

## Interim management report

### Cadent Finance Plc

#### Report for the six months ended 30 September 2020

#### **Operations**

Cadent Finance Plc (“the company”) is a wholly owned subsidiary of Cadent Gas Limited and operates as part of the Cadent Gas group’s (“the Group”) regulated gas distribution business.

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

In the first half of the year, the company delivered a profit of £83,000 (six months ended 30 September 2019: £753,000 profit) in line with management expectations. For the full year, the company is on track to make neither an operating loss nor an operating profit (pre-intercompany loan impairment), as amounts are fully recharged to Cadent Gas Limited. The profit of £83,000 is attributable to an impairment assessment of intercompany loan receivable balances. The movement results from a revision to the default probability assumptions.

Going concern is addressed on page three and in note 1 to the condensed financial statements.

#### **Long-term strategy and business objectives**

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

#### **Funding arrangements**

The company’s balance sheet remains robust, and we have maintained our solid investment grade credit ratings from Moody’s, Standard & Poor’s and Fitch Ratings.

# Cadent Finance Plc

## Interim management report (continued)

### Results for the six months ended 30 September 2020

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

	Six months ended 30 September 2020 £'000	Six months ended 30 September 2019 £'000	Movement £'000
Profit before tax	83	753	(670)
Profit after tax	83	753	(670)

### Interest receivable

Interest received during the period from Cadent Gas Limited, the immediate parent company of Cadent Finance Plc, was £63,660,000 (six months ended 30 September 2019: £61,901,000) arising from the intercompany loans in place.

### Interest Payable

Interest payable during the period was £63,660,000 (six months ended 30 September 2019: £61,901,000) due on external borrowings.

### Result for the period

The company made a profit of £83,000 for the period (six months ended 30 September 2019: £753,000 profit), which was driven by the movement in the impairment of intercompany loans. This is a non-cash movement and due to an improvement in the default probability compared to March 2020.

### Creditors: amounts falling due within one year

Creditors increased by £226,635,000 in the six months to 30 September 2020 due to the reclassification from non-current to current liabilities of loan notes with a notional value of £250,000,000, with a maturity date of September 2021. This was offset by a reduction in accruals due to coupon payments made on the sterling and euro debt on 22 September 2020. As all debt is on-lent to Cadent Gas on a back-to-back basis these movements are mirrored in the debtor balances.

### Financial position

The financial position of the company is presented in the condensed statement of financial position. Total shareholders' deficit at 30 September were £4,131,000 (shareholder deficit at 31 March 2020: £4,214,000).

### Related party transactions

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

### Events after the balance sheet date

There are no post balance sheet events.

# Cadent Finance Plc

## Interim management report (continued)

### Key performance indicators

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

For information on the development, performance, risks, uncertainties and position of Cadent Gas Limited and its subsidiaries and of the key performance indicators used, refer to the Strategic Report included in Cadent Gas Limited's Annual Report and Accounts 2019/20, which does not form part of this report.

### Impact of new accounting standards

The 2020/21 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. There have been no new accounting standards under FRS applicable to the period.

### 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 2020. A detailed explanation of the risks, and how the company seeks to mitigate the risks, can be found on pages 4 to 5 of the 2019/20 Cadent Finance Plc Annual Report and Financial Statements. Below is a summary of our key risks as at 30 September 2020:

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

### Going concern

The condensed statement of financial position shows net liabilities of £4,131,000 (31 March 2020: £4,214,000). The condensed income statement shows a profit for the period of £83,000 (2019: £753,000 profit). The profit for the period is driven by the reversal of the impairment of an intercompany loan, which is a non-cash movement. The company continues to receive interest income from Cadent Gas Limited who also guarantees the debt at Cadent Finance Plc. Cadent Gas Limited continues to trade and operate as a going concern and as at 30 September 2020 was in a net asset position of £2,133,000,000 (31 March 2020: £2,153,000,000), reported profit for the period of £312,000,000 (2019: £286,000,000), and had access to an undrawn £500,000,000 liquidity facility. Within the next 12 months £250 million of term debt is due for repayment. This is expected to be refinanced in early 2021. See Cadent Gas Limited Interim Management Report for further details.

In early 2020, the spread of the coronavirus 'COVID-19' caused huge change to daily life in the UK and across the world. By nature of its operating business, Cadent Finance Plc has not been significantly impacted and having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the condensed 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 half year financial information is signed. Accordingly, they continue to adopt the going concern basis in preparing the half year financial information.

