Company Registration Number: 10614954

Quadgas PledgeCo Limited

Annual Report and Audited Financial Statements

For the year ended 31 March 2019

Quadgas PledgeCo Limited

Strategic Report

For the year ended 31 March 2019

The Directors present their Strategic Report for Quadgas PledgeCo Limited ("the Company") for the year ended 31 March 2019.

Review of the business

The principle activity of the Company is to hold investments in other Quadgas HoldCo Limited subsidiary companies; the only direct investment currently held is in Quadgas MidCo 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 recognised an impairment against its investment held in Quadgas MidCo Limited and its subsidiaries of £1,550 million after management conducted their annual impairment review. The impairment was driven by Ofgem announcements on RIIO-2 during the course of the year which had a significant impact on the recoverable amount (see note 7).

On 1 April 2018 the Company adopted IFRS 9 'Financial Instruments' (IFRS 9) which mandates the use of an expected credit loss model to calculate impairments rather than an incurred loss model. On transition to IFRS 9, the Company recognised a loss allowance against its intercompany receivables of £1 million (see note 1).

Results

The Company's the loss for the year was £(1,210) million (2018: Profit of £369 million).

Financial position

The financial position of the Company is presented in the statement of financial position. Total shareholders' funds at 31 March 2019 were £3,555 million (2018: £5,106 million) comprising primarily of investments in group undertakings of £3,556 million (2018: £5,106 million). Intercompany loans receivable and payable prior to impairments net to £Nil as debt is passed through the Quadgas HoldCo Group, however on transition to IFRS 9 a £1 million loss allowance was recognised against the Company's intercompany loan receivable (see note 1).

Key performance indicators and principal risks and uncertainties

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 period, 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 HoldCo Limited.

For information on the development, performance, risks, uncertainties and position of Quadgas HoldCo Limited and its subsidiaries and of the key performance indicators used, refer to the Strategic Report included in Quadgas HoldCo Limited's Annual Report and Accounts 2018/19, which does not form part of this report.

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

M W Braithwaite
Director
18 July 2019

Quadgas PledgeCo Limited

Directors' Report

For the year ended 31 March 2019

The Directors present their Report and the audited financial statements of the Company for the year ended 31 March 2019.

Future developments

The Company will continue to act as a holding Company for the foreseeable future.

Dividends

On the 28 September 2018, an interim dividend of 3.33p per ordinary share amounting to £170,000,000 was paid.

On the 21 March 2019, a second interim dividend of 3.33p per ordinary share amounting to £170,000,000 was declared and was paid on 27 March 2019.

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 period (2018: £Nil).

Research and development

The Company spent £Nil (2018: £Nil) on research and development during the period.

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 and credit risk. These risks are managed by Cadent Gas Limited's (a fellow group company) Treasury function ('Treasury') for the Company and fellow group subsidiaries.

The Company acts as a holding company. Debt finance passes through the company from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. Its exposure prior to impairments are therefore £Nil (2018: £Nil), however on transition to IFRS 9 a £1 million loss allowance was recognised against the Company's intercompany loan receivable (see note 1).

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

Liquidity risk

The Company finances its operation through a combination of new share issues and intercompany balances to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities. The Company passes debt finance from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms.

Credit risk

The Company passes debt finance from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. The principal risk of these arrangements is that Quadgas MidCo Limited is unable to meet its obligations to the Company.

Credit risk(continued)

Treasury monitors the exposure that the Company and its fellow group subsidiaries has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Directors

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

M W Braithwaite	
J Korpancova	
H C Higgins	
D Karnik	
P D Noble	
D J Xie	
I M Coucher	
N J Axam	(Appointed 17 May 2018)
A M Al-Ansari	(Appointed 17 May 2018)
S C Humphreys	(Appointed 20 July 2018, Resigned 29 October 2018)
H Su	(Appointed 23 August 2018)
R Greenleaf	(Appointed 28 November 2018)
M W Mathieson	(Appointed 28 November 2018)
E B Fidler	(Appointed 29 November 2018)
S Fennell	(Appointed 15 May 2019)
J Bao	(Resigned 23 August 2018, Appointed 28 June 2019)
A J Agg	(Resigned 20 July 2018)
L N Shaw	(Resigned 29 October 2018)
C P Bennett	(Resigned 29 October 2018)
C J Waters	(Resigned 29 October 2018)
M Bradley	(Resigned 28 November 2018)
A McMenamin	(Resigned 29 November 2018)
M J Gregory	(Resigned 15 May 2019)

Directors' indemnity

Quadgas HoldCo Limited has arranged, in accordance with the Companies Act 2006 section 234 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, Quadgas HoldCo Limited places Directors' and Officers' liability insurance for each Director and these costs have been borne by Quadgas HoldCo Limited.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

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:

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the 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 5,105,581,781 ordinary shares of £0.0001 each.

