

Quadgas Finance Plc
Report for the six months ended 30 September 2021

Operations

Quadgas Finance Plc (“the company”) is a wholly owned subsidiary of Quadgas MidCo Limited and operates as part of the Cadent Gas Group’s (“the Group”) regulated gas distribution business. The ultimate parent company is Quadgas Holdings TopCo Limited.

The principal activity of the company is for the provision of long-term finance for 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.

In the first half of the year, the company delivered a profit of £173,000 (six months ended 30 September 2020: £106,000 profit) in line with management expectations. For the full year, the company is on track to make a small profit (pre-intercompany loan impairment), as amounts are fully recharged to Quadgas MidCo Limited. The profit of £173,000 is attributable to an assessment of the recoverability of intercompany loan receivable balances. The movement results from a revision to the probability default assumption to 0.31% (31 March 2021: 0.37%), which was driven by improvements in the credit spreads of our bonds since 31 March 2021.

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

There have been no significant new financing transactions within the first six months of the year. The company’s balance sheet remains robust, and we have maintained our investment grade debt credit ratings from Standard & Poor’s.

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Interim management report (continued)

Results for the six months ended 30 September 2021

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

	Six months ended 30 September 2021 £'000	Six months ended 30 September 2020 £'000	Movement £'000
Profit before tax	173	106	67
Profit after tax	173	106	67

Interest

Interest received during the period from Quadgas MidCo Limited, the immediate parent company of Quadgas Finance Plc, was £23,069,000 (six months ended 30 September 2020: £16,376,000) arising from the intercompany loans in place. Interest payable during the period was £23,069,000 (six months ended 30 September 2020: £16,376,000) due on external borrowings. The increase from the prior period is driven by an increase in borrowings to £1,438,952,00 (30 September 2020: £976,970,000), due to additional debt entered into in the second half of the previous financial year.

Result for the period

The company made a profit of £173,000 for the period (six months ended 30 September 2020: £106,000 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 probability of default compared to March 2021.

Financial position

The financial position of the company is presented in the condensed statement of financial position. Total shareholders' deficit at 30 September 2021 were £821,000 (shareholders' deficit at 31 March 2021: £994,000). There were no new financing activities in the period to 30 September 2021.

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.

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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 Financial statements 2020/21, which does not form part of this report.

Impact of new accounting standards

These Interim Financial Statements have been prepared under FRS 104. FRS 104 stipulates that the Generally Accepted Accounting Practice (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 2021. A detailed explanation of the risks, and how the company seeks to mitigate the risks, can be found on pages 4 & 5 of the 2020/21 Quadgas Finance Plc Annual Report and Financial Statements. Below is a summary of our key risks as at 30 September 2021:

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

Going concern

The condensed statement of financial position shows net liabilities of £821,000 (31 March 2021: £994,000 net liabilities). The condensed income statement shows interest income for the period of £23,069,000 (2020: £16,376,000). The profit for the period is £173,000 (2020: £106,000) driven by the reversal of impairment of an intercompany loan, which is a non-cash movement. No debt in the company is due for repayment until 2024 and the Group continues to have strong cash reserves. The company continues to receive income from Quadgas MidCo Limited which continues to trade and operate as a going concern and the debt at Quadgas Finance Plc is guaranteed by Quadgas PledgeCo Limited and Quadgas MidCo Limited. At 30 September 2021 Quadgas MidCo Limited was in a consolidated net asset position of £3,676,000,000 (31 March 2021: £4,035,000,000), reported consolidated profit before tax for the financial period of £116,000,000 (2020: profit of £305,000,000) and had access to a consolidated £700,000,000 liquidity facility, £100,000,000 of which was drawn at 30 September 2021. Therefore 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.

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Interim management report (continued)

Auditor

Following the completion of the 2020/21 audit process, Deloitte LLP has been re-appointed as Auditor of the Quadgas Holdings TopCo 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,



S G Hurrell

Director

24 November 2021

Ashbrook Court, Prologis 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 confirm that the financial information has been prepared in accordance with FRS 104 Interim Financial Reporting as issued by the Financial Reporting Council.

The Directors of Quadgas 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,

A handwritten signature in black ink, appearing to read 'S G Hurrell', with a stylized flourish at the end.

S G Hurrell

Director

24 November 2021

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 2021 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

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 have 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 2021 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104.

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

Deloitte LLP

Statutory Auditor

London, United Kingdom

24 November 2021

Quadgas Finance Plc

Condensed income statement

Six months ended 30 September 2021

		Six months ended 30 September (unaudited)	Six months ended 30 September (unaudited)
	Notes	£'000	£'000
Interest receivable and similar income	4	23,069	16,376
Interest payable and similar charges	5	(23,069)	(16,376)
Net gains/(losses) on external derivative financial instruments	6	1,873	(309)
Net (losses)/gains on intercompany derivative financial instruments	6	(1,873)	309
Reversal of the impairment on intercompany loans		173	106
Profit before tax		173	106
Tax	7	-	-
Profit for the period		173	106

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.