# Cadent Finance Plc

## Interim management report (continued)

### Auditor

Following the completion of the 2019/20 audit process, Deloitte LLP has been re-appointed as Auditor of the Quadgas Holdings TopCo Limited Group and its subsidiaries including Cadent Finance Plc.

### Cautionary statement

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

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

By order of the Board,



### **S G Hurrell**

Director

18 November 2020

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

# Cadent Finance Plc

## Responsibility statement

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

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

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

J Korpancova  
M W Braithwaite  
S G Hurrell

By order of the Board,



**S G Hurrell**  
Director  
18 November 2020

## Independent review report to Cadent Finance Plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 which comprises the condensed income statement, the condensed statement of financial position, the condensed statement of changes in equity and related notes 1 to 11. 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.

### **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 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). 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 2020 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### **Use of our report**

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.



### **Deloitte LLP**

Statutory Auditor  
London, United Kingdom  
18 November 2020

## Cadent Finance Plc

### Condensed income statement

Six months ended 30 September 2020

		<b>Six months ended 30 September 2020 (unaudited)</b>	Six months ended 30 September 2019 (unaudited)
	Notes	£'000	£'000
Interest receivable and similar income	4	<b>63,660</b>	61,901
Interest payable and similar charges	5	<b>(63,660)</b>	(61,901)
Net losses on external derivative financial instruments	6	<b>(15,911)</b>	(2,588)
Net gains on intercompany derivative financial instruments	6	<b>15,911</b>	2,588
Reversal of the impairment of intercompany loans		<b>83</b>	753
<b>Profit before tax</b>		<b>83</b>	753
Tax	7	-	-
<b>Profit for the period</b>		<b>83</b>	753

The results reported above relate to continuing activities. There were no other gains and losses for the period other than those reported above, therefore no separate statement of comprehensive income is presented.

## Cadent Finance Plc

### Condensed statement of financial position

As at 30 September 2020

	30 September 2020 (unaudited) £'000	31 March 2020 (audited) £'000
	Notes	
<b>Non-current assets</b>		
Debtors: amounts falling due after more than one year	5,502,012	5,727,384
Derivative financial instruments: amounts falling due after more than one year	9 46,537	53,409
	<u>5,548,549</u>	<u>5,780,793</u>
<b>Current assets</b>		
Debtors: amounts falling due within one year (owed to immediate parent company)	267,640	41,003
	<u>267,640</u>	<u>41,003</u>
<b>Current liabilities</b>		
Creditors: amounts falling due within one year	<u>(267,611)</u>	<u>(40,976)</u>
	<u>(267,611)</u>	<u>(40,976)</u>
<b>Net current assets</b>	<u>29</u>	<u>27</u>
<b>Total assets less current liabilities</b>	<u>5,548,578</u>	<u>5,780,820</u>
Creditors: amounts falling due after more than one year	(5,506,172)	(5,731,625)
Derivative financial instruments: amounts owing after more than one year	9 (46,537)	(53,409)
<b>Non-current liabilities</b>	<u>(5,552,709)</u>	<u>(5,785,034)</u>
<b>Net liabilities</b>	<u>(4,131)</u>	<u>(4,214)</u>
<b>Equity</b>		
Share capital	50	50
Retained losses	(4,181)	(4,264)
<b>Total shareholders' deficit</b>	<u>(4,131)</u>	<u>(4,214)</u>

The condensed financial statements on pages 7 to 13 were approved by the Board of Directors on 18 November 2020 and were signed on its behalf by:



**S G Hurrell**  
Director

Cadent Finance Plc  
Company registration number: 05895068

## Cadent Finance Plc

### Condensed statement of changes in equity

Six months ended 30 September 2020

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
At 1 April 2020	50	(4,264)	(4,214)
Profit for the period	-	83	83
<b>At 30 September 2020 (unaudited)</b>	<b>50</b>	<b>(4,181)</b>	<b>(4,131)</b>

  

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
Balance at 1 April 2019	50	(2,831)	(2,781)
Profit for the period	-	753	753
<b>At 30 September 2019 (unaudited)</b>	<b>50</b>	<b>(2,078)</b>	<b>(2,028)</b>

## Cadent Finance Plc

### Notes to the condensed financial statements

Six months ended 30 September 2020

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

The half year financial information covers the six-month period ended 30 September 2020 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 2020, which were prepared in accordance with applicable UK accounting and financial reporting standards (FRS 101) 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 2021. In preparing this half year financial information, the areas of judgement made by management in applying Cadent Finance Plc's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the company's financial statements for the year ended 31 March 2020.