In the prior period, the Company reduced its share capital from £5,105,581,781 to £510,558 through reducing the nominal value of the ordinary shares from £1 to £0.0001.

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 FRS 101, 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
18 July 2019

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

Registered in England and Wales
Company registration number: 10614954

Independent auditors' report to the members of

Quadgas PledgeCo Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Quadgas PledgeCo Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; 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 Comprehensive Income;
- the Statement of Financial Position;
- the Statements of Changes in Equity; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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

In preparing the financial statements, the directors are responsible for assessing the 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.

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent auditors' report to the members of

Quadgas PledgeCo Limited (continued)

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

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
18 July 2019

Quadgas PledgeCo Limited

Statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 £m	59-week Period ending 31 March 2018 £m
Dividend income from group undertakings		340	369
Interest receivable and similar income	5	61	71
Impairment of investments	7	(1,550)	-
Interest payable and similar charges	5	(61)	(71)
(Loss)/Profit on ordinary activities before tax		(1,210)	369
Tax on (loss)/profit on ordinary activities	6	-	-
(Loss)/Profit after tax		(1,210)	369
Total other comprehensive income		-	-
Total comprehensive (loss)/income		(1,210)	369

The results reported above relate to continuing activities. There were no other gains and losses for the period other than those reported above. The Company was incorporated on 13 February 2017 and the comparative results represent the 59 week period ending 31 March 2018.

The notes on pages 12 to 22 form an integral part of these financial statements.

Quadgas PledgeCo Limited

Statement of financial position

As at 31 March 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investments in group undertakings	7	3,556	5,106
Amounts owed by subsidiary undertakings	8	901	902
Total non-current assets		4,457	6,008
Current assets			
Amounts owed by subsidiary undertakings	8	-	-
Cash and cash equivalents		-	-
Total current assets		-	-
Total assets		4,457	6,008
Current liabilities			
Amounts owed to group undertakings	10	-	-
Trade and other payables		-	-
Total current liabilities		-	-
Non-current liabilities			
Amounts owed to group undertakings	10	(902)	(902)
Total non-current liabilities		(902)	(902)
Total liabilities		(902)	(902)
Net assets		3,555	5,106
Equity			
Share capital	11	1	1
Retained earnings		3,554	5,105
Total equity		3,555	5,106

The financial statements on pages 9 to 22 were approved by the Board of Directors on 18 July 2019 and signed on its behalf by:

The notes on pages 12 to 22 form an integral part of these financial statements.

M W Braithwaite
Director

Quadgas PledgeCo Limited
Company registration number: 10614954

Quadgas PledgeCo Limited

Statement of changes in equity

For the year ended 31 March 2019

	Notes	Share capital £m	Retained earnings £m	Total £m
At 1 April 2018		1	5,105	5,106
Changes due to the adoption of IFRS 9	1	-	(1)	(1)
At 1 April 2018 (restated)		1	5,104	5,105
Total comprehensive loss for the year		-	(1,210)	(1,210)
Equity dividends paid	9	-	(340)	(340)
At 31 March 2019		1	3,554	3,555

	Notes	Share capital £m	Retained earnings £m	Total £m
At 13 February 2017		-	-	-
Total comprehensive income for the period		-	369	369
Issue of share capital		5,105	-	5,105
Reduction of share capital		(5,104)	5,104	-
Equity dividends paid		-	(368)	(368)
At 31 March 2018		1	5,105	5,106

The notes on pages 12 to 22 form an integral part of these financial statements.

1 Summary of significant accounting policies

Quadgas PledgeCo Limited holds investments in other Quadgas HoldCo Limited subsidiary companies. The Company is a private limited company incorporated and domiciled in England and is registered in England and Wales, with its registered office at Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Quadgas PledgeCo 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 HoldCo Limited. Quadgas HoldCo Limited is registered in England and Wales. Copies of Quadgas HoldCo Limited's consolidated financial statements can be obtained from the Company Secretary, Cadent Gas Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

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

(a) Basis of preparation

The financial statements of Quadgas PledgeCo Limited have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. 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 Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

The financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, non-current assets held for sale, financial instruments, capital management, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been presented in the group financial statements of Quadgas HoldCo Limited.

