

Company registration number: 10614954

Quadgas PledgeCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2022

Quadgas PledgeCo Limited

Strategic Report

For the year ended 31 March 2022

The Directors present their Strategic Report for Quadgas PledgeCo Limited ("the company") for the year ended 31 March 2022.

Review of business

The principal activity of the company is to hold investments in other Quadgas Holdings TopCo Limited (the ultimate parent company – see note 14) subsidiary companies; the only direct investment currently held is in Quadgas MidCo Limited. Debt finance passes through the company from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. 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.

Results

The company's profit for the year was £928m (2021: profit of £229m). The movement is largely due to the reversal of a previous impairment of investments of £793m (2021: £102m), coupled with increased dividend income of £135m (2021: £127m). The impairment reversal was recognised following an impairment review completed by management which indicated that the impairment loss recognised in prior years had decreased due to the receipt of the CMA Final Determination in year and significant changes to inflation (see note 7).

Financial position

The financial position of the company is presented in the statement of financial position. Total shareholders' funds at 31 March 2022 were £4,145m (2021: £3,352m) comprising primarily of investments in group undertakings of £4,146m (2021: £3,353m). Debt finance passes through the company from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. Intercompany loans receivable and payable prior to impairments net to £Nil (2021: £Nil) as debt is passed through the Quadgas HoldCo Group.

Key performance indicators and principal risks and uncertainties

As the company is part of a larger group as set out in note 7 ("the Group"), the management of the company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the company. 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 2021/22, which does not form part of this report.

Future developments

By nature of its operating business the Directors believe the company will continue to act as a holding company for the foreseeable future. The company has not been significantly impacted by the COVID-19 pandemic or the ongoing conflict in Ukraine, and the Directors believe the current level of operating activity as reported in the income statement will continue in the foreseeable future.

As a holding company, Quadgas PledgeCo Limited is not currently directly or significantly impacted by climate change. However, Climate change is a global challenge and an emerging risk to business, people and the environment across the world. The Group has a role to play in limiting warming by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Certain elements of the financial statements are dependent on the future use of the network (see note 7). For information on how climate change will impact the Group's operating company, Cadent Gas Limited, refer to the Strategic Report included in Cadent Gas Limited's Annual Report and Accounts 2021/2022.

Quadgas Pledgeco Limited

Strategic Report (continued)

For the year ended 31 March 2022

S172 Statement

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

The company has no employees and no operational activities; its main purpose is to hold investments in other Quadgas Holdings TopCo Limited subsidiary companies. It also acts as a guarantor for debt in other Group companies and as a financing company for privately held subsidiary level debt.

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

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

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

The Directors delegate authority for day-to-day management of the Company and other subsidiaries in the Group to the Executive Committee and then engage management in setting, approving and overseeing execution of the business strategy, to ensure that company policies and practices support effective decision making to deliver long-term value.

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

For further information on the Group activities and disclosure please refer to the Cadent Gas Annual Report and Accounts 2021/22.



M W Braithwaite

Director

26 July 2022

Quadgas PledgeCo Limited

Directors' Report

For the year ended 31 March 2022

The Directors present their Report and the audited financial statements of the company for the year ended 31 March 2022.

Future developments

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

Dividends

An interim dividend of 2.64p (2021: 2.50p) per ordinary share amounting to £135,000,000 (2021: £127,400,000) was declared on the 24 March 2022 and paid on the 28 March 2022.

No further dividends are proposed for the current financial period.

Political donations and political expenditure

The company did not make any donations during the year (2021: £Nil).

Research and development

The company spent £Nil (2021: £Nil) on research and development during the year.

Financial risk management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity 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. The company's exposures are limited to the credit risk on the intercompany loans (as disclosed below and in note 8).

The company has limited direct exposure to the impacts of the COVID-19 pandemic or the ongoing conflict in Ukraine, however we recognise the potential macroeconomic impacts on interest rates and foreign exchange rates on our underlying debt portfolio. These impacts 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. The company is exposed to the expected credit losses on its intercompany loan with Quadgas MidCo Limited. The expected credit loss has been calculated by considering the probability of default and the loss given default on the balance outstanding on the intercompany loan.

Interest rate risk

The company has interest bearing intercompany assets. To the extent that the company enters into intercompany loan agreements, the company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon a floating index. During the financial year the company had no such loans.