In early 2020, the spread of a COVID-19 caused huge change to daily life in the UK and across the world. By nature of its operating business, Cadent Finance Plc has not been significantly impacted and having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare this half year financial information 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 half year financial information is signed. Accordingly, they continue to adopt the going concern basis in preparing the half year financial information.

The balance sheet shows net liabilities of £4,131,000 (31 March 2020: £4,214,000). Having reassessed the principal risks from a company and Group perspective, 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. The company's immediate parent is in a net asset position of £2,133,000,000 (31 March 2020: £2,153,000,000), made a profit of £312,000,000 (2019: £286,000,000) and has an undrawn £500,000,000 Revolving Credit Facility.

The company has significant intercompany balances of £5,773,783,000 as its principal activity is the provision of long term finance for its immediate parent, Cadent Gas Limited. Under IFRS 9, the company is required to calculate expected credit losses on all financial assets, including intercompany loans. The expected credit loss for its intercompany loans has been calculated by considering the probability of default and the loss given default on the outstanding balance of the intercompany loans. The probability of default has been derived by using quoted available information for the company and the loss given default has been determined by management based on available evidence. As Cadent Gas Limited is an asset intensive regulated industry, the loss given default has assumed to be low by management. The movement in the impairment charge included in the condensed income statement in the period amounts to a £83,000 credit (2019: £753,000 credit).

As noted above, the 2020/21 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. There have been no new accounting standards under IFRS applicable to the period.

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

#### 3. Seasonality

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

## Cadent Finance Plc

### Notes to the condensed financial statements (continued)

Six months ended 30 September 2020

#### 4. Interest receivable and similar income

Six months ended 30 September 2020	Six months ended 30 September 2019
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£'000	£'000
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Interest receivable from immediate parent company	63,660	61,901
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#### 5. Interest payable and similar charges

Six months ended 30 September 2020	Six months ended 30 September 2019
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£'000	£'000
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Interest payable on other borrowings	(63,660)	(61,901)
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#### 6. Net gains/(losses) on financial derivatives

Six months ended 30 September 2020	Six months ended 30 September 2019
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£'000	£'000
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##### External

Net gains on derivatives not designated in a hedge relationship	3,684	30,828
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Exchange losses on revaluation of foreign currency denominated loans	<u>(19,595)</u>	<u>(33,416)</u>
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	<u><u>(15,911)</u></u>	<u><u>(2,588)</u></u>
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Six months ended 30 September 2020	Six months ended 30 September 2018
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£'000	£'000
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##### Internal

Net losses on derivatives not designated in a hedge relationship	(3,684)	(30,828)
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Exchange gain on revaluation of foreign currency denominated loans	<u>19,595</u>	<u>33,416</u>
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	<u><u>15,911</u></u>	<u><u>2,588</u></u>
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## Cadent Finance Plc

### Notes to the condensed financial statements (continued)

Six months ended 30 September 2020

#### 7. Taxation

The tax charge for the period is £Nil (six months to 30 September 2019: £Nil). The effective tax rate of Nil (six months to 30 September 2019: Nil) for the period is calculated by applying the main rate of UK corporation tax to profits before tax after adjusting for the movement in the impairment of intercompany loans which is not taxable.

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

#### 8. Dividends

No dividends are proposed for the current financial period.

#### 9. Fair value measurement

Certain of the Group'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-Sep-2020				31-Mar-2020			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>								
Derivative financial instruments (external)	-	40,955	-	40,955	-	39,755	-	39,755
Derivative financial instruments (internal)	-	5,582	-	5,582	-	13,654	-	13,654
	-	46,537	-	46,537	-	53,409	-	53,409
<b>Liabilities</b>								
Derivative financial instruments (external)	-	(5,582)	-	(5,582)	-	(13,654)	-	(13,654)
Derivative financial instruments (internal)	-	(40,955)	-	(40,955)	-	(39,755)	-	(39,755)
	-	(46,537)	-	(46,537)	-	(53,409)	-	(53,409)
<b>Total</b>	-	-	-	-	-	-	-	-

Financial assets and liabilities in the condensed 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 2020 is £6,255 million (31 March 2020: £5,772 million).

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.

## **Cadent Finance Plc**

### **Notes to the condensed financial statements (continued)**

Six months ended 30 September 2020

#### **10. Related Party transactions**

The company is exempt under FRS 101.8(k) from disclosing transactions with Quadgas Holdings TopCo 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 outside the Quadgas Holdings TopCo Group.

#### **11. Events occurring after the reporting period**

There are no post balance sheet events.