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

The Company has applied IFRS 9 'Financial Instruments' for the first time during the period coming into effect on 1 April 2018. The nature and effect of this change is disclosed below.

1 Summary of significant accounting policies (continued)

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

IFRS 9 'Financial Instruments'

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

This change has not resulted in any changes to how the company classified financial assets.

Impairment

IFRS 9 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 new impairment model applies to the company's financial assets and loan commitments.

The company has a significant intercompany balance which is required to be impaired under IFRS 9. The changes made to the opening position are summaries below.

	IAS 39 carrying amount at 31 March 2018	Adjustment relating to IFRS 9 transition	IFRS 9 carrying amount at 1 April 2018
	£m	£m	£m
Retained earnings	5,105	(1)	5,104
Debtors fully due after one year	902	(1)	901

Hedge accounting

The company does not currently apply hedge accounting.

IFRS 15 'Revenue from Contracts with customers'

IFRS 15 provides a single, principles-based approach to the recognition of revenue from contracts with customers, focussing on the identification of performance obligations in a contract and requiring revenue to be recognised when or as those performance obligations are satisfied. As Quadgas PledgeCo Ltd has not entered into contracts with customers, the implementation of IFRS 15 has had no impact on the Financial Statements.

IFRS 16 'Leases'

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. As Quadgas PledgeCo Ltd has not entered into any leases, it is not expected that the implementation of IFRS 16 will have any impact on the Financial Statements.

1 Summary of significant accounting policies (continued)

(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.

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, in management's opinion, the reversal is permanent.

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) Financial instruments

<u>Initial recognition</u>
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.

<u>Classification and measurement</u>
Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

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

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

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.

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

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.

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; and
- loan receivables; and
- other receivables.

The company measures the loss allowances for amounts owed by immediate parent company at an amount equal to the lifetime 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.

1 Summary of significant accounting policies (continued)

(h) 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.

2 Critical accounting judgements and estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

- The 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 impaired under IFRS 9 - note 1.
- Impairment of investments - note 7.

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:

- Review of carrying values of investments and calculation of impairment - note 7.

3 (Loss)/profit before tax

(Loss)/profit before tax is stated after charging/ (crediting) the following:

	2019	2018
	£m	£m
Dividend income from group undertakings	340	369
Amounts written off investments (see note 7)	(1,550)	-

Fees payable to the Company's auditors for the audit of the Company's annual financial statements were £7,800 (2018: £7,500). No other fees were payable to the auditors.

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 HoldCo Limited subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

5 Interest income and costs

	2019	2018
	£m	£m
Interest income on financial instruments	61	71
Interest receivable and similar income	**61**	**71**
Interest expense on financial liabilities held at amortised cost	(61)	(71)
Interest payable and similar charges	**(61)**	**(71)**
Net interest costs from continuing operations	-	-

6 Taxation

	2019	2018
	£m	£m
Current tax:		
UK corporation tax at 19% (2018: 19%)	-	-
Deferred tax:		
UK deferred tax	-	-
Total tax charge	-	-

The tax charge for the period is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019	2018
	£m	£m
(Loss)/Profit before tax	(1,210)	369
(Loss)/Profit before tax multiplied by the UK Corporation tax rate of 19% (2018: 19%)	(230)	70
Effect of:		
Tax effect of dividend income not taxable in determining taxable profit	(65)	(70)
Expenses not deductible for tax purposes	295	-
Total tax charge	-	-

Factors that may affect future tax charges
The Finance Act 2016 reduced the corporate tax rate to 17% from 1 April 2020.

7 Investments in group undertakings

	Shares in Subsidiary Undertakings £m
Cost	
At 1 April 2018 & 31 March 2019	**5,106**
Provision	
At 1 April 2018	-
Impairment loss	(1,550)
31 March 2019	(1,550)
Net book value	
At 31 March 2019	**3,556**
At 31 March 2018	**5,106**

The net carrying value of the investment held in Quadgas MidCo 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, regulatory weighted average cost of capital, inflation and terminal value cashflow.