Quadgas PledgeCo Limited

Directors' Report (continued)

For the year ended 31 March 2022

Engagement with employees

The company itself has no employees and therefore does not meet the thresholds requiring it to prepare a statement setting out engagement with employees and therefore has nothing to report in respect of employee engagement activity during the year.

However, within the Group there is a subsidiary that exceeds the requirements for reporting on employee engagement (Cadent Gas Limited), with an average number of employees of 5,945 (2021: 5,258). Cadent Gas Limited has provided extensive disclosure in relation to employee engagement. For further information on these activities and disclosure, including principal decisions and the effect of engagement on them, please refer to the employee statement in the Cadent Gas Annual Report and Accounts 2021/22.

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
D A Karnik
P D Noble
D J Xie
A M Al-Ansari
H Su
R Greenleaf
M W Mathieson
E B Fidler
S Fennell
J Bao (Resigned 26 May 2021)
H N M De Run (Resigned 31 August 2021)
N J Axam (Resigned 28 January 2022)
H C Higgins (Resigned 24 May 2022)
M Wang (Appointed 26 May 2021)
D L Wilkins (Appointed 31 August 2021)
A Marsden (Appointed 28 January 2022)
N R V Corrigan (Appointed 24 May 2022)

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

Quadgas PledgeCo Limited is a guarantor for debt at Quadgas MidCo Limited and Quadgas Finance Plc, and the statement of financial position shows net assets of £4,145m at 31 March 2022 (2021: £3,352m). The income statement shows a profit for the year ended 31 March 2022 of £928m (2021: profit of £229m) driven by the dividend income received of £135m (2021: £127m) and the reversal of a previous impairment charge of £793m (2021: £102m impairment reversal). The existing intercompany loan liability is not repayable until 2042, and the interest payable on the liability is matched to the interest receivable from Quadgas MidCo Limited on the same terms. The company continues to receive dividend income from Quadgas MidCo Limited which continues to operate as a going concern as at 31 March 2022. See the Directors report within the Quadgas MidCo Limited Annual Report and Accounts for further details.

Having considered the above, the Directors have concluded that the company has the ability to repay liabilities as they fall due for at least 12 months, and therefore consider it appropriate to prepare the financial statements on a going concern basis. PledgeCo Limited has not been significantly impacted by the COVID-19 pandemic or the ongoing conflict in Ukraine. The Directors are satisfied that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Quadgas PledgeCo Limited

Directors' Report (continued)

For the year ended 31 March 2022

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 auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is 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. There have been no changes to the capital structure in the year.

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 year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and in accordance with the requirements of the Companies Act 2006. 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.

Quadgas PledgeCo Limited

Directors' Report (continued)

For the year ended 31 March 2022

Statement of Directors' responsibilities (continued)

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

26 July 2022

Registered office:

Pilot Way
Ansty Park
Coventry
CV7 9JU

Registered in England and Wales

Company registration number: 10614954

Independent Auditor's 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 2022 and of its profit 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 statement of changes in equity; and
- the related notes 1 to 15.

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

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.

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and in-house legal counsel about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies Act 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

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 its 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.

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.

A handwritten signature in black ink, appearing to read 'Jacqueline Holden'.

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
26 July 2022

Quadgas PledgeCo Limited

Statement of comprehensive income

For the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Dividend income from Group undertakings	3	135	127
Interest receivable and similar income	5	62	61
Investment impairment reversal	7	793	102
Interest payable and similar charges	5	(62)	(61)
Profit on ordinary activities before tax		928	229
Tax on profit on ordinary activities	6	-	-
Profit after tax for the financial year & total comprehensive income for the year		928	229

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

The notes on pages 13 to 24 form an integral part of these financial statements.

Quadgas PledgeCo Limited

Statement of financial position

As at 31 March 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Investments in Group undertakings	7	4,146	3,353
Amounts owed by subsidiary undertakings	8	901	901
Total non-current assets		<u>5,047</u>	<u>4,254</u>
Total Assets		5,047	4,254
Non-current liabilities			
Amounts owed to Group undertakings	10	(902)	(902)
Total non-current liabilities		<u>(902)</u>	<u>(902)</u>
Total liabilities		(902)	(902)
Net assets		<u>4,145</u>	<u>3,352</u>
Equity			
Share capital	11	1	1
Retained earnings		4,144	3,351
Total shareholders' funds		<u>4,145</u>	<u>3,352</u>

The notes on pages 13 to 24 form an integral part of these financial statements.

