

Interim management report

Quadgas Finance Plc

Report for the six months ended 30 September 2018

Operations

The principal activity of Quadgas Finance Plc (“the Company”) is for the provision of long term finance for its immediate parent, 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.

Long-term strategy and business objectives

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

Funding arrangements

On 30 August 2018, the Company placed £295 million of private fixed rate loan notes: £70 million maturing in August 2030 with coupon rate of 3.29% and the remainder of £225 million maturing in August 2033 with coupon rate of 3.42%.

On 17 September 2018, the Company issued £350 million of fixed rate bonds maturing in September 2029 with a coupon rate of 3.375%.

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Interim management report (continued)

Results for the six months ended 30 September 2018

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

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
Loss before tax	(386)	-
Loss after tax	(386)	-

Interest receivable

Interest received during the period from Quadgas MidCo Limited, the immediate parent company of Quadgas Finance Plc, was £6,520,000 due on intercompany borrowings (six months ended 30 September 2017: £Nil). The Company did not have any intercompany borrowings for the period ending 30 September 2017.

Interest payable

Interest payable during the period was £6,519,000 due on external borrowings. (six months ended 30 September 2017: £Nil). The Company did not have any external borrowings for the period ending 30 September 2017.

Profit for the period

The £386,000 loss related to intercompany loan impairment (six months ended 30 September 2017: £Nil).

Financial position

The financial position of the Company is presented in the Statement of Financial Position. Total shareholders' deficit at 30 September was £530,000 (Shareholder funds at 31 March 2018: £55,000).

During the half year, the Company placed £295 million of private fixed loan notes, of which £70 million will mature in August 2030 and the remainder of £225 million will mature in August 2033. The company further placed £350 million of fixed rate notes which will mature in September 2029. The proceeds of which were loaned to Quadgas MidCo Limited, its immediate parent company on identical terms.

Related party transactions

There has been no material changes in the related party transactions described in the last annual report of the financial statements for the year ended 31 March 2018.

Events occurring after the balance sheet date

On 30 October 2018, the Company listed the USPP notes that it issued in September 2018 on the London Stock Exchange.

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

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Interim management report (continued)

Key performance indicators

As the Company is part of a larger group (Quadgas MidCo Limited is the immediate parent company), 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 MidCo Limited.

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

Impact of new accounting standards

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

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

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Interim management report (continued)

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 March 2018. A detailed explanation of the risks and how the Company seeks to mitigate the risks, can be found on pages 3 to 4 the Strategic Report included in Quadgas Finance Plc's Annual Report and Accounts 2017/18, which does not form part of this report. Below is a summary of our key risks as at 30 September 2018:

- Liquidity risk
- Credit risk
- Interest rate cash flow risk
- Foreign exchange risk
- Derivative financial instruments

Going concern

The balance sheet shows net liabilities of £(530,000). As stated in note 1 to the financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor

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

Cautionary statement

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

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

By order of the Board,



Chris Train
Director

12 December 2018

Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE

Quadgas Finance Plc

Responsibility statement

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

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

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

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

By order of the Board,



Chris Train
Director
12 December 2018

Independent review report to Quadgas Finance Plc

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

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

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



Deloitte LLP
Statutory Auditor
London, United Kingdom
12 December 2018

Quadgas Finance Plc

Income statement

Six months ended 30 September 2018

	Notes	Six months ended 30 September 2018 (unaudited) £'000	Six months ended 30 September 2017 (unaudited) £'000
Interest receivable and similar income	4	6,520	-
Interest payable and similar charges	5	(6,519)	-
Net losses on external financial instruments	6	(134)	-
Net gains on intercompany financial instruments	6	134	-
Impairment of intercompany loan		(387)	-
(Loss)/profit before taxation		(386)	-
Tax	7	-	-
(Loss)/profit for the financial year		(386)	-

The results reported above relate to continuing activities. There was no other comprehensive income for the year other than those reported above; therefore no separate statement of comprehensive income was presented.

Quadgas Finance Plc

Statement of financial position

As at 30 September 2018

	30 September 2018 (unaudited)	31 March 2018 (audited)
Notes	£'000	£'000
Non-current assets		
Debtors: amounts falling due after more than one year	972,512	328,018
Derivative financial instruments: amounts falling due after more than one year	9 604	3,086
	973,116	331,104
Current assets		
Debtors: amounts falling due within one year (owed to immediate parent company)	4,021	4,261
Derivative financial instruments: amounts falling due within one year	9 -	108
	4,021	4,369
Creditors: amounts falling due within one year		
Derivative financial instruments: amounts owing within one year	9 (5,150)	(6,222)
Taxation	7 -	(108)
	(1)	(1)
	(5,151)	(6,331)
Net current assets/(liabilities)		
	(1,130)	(1,962)
Total assets less current liabilities		
	971,986	329,142
Creditors: amounts falling due after more than one year		
Derivative financial instruments: amounts owing after more than one year	9 (971,912)	(326,001)
	(604)	(3,086)
Non-current liabilities		
	(972,516)	(329,087)
Net assets		
	(530)	55
Equity		
Share capital	50	50
Profit and loss account	(580)	5
Total shareholders' funds	(530)	55

