	-	902,000	902,000
Interest payable on loan notes	60,434	241,736	1,027,378	1,329,548
Trade Payables	7,341	-	-	7,341
Total at 31 March 2021	**67,775**	**241,736**	**1,929,378**	**2,238,889**

15) Financial risk management (continued)

(c) Liquidity risk (continued)

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments as at 31 March 2020:

	Less than 1 year £'000s	Between 1 and 5 years £'000s	More than 5 years £'000s	Total £'000s
Loan notes	-	-	902,000	902,000
Interest payable on loan notes	60,434	241,736	1,087,812	1,389,982
Trade Payables	2,780	-	-	2,780
Total at 31 March 2020	**63,214**	**241,736**	**1,989,812**	**2,294,762**

(d) Capital risk

The capital structure of the company consists of shareholder's equity, as disclosed in the statement of changes in equity. Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our main regulated operating company, Cadent Gas Limited, is an important aspect of our capital risk management strategy and balance sheet efficiency.

16) 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 the company. The related parties identified include the immediate parent, ultimate parent and fellow subsidiaries.

	2021 £'000s	2020 £'000s
Dividend received from subsidiary undertaking	127,400	274,700
Dividend paid to immediate parent undertaking	110,000	268,300
Interest received from subsidiary undertaking	60,434	55,046
Interest paid to Consortium	60,434	55,046
Management service fee paid to Macquarie Infrastructure and Real Assets (Europe) Limited (i)	5,718	4,216
Amounts receivable from subsidiary undertaking	901,333	901,008
Amounts owed by subsidiary undertaking	1,665	1,764
Borrowings owed to Consortium	902,000	902,000
Amounts payable to Macquarie Infrastructure and Real Assets (Europe) Limited (i)	7,312	2,717
Prepaid amounts owed by Macquarie Infrastructure and Real Assets (Europe) Limited (i)	1,507	1,132

i) Macquarie Infrastructure and Real Assets (Europe) Limited is related to the Consortium member MIRA UK Gas Holdings Limited.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

17) Sensitivity analysis

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

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

The sensitivities all have an approximately equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. A negative value in the table below indicates the value of impairment which would be recognised, whereas a positive value indicates an increase in headroom. An increase in the carrying value of the investment can only be recognised to the extent that it reverses a previous impairment, in line with the requirements of IAS 36.

	2021		2020	
	Income Statement £'000s	**Net Assets £'000s**	Income Statement £'000s	Net Assets £'000s
Investment in Group undertakings impairment				
CPI decrease of 0.5%	**(896,000)**	**(896,000)**	1,207,000	1,207,000
Pre-tax discount rate increase of 0.5%	**(535,000)**	**(535,000)**	1,087,000	1,087,000
Terminal value change of 0.05 multiple	**155,000**	**155,000**	272,000	272,000
Cost of Equity within Regulatory WACC decrease of 0.5%	**64,000**	**64,000**	386,000	386,000
Recoverability of intercompany balances				
Probability of default change of 0.1%	**180**	**180**	180	180
Recovery rate change of 10%	**334**	**334**	496	496

18) Post balance sheet events

There are no post balance sheet events.

19) Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited which is the immediate parent company. The largest and smallest groups which include the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited. Quadgas Holdings TopCo Limited is registered in Jersey.

Copies of Quadgas Holdings TopCo Limited’s consolidated financial statements can be obtained from the Registered Office, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.