The cashflow forecast for Cadent Gas Ltd (an indirect subsidiary) has reflected the recent guidance from Ofgem including Management's assessment of the Ofgem range of potential regulatory cost of capital in RIIO-2 and looking further ahead to RIIO-3 and beyond (Ofgem guidance RIIO-2: Low: 4.0%: High 5.6% for Cost of Equity; and up-dated indexation for cost of debt allowances); a proposed reduction in totex sharing factor (Ofgem guidance: 15% - 50%: Current level of c. 63%); and a change in inflation methodology from the current RPI based price control to CPIH from RIIO-2. Management have used the Ofgem ranges when deciding on the variables used in the cashflow forecast. The long run inflation rate applied of 2.15% (CPIH) is based on market forecasts. The cashflows of Cadent Gas Ltd are relatively well insulated for any potential impact of Britain leaving the European Union. The forecast macro-economic impact is included in our value in use assumptions.

The company prepares cash flow forecasts derived from the most recent business plan approved by management to the end of RIIO-1. Cashflows are forecast to 2045 based on detailed assumptions. A terminal value cash flow is applied in 2045. The terminal value is calculated based a RAV forecast multiple at 2045. The terminal value RAV multiple of 1.2 has been derived by reviewing external sources of information on similar transactions.

IAS 38 states that projections based on budgets and forecasts should cover a maximum of five years whereas management has used projections out to 2045. However, management believe that whilst there is uncertainty when moving from one price control period in to the next, there is a relative stable regulatory environment resulting in predictable cash flows beyond the immediate price control period.

Cashflow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 5.7%. Management estimates 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.

7 Investments in group undertakings (continued)

Management had been reviewing Ofgem announcements on RIIO-2 during the course of the year given the potential impact on the recoverable amount. On 18 December 2018, Ofgem published the RIIO-2 Sector Specific Methodology that provided firmer and more detailed guidance on the regulatory cost of capital, totex sharing factors and CPIH inflation change. On the 24th May 2019 Ofgem published its RIIO-2 Sector Specific Methodology Decision which provided an up-dated range for the regulatory cost of capital and more detail on how other amendments to regulatory mechanisms will be implemented. The value in use reduced as a result of lower return expectations set out in the Sector Specific Decision Document.

As a result, an impairment of £1,550 million was recognised in the Statement of Comprehensive Income in the year.

Carrying value comprised the investment in subsidiary undertakings

Name of subsidiary	**% Holding**	**Principal activity**	**Country of incorporation**
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

*Indirect ownership

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

8 Trade and other receivables

	2019	2018
	£m	£m
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	-	-
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	902	902
Loss allowance	(1)	-
	901	902

The Company acts as a holding company. Debt finance passes through the company from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. The exposure prior to the loss allowance is therefore £Nil.

The company measures the loss allowance for amounts owed by immediate parent company at an amount equal to 12 month expected credit loss. This is calculated using observable market data.

9 Dividends

On the 28 September 2018, an interim dividend of 3.33p per ordinary share amounting to £170,000,000 was paid.

On the 21 March 2019, a second interim dividend of 3.33p per ordinary share amounting to £170,000,000 was declared and paid on 27 March 2019.

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

10 Borrowings

The following table analyses the Company's total borrowings:

	2019	2018
	£m	£m
Amounts falling due after more than one year:		
Borrowings from immediate parent company	902	902
	902	902

Borrowings comprise of an unsecured loan of £902 million from Quadgas HoldCo Limited, the Company's immediate parent company. The loan carries a fixed rate of interest of 6.8% per annum with repayment on 30 April 2042.

11 Share capital

	Number of shares 2019	2019 £
At 31 March 2019 - ordinary shares of £0.0001 each		
Allotted, called-up and fully paid	5,105,581,781	510,558

The Company has one class of ordinary shares which carry no right to fixed income.

In the prior period, the Company reduced its share capital from £5,105,581,781 to £510,558 through reducing the nominal value of the ordinary shares from £1 to £0.0001.

12 Commitments and contingencies

There are debt issuances by the Company's subsidiary, Quadgas MidCo Limited, which the Company has guaranteed and has committed to honour any liabilities should Quadgas MidCo Limited have any financial difficulties.

13 Post balance sheet evens

There were no post balance sheet events.

14 Ultimate parent company

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

Copies of Quadgas HoldCo Limited's consolidated financial statements can be obtained from the Company Secretary, Cadent Gas Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

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