The financial statements on pages 7 to 14 were approved for issue by the Board of Directors on 12 December 2018 and were signed on its behalf by:



C Train
Director
Quadgas Finance Plc
Company registration number: 10619488

Quadgas Finance Plc

Statement of changes in equity Six months ended 30 September 2018

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2018	50	5	55
Changes due to the adoption of IFRS 9	-	(199)	(199)
Balance at 1 April 2018 (restated)	50	(194)	(194)
(Loss)/profit for the period	-	(386)	(386)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(386)	(386)
At 30 September 2018 (unaudited)	50	(580)	(530)

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2017	-	-	-
Profit for the period	-	-	-
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	-	-
At 30 September 2017 (Unaudited)	-	-	-

Quadgas Finance Plc

Notes to the financial statements

Six months ended 30 September 2018

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

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

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

The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2019 and consistent with those applied, with the exception of the adoption of IFRS 9, in the preparation of the accounts for the year ended 31 March 2018

The Company has net liabilities of £(530,000). In preparing this half year financial information, the areas of judgement made by management in applying Quadgas Finance Plc's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

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

As noted above, the 2018 Interim Financial Statements have been prepared under FRS 104. FRS104 stipulates that the GAAP applicable at the year-end should be applied for the Interim Statements, which in this case is Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) as issued by the Financial Reporting Council. As a result, the new accounting standards under IFRS, namely, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are applicable to reporting periods beginning on or after 1 January 2018, and have therefore been adopted by the Company for the period commencing 1 April 2018 and IFRS 16 Leases will become effective for the period commencing 1 April 2019. It should be noted, however, that IFRS 15 and IFRS 16 have no impact on the Company.

Quadgas Finance Plc has significant intercompany balances of £976,533,000 as its principal activity is the provision of long term finance for its immediate parent, Quadgas MidCo Limited. Under IFRS 9, Quadgas Finance Plc is required to calculate expected credit losses on all financial assets, including intercompany loans. The expected credit loss for its intercompany loans has been calculated by considering the probability of default and the loss given default on the outstanding balance of the intercompany loans. The probability of default has been derived by using quoted available information for Quadgas Finance Plc and the loss given default has been determined by management based on available evidence. As Cadent Gas Limited is an asset intensive regulated industry, the loss given default has assumed to be low by management. An impairment loss of £199,000 has been included within opening reserves reflecting the initial impairment of intercompany loans on the adoption of IFRS 9. The movement in the impairment charge included in the income statement in the period amounts to £387,000.

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Notes to the financial statements

Six months ended 30 September 2018

	IAS 39 carrying amount at 31 March 2018 £'000	Adjustment relating to IFRS 9 transition £'000	IFRS 9 carrying amount at 1 April 2018 £'000
Retained earnings	5	(199)	(194)
Debtors fully due after one year	328,018	(199)	327,819

2. Segmental analysis

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

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

3. Seasonality

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

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Notes to the financial statements (continued)

Six months ended 30 September 2018

4. Interest receivable and similar income

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
Interest receivable from immediate parent company	6,520	-
	6,520	-

5. Interest payable and similar charges

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
Interest payable on other borrowings	(6,519)	-
	(6,519)	-

6. Net gains/(losses) on financial derivatives

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
External		
Net gains on derivatives not designated in a hedge relationship	2,592	-
Exchange losses on revaluation of foreign currency denominated loans	(2,726)	-
	(134)	-

	Six months ended 30 September 2018	Six months ended 30 September 2017
	£'000	£'000
Internal		
Net losses on derivatives not designated in a hedge relationship	(2,592)	-
Exchange gains on revaluation of foreign currency denominated loans	2,726	-
	134	-

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Notes to the financial statements (continued)

Six months ended 30 September 2018

7. Tax

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

The Finance Act 2015 (No.2) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Act 2016 received Royal Assent on 15 September 2016. The Act further reduced the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. Deferred tax balances forecast to reverse in the period to 31 March 2020 have been provided for at 19%. Deferred tax balances forecast to reverse in the period after 31 March 2020 have been provided for at 17%.

The Finance Act 2018 was enacted on 15 March 2018. The Act introduced new rules to potentially restrict interest deductibility for the accounting periods starting after 31 March 2017. It is not anticipated that there will be any interest restriction in the group for the foreseeable future.

8. Dividends

No dividends are proposed for the current financial period

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Notes to the financial statements (continued)

Six months ended 30 September 2018

9. Fair value measurement

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

	30 September 2018				31 March 2018			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets								
Derivative financial instruments (internal)	-	604	-	604	-	2,978	-	2,978
Liabilities								
Derivative financial instruments (external)	-	(604)	-	(604)	-	(2,978)	-	(2,978)
Total	-	-	-	-	-	-	-	-

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

The estimated fair value of total borrowings using market values at 30 September 2018 is £965,000,000 (31 March 2018: £329,000,000).

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

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

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

10. Commitments and Contingencies

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

11. Related party transactions

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

12. Events occurring after the reporting period

On 30 October 2018, the Company listed the USPP notes that it issued in September 2018 on the London Stock Exchange.

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