The financial statements on pages 10 to 24 were approved by the Board of Directors on 26 July 2022 and were signed on its behalf by:



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 2022

	Notes	Share capital £m	Retained earnings £m	Total £m
At 1 April 2021		1	3,351	3,352
Total comprehensive income for the year		-	928	928
Equity dividends paid	9	-	(135)	(135)
At 31 March 2022		1	4,144	4,145

		Share capital £m	Retained earnings £m	Total £m
At 1 April 2020		1	3,249	3,250
Total comprehensive income for the year		-	229	229
Equity dividends paid	9	-	(127)	(127)
At 31 March 2021		1	3,351	3,352

The notes on pages 13 to 24 form an integral part of these financial statements.

Quadgas PledgeCo Limited

Notes to the financial statements

For the year ended 31 March 2022

1 Summary of significant accounting policies

Quadgas PledgeCo Limited holds investments in other Quadgas Holdings TopCo 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 Pilot Way, Ansty Park, Coventry, CV7 9JU.

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, Pilot Way, Ansty Park, Coventry, CV7 9JU.

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 years presented, unless otherwise stated.

(a) Basis of preparation

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 United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and in accordance with the requirements of the Companies Act 2006.

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 Group comprises Quadgas HoldCo Limited, Quadgas PledgeCo Limited, Quadgas MidCo Limited, Quadgas Finance Plc, Cadent Services Limited, Cadent Finance Plc, Cadent Gas Limited, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services 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 year. Actual results could differ from these estimates.

Going Concern

Quadgas PledgeCo Limited is a guarantor for debt at Quadgas MidCo Limited and Quadgas Finance Plc, and the statement of financial position shows net assets of £4,145m at 31 March 2022 (2021: £3,352m). The income statement shows a profit for the year ended 31 March 2022 of £928m (2021: profit of £229m) driven by the dividend income received of £135m (2021: £127m), and the reversal of a previous impairment of investments of £793m (2021: £102m reversal). The company continues to receive dividend income from Quadgas MidCo Limited which continues to operate as a going concern as at 31 March 2022. See Quadgas MidCo Limited Annual Report and Accounts for further details.

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

(b) New IFRS accounting standards and interpretations

There are no new or amended standards or interpretations during the year that have a significant impact on the financial statements.

Quadgas PledgeCo Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

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 year 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 there is an indication that an impairment loss for an investment either no longer exists or has decreased. See note 7.

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

Initial recognition

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

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

Quadgas PledgeCo Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

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

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

- financial assets at amortised cost; or
- financial assets at fair value through other comprehensive income (FVTOCI); or
- 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; or
- 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 year 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.

Quadgas PledgeCo Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

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

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

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 its immediate subsidiary company at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described on the following page.

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 be 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 probable 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.

(h) Dividend distributions

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholders.

Quadgas PledgeCo Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

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

- For the purpose of valuing our investment in the Group, the judgement is that the Cadent Gas network can be used for alternative technologies beyond 2050. The UK's target to achieve net zero by 2050 will change how fossil fuels are used, which will also impact how the network is used. The UK Government's current plans include the production and use of Hydrogen, although there remains uncertainty about significant aspects of the UK energy sector plans under net-zero. Given the information currently available regarding these plans and the initial feasibility studies completed regarding the use of alternative gases through our network and the large scale production of these gases, we have judged that the network will continue to be used to transport gas (methane, hydrogen, other alternatives such as biomethane or a combination of these) beyond 2050, and that these gases will be available in sufficient quantities – **note 7**.

Key sources of estimation uncertainty

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

- The recoverability of intercompany balances. An assessment of recoverability is performed under IFRS 9 which mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised. The company has a significant intercompany balance which is required to be assessed for impairment using the expected credit loss model – **note 8**.
- Review of carrying values of investments and calculation of impairment. Investments are reviewed annually for impairment by comparison of the cost of the investment with equity value, where equity value is equal to the value in use of the company invested in less any external borrowings plus any cash and cash equivalents. The impairment review requires management to calculate the value in use for investments. The key assumptions for the value in use calculation are those regarding the underlying cash flows, discount rate, regulatory weighted average cost of capital, inflation and terminal value cashflow – **note 7**.

Sensitivity analysis on how potential changes in significant estimates and assumptions might impact on our results or financial position has been performed – **note 15**.

Quadgas PledgeCo Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

3 Profit before tax

	2022	2021
	£m	£m
Profit before tax is stated after crediting the following:		
Dividend income from group undertakings	135	127
Investment impairment reversal – (note 9)	793	102

Fees payable to the company's auditor for the audit of the company's annual financial statements were £8,613 (2021: £9,302). No other fees were payable to the auditor.

