Company Registration Number: 05895068

Cadent Finance Plc

Annual Report and Financial Statements

For the year ended 31 March 2022

Cadent Finance Plc

Strategic Report
For the year ended 31 March 2022

The Directors present their Strategic Report for Cadent Finance Plc (“the company”) for the year ended 31 March 2022.

Review of the business

The company is a wholly owned subsidiary of Cadent Gas Limited and the company operates as part of the Cadent Gas Group’s regulated gas distribution business. The Group comprises 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 principal activity of the company is the provision of long term finance, through access to capital markets, 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.

Executive summary

On 22 September 2021 the company repaid £250m of loan notes which had reached maturity, using existing funds to fully repay the issuance.

The regulated revenues and Regulated Asset Value ("RAV") of its immediate parent, Cadent Gas Limited are index-linked to CPIH, and therefore inflation-linked liabilities act as a natural hedge against fluctuations in inflation rates. Since April 2021, the company entered into CPI-linked swaps, totalling £1billion and maturing in 2028 and 2031, which swaps an element of our fixed debt into inflation linked debt. This increases the proportion of our debt book that is linked to inflation, aligning our position more closely to the average exposure to inflation across our industry.

During the year, the company paid £142,726,000 (2021: £123,210,000) of interest on its external debt and received interest of £142,726,000 (2021: £123,210,000) from Cadent Gas Limited. The increase in interest paid and received in the year is as a result of higher accretion of £22,246,000 (2021: £5,320,000) on the index linked debt following an increase in underlying inflation in the year. The key terms are set out in note 13.

The company acts as a conduit for finance raised and any related derivative transactions between the market and its immediate parent company, and amounts raised or entered into are usually passed on to its immediate parent on identical terms. The company's exposures are limited to the credit risk on the intercompany loans (note 9). The net loss on external financial derivatives consists of losses on derivatives not designated in a hedge relationship of £122,758,000 (2021: £86,871,000 loss) and exchange losses on the revaluation of foreign currency denominated loans of £3,292,000 (2021: £74,198,000 gain). The net loss on external financial derivatives, not designated in a hedge relationship, include losses of £101,876,000 (2021: £nil) arising from the CPI swaps taken out within the period which were impacted by volatility seen in inflation rates.

As of 31 March 2022, the latest published credit ratings assigned to Cadent Finance Plc’s debt was BBB+ (2021: BBB+) by S&P, A- (2021: A-) by Fitch and Baa1 (2021: Baa1) by Moody's (all ratings stable).

Results

The company made a loss of £1,695,000 for the financial year (2021: profit of £1,875,000), which was driven by the movement in the impairment of intercompany loans. This is a non-cash movement and due to a deterioration of credit spreads for the company since March 2021.

Financial position

The financial position of the company is presented in the statement of financial position. Total shareholders' deficit at 31 March 2022 was £4,034,000 (2021: £2,339,000) comprised of non-current assets (principally intercompany loans and derivatives) of £6,148,878,000 (2021: £5,999,625,000) less creditors falling due after more than one year (principally external borrowings and derivatives) of £6,152,912,000 (2021: £6,001,964,000). Liquidity risk has been considered in detail in the Directors' Report.

Key performance indicators and principal risks and uncertainties

As the company is part of a larger Group, the management of the company does not involve the use of key performance indicators, other than the profit or loss for the year and the constituent line items, 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.

Key performance indicators in relation to debt finance across Cadent Gas Limited and Cadent Finance Plc include its overall ratio of net debt to its Regulated Asset Value (RAV), which is managed within debt covenant levels and guided by Ofgem's assumption for a regulated Gas Distribution network. The company is incentivised to raise debt more efficiently by keeping the interest costs on the debt below the external benchmark interest set by the regulator thereby seeking to outperform the regulatory interest cost allowance.

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 2021/22, which does not form part of this report.

Future developments

By nature of its operating business, Cadent Finance Plc 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 the company will continue to provide long term finance for its immediate parent. The company is exposed to the risk of default on its intercompany loan with its immediate parent. The recent geopolitical uncertainties have increased volatility in the market and as a result credit spreads for a broad range of businesses has widened versus the previous year. Accordingly there has also been a widening in the company's calculated credit spreads which has caused movements in the loss calculation. The company will continue to be exposed to such changes in the future.

Climate change is a global challenge and an emerging risk to business, people and the environment across the world. As a financing company, Cadent Finance Plc's operations are not directly or significantly impacted however, those of Cadent Gas Limited, the Group's operating company, are. It has a role to play in limiting warming by improving energy management, reducing carbon emissions and by helping its customers do the same. Investor awareness and interest in climate change matters continues to grow when making investment decisions and Cadent continues to engage with its investors in this area. 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.

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.

S172 Statement (continued)

The company has no operational activities and no employees, it is a financing company for listed debt. The company's main purpose is to provide long-term finance to Cadent Gas Limited, its immediate parent company. As a wholly owned subsidiary holding company within the Cadent Gas Group ("the Group"), the Directors consider the impact of the company's activities on its shareholder, its debt holders, its subsidiaries and other stakeholders.

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 and financing matters, with the aim of raising and servicing financing for the Group, and ensuring that the company maintains high standards of