Quadgas Finance Plc

Condensed statement of financial position

As at 30 September 2021

	As at 30 September 2021 (unaudited)	As at 31 March 2021 (audited)
Notes	£'000	£'000
Non-current assets		
Debtors: amounts falling due after more than one year	1,424,152	1,424,235
Derivative financial instruments: amounts falling due after more than one year	9 2,475	4,589
	<u>1,426,627</u>	<u>1,428,824</u>
Current assets		
Debtors: amounts falling due within one year (owed by immediate parent company)	13,980	13,208
	<u>13,980</u>	<u>13,208</u>
Current Liabilities		
Creditors: amounts falling due within one year	(13,909)	(13,137)
Taxation	(1)	(1)
	<u>(13,910)</u>	<u>(13,138)</u>
Net current assets	<u>70</u>	<u>70</u>
Total assets less current liabilities	<u>1,426,697</u>	<u>1,428,894</u>
Non-current liabilities		
Creditors: amounts falling due after more than one year	(1,425,043)	(1,425,299)
Derivative financial instruments: amounts owing after more than one year	9 (2,475)	(4,589)
	<u>(1,427,518)</u>	<u>(1,429,888)</u>
Net liabilities	<u>(821)</u>	<u>(994)</u>
Equity		
Share capital	50	50
Retained losses	(871)	(1,044)
Total shareholders' deficit	<u>(821)</u>	<u>(994)</u>

The condensed financial statements on pages 7 to 13 were approved for issue by the Board of Directors on 24 November 2021 and were signed on its behalf by:

S G Hurrell
Director



Quadgas Finance Plc
Company registration number: 10619488

Quadgas Finance Plc

Condensed statement of changes in equity

Six months ended 30 September 2021

	Share capital £'000	Retained losses £'000	Total £'000
At 1 April 2021	50	(1,044)	(994)
Profit for the period	-	173	173
At 30 September 2021 (unaudited)	50	(871)	(821)

	Share capital £'000	Retained losses £'000	Total £'000
At 1 April 2020	50	(1,068)	(1,018)
Profit for the period	-	106	106
At 30 September 2020 (unaudited)	50	(962)	(912)

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Notes to the condensed financial statements

Six months ended 30 September 2021

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

The half year financial information covers the six-month period ended 30 September 2021 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'.

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 2021, 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 2022. 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 company's financial statements for the year ended 31 March 2021.

The condensed statement of financial position shows net liabilities of £821,000 (31 March 2021: £994,000 net liabilities). 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 consolidated net asset position of £3,676,000,000 (31 March 2021: £4,035,000,000) and had access to a consolidated £700,000,000 Revolving Credit Facility, £100,000,000 of which was drawn at 30 September 2021.

The company has significant intercompany balances of £1,438,952,000 as its principal activity is the provision of long term finance for its immediate parent, Quadgas MidCo 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. Cadent Gas Limited, a fellow subsidiary of Quadgas MidCo Limited and the operating company within the Group, 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 credit of £173,000 (2020: £106,000 credit).

As noted above, these 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.

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Notes to the condensed financial statements (continued)

Six months ended 30 September 2021

3. Seasonality

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

4. Interest receivable and similar income

	Six months ended 30 September 2021	Six months ended 30 September 2020
	£'000	£'000
Interest receivable from immediate parent company	23,069	16,376

5. Interest payable and similar charges

	Six months ended 30 September 2021	Six months ended 30 September 2020
	£'000	£'000
Interest payable on other borrowings	(23,069)	(16,376)

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Notes to the condensed financial statements (continued)

Six months ended 30 September 2021

6. Net gains/(losses) on financial derivatives

	Six months ended 30 September 2021	Six months ended 30 September 2020
External	£'000	£'000
Net gains/(losses) on derivatives not designated in a hedge relationship	3,938	(1,822)
Exchange (losses)/gains on revaluation of foreign currency denominated loans	(2,065)	1,513
	<u>1,873</u>	<u>(309)</u>

	Six months ended 30 September 2021	Six months ended 30 September 2020
Internal	£'000	£'000
Net (losses)/gains on derivatives not designated in a hedge relationship	(3,938)	1,822
Exchange gains/(losses) on revaluation of foreign currency denominated loans	2,065	(1,513)
	<u>(1,873)</u>	<u>309</u>

7. Tax

The tax charge for the period is £Nil (six months to 30 September 2020: £Nil). The effective tax rate of Nil (six months to 30 September 2020: 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.

8. Dividends

No dividends are proposed for the current financial period (six months to 30 September 2020: £Nil).

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Notes to the condensed financial statements (continued)

Six months ended 30 September 2021

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 September 2021				31 March 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets								
Derivative financial instruments (external)	-	843	-	843	-	-	-	-
Derivative financial instruments (internal)	-	1,632	-	1,632	-	4,589	-	4,589
		2,475	-	2,475	-	4,589	-	4,589
Liabilities								
Derivative financial instruments (external)	-	(1,632)	-	(1,632)	-	(4,589)	-	(4,589)
Derivative financial instruments (internal)		(843)		(843)	-	-	-	-
		(2,475)	-	(2,475)	-	(4,589)	-	(4,589)
Total	-	-	-	-	-	-	-	-

Financial 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. Financial assets are classified at inception into one of the following categories which then determines the subsequent measurement methodology: financial assets at amortised cost; financial assets at value through other comprehensive income (FCTOCI); and financial assets at fair value through profit or loss (FVTPL). Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments.

The estimated fair value of total borrowings using market values at 30 September 2021 is £1,630 million (31 March 2021: £1,510 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.

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 Limited Group.

11 Events occurring after the reporting period

There are no post balance sheet events.