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 Finance income and costs

	2022	2021
	£m	£m
Interest income from financial instruments	62	61
Interest receivable and similar income	62	61
Finance costs		
Interest expense on financial liabilities held at amortised cost	(62)	(61)
Interest payable and similar income	(62)	(61)
Finance Costs		
Net interest costs from continuing operations	-	-

Quadgas Pledgeco Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

6 Taxation

	2022 £m	2021 £m
Taxation		
Current tax		
UK Corporation tax at 19% (2021: 19%)	-	-
Deferred tax		
UK deferred tax	-	-
Total tax charge	<u>-</u>	<u>-</u>

The tax charge for the period is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%).

	2022 £m	2021 £m
Profit before tax	928	229
Profit before tax multiplied by UK Corporation tax rate of 19% (2021: 19%)	176	44
Effect of:		
Dividend income not taxable	(26)	(24)
Non-taxable income	(150)	(20)
Total tax charge	<u>-</u>	<u>-</u>

Factors affecting future tax charges

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

Quadgas Pledgeco Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

7 Investments in Group undertakings

	2022 £m
Cost	
At 1 April 2021 & 31 March 2022	5,106
Provision	
At 1 April 2021	(1,753)
Impairment reversal	793
At 31 March 2022	<u>(960)</u>
Net book value	
At 31 March 2022	<u>4,146</u>
	2021 £m
Cost	
At 1 April 2020	5,106
Provision	
At 1 April 2020	(1,855)
Impairment reversal	102
At 31 March 2021	<u>(1,753)</u>
Net book value	
At 31 March 2021	<u><u>3,353</u></u>

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 impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Final Determination, and the subsequent Final Determination by the Competition and Markets Authority (“CMA”) following the appeal, and the internal business planning processes.

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

Underlying cash flows

In the short-term, the differences between actual cash flows and prior projections and budgets for Cadent Gas Limited are small due to the stable and predictable nature of the business. With 92% of revenue formula driven, there is a high level of predictability. This predictability of the cash flows and projections can be seen in the full year performance to 31 March 2022 where despite COVID-19 and increasing shrinkage and bad debt costs as a result of rising gas prices, the results were broadly in line with the budget. Further, both shrinkage and bad debt are cost neutral as future revenue allowances reflect these passthrough costs. The embedded debt outperformance provides c. 1% RORE outperformance in the medium term “guaranteeing” outperformance against the baseline allowed return.

The assumptions used in the Cadent Gas Financial Plan 2022 for the 5 years to March 2026 have been applied to the calculations undertaken in completing the impairment test, as detailed below. This Plan includes outturn data for the year to March 2022 and 4 years of forecast data.

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

Quadgas Pledgeco Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

7 Investments in Group undertakings (continued)

Underlying cash flows (continued)

We have determined the regulated weighted average cost of capital (WACC) and totex allowances using Ofgem's Final Determination and the outcome of the CMA appeal for the RIIO-2 period. The regulatory cost of equity for RIIO2 is 4.55% (2021: 4.8%) and is forecast to increase in future price controls with forecasted increases in risk free rates.

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

Discount Rate

Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 5.4% (2021: 5.3%). Management estimates the discount rate using post-tax rates that reflect current market assessments of the time value of money and then converts to a pre-tax rate using an iterative calculative approach in the value-in-use methodology.

Inflation

In the RIIO-2 period the CPIH assumption at March 2022 of 2.35% (2021: 1.7%) is broadly based on the Ofgem assumptions contained within the price control model used for price setting. Given current forecasts for inflation, these assumptions are conservative.

The longer-term CPIH assumption of 2.0% (2021: 2.0%) is consistent with the Bank of England target rate for the Consumer Price Index including owner occupiers' housing costs (CPIH) and external long run forecasts which show a range of potential outcomes between 1.9% - 2.3% by 2026. Given the range of potential outcomes, we have adopted the Bank of England target of 2.0% as our long run CPIH assumption from 2027 to 2045.

Terminal value cash flow

A terminal value cash flow is applied in 2045; the end of the forecast period. The terminal value is calculated based on a RAV forecast multiple at 2045. Management has derived a RAV multiple of 1.2x (2021: 1.2x) by reviewing external sources of information on similar transactions. There has been no change in the market to warrant a revision to this assumption.

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

Climate Change continues to result in uncertainty over the future use of the Cadent Gas assets for transporting natural gas to heat homes and power industry, and management have considered this uncertainty when performing the impairment test.

The government's Green Industrial Revolution has hydrogen as number 2 on the top 10 priorities and the 2022 Queen's Speech reiterated the importance of the British Hydrogen industry in the new Energy Security Bill. Cadent Gas continues to invest in programmes such as the Hydrogen Village, Hydrogen Home and HyNet to support its ambition to make hydrogen a safe, fair and reliable choice for consumers, and has a long-term commitment to decarbonise homes and businesses in a way that minimises the impact to the consumer and creates jobs across the UK. Given the information currently available, it is still reasonable to assume that the entire network will continue to be used in 2045 and beyond, in its current form, adapted to accommodate hydrogen or bio-methane, therefore we consider it appropriate to project out to 2045 before a terminal value is applied.

The receipt of the CMA Final Determination and significant changes to inflation during the year indicated that the impairment loss recognised in prior years may have decreased. Management calculated an updated recoverable amount, and the calculation indicated that this had increased over prior years when impairment losses were recognised as a result of changes in estimates in respect of discount rates, return on equity and Totex, and resulted in an impairment reversal of £793m (prior year impairment reversal of £102m).

Further sensitivity and key assumptions are included in note 15.

Quadgas Pledgeco Limited
Notes to the financial statements (continued)

For the year ended 31 March 2022

7 Investments in Group undertakings (continued)

Carrying value comprised the investment in subsidiary undertakings

Name of Subsidiary	% Holding	Principle 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
Cadent Gas Pension Trustee Limited	100%*	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100%*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100%*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100%*	Management of pension services	England and Wales

* Indirect ownership

The registered address of these investments is Pilot Way, Ansty Park, Coventry, CV7 9JU.

8 Trade and other receivables

	2022	2021
	£m	£m
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings:	902	902
Loss allowance	(1)	(1)
	901	901

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, representing a stage 1 financial asset.

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. the company has taken default to be defined as a counterparty that has entered administration. See notes 2 and 15 for further detail.

Quadgas Pledgeco Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

9 Dividends

	2022	2021
	£'000	£'000
An interim dividend of 2.50p per ordinary share amounting to £127,400,000 was declared on the 24 March 2021 and paid on the 26 March 2021.	-	127,400
An interim dividend of 2.64p per ordinary share amounting to £135,000,000 was declared on the 24 March 2022 and paid on the 28 March 2022	135,000	-
	<u>135,000</u>	<u>127,400</u>

No further dividends are proposed for the current financial period.

10 Borrowings

	2022	2021
	£m	£m
The following table analyses the company's total borrowings:		
Amounts falling due after more than one year:		
Borrowings from immediate parent company	<u>902</u>	<u>902</u>
	902	902

Borrowings comprise of an unsecured loan of £902m (2021: £902m) 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

	2022	2021
	£	£
Allotted, called-up and fully paid		
5,105,581,781 ordinary shares of £0.0001 each	<u>510,558</u>	510,558
	510,558	510,558

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption between the company and the Consortium, this was repaid during the year.

12 Commitments and contingencies

There are debt issuances by the company's subsidiaries, Quadgas MidCo Limited and Quadgas Finance Plc, which the company has guaranteed and has committed to honour any liabilities should either company have any financial difficulties.

13 Post balance sheet events

There are 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.

Quadgas Pledgeco Limited

Notes to the financial statements (continued)

For the year ended 31 March 2022

14 Ultimate parent company (continued)

Copies of Quadgas HoldCo Limited's consolidated financial statements can be obtained from the Company Secretary, Pilot Way, Ansty Park, Coventry, CV7 9JU.

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.

15 Sensitivity analysis

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the period end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing. The sensitivities shown are changes that management deem reasonably likely within the next 12 months.

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

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

	2022		2021	
	Income Statement £m	Net Assets £m	Income Statement £m	Net Assets £m
Investment in Group undertakings impairment				
CPI decrease of 0.5%	(283)	(283)	(896)	(896)
Pre-tax discount rate increase of 0.5%	(450)	(450)	(535)	(535)
Terminal value change of 0.05 multiple	263	263	155	155
Cost of equity within Regulatory WACC decrease of 0.5%	223	223	64	64
Recoverability of intercompany balances				
Probability of default change of 0.1%	0.2	0.2	0.2	0.2
Recovery rate change of 10%	0.4	0.4	0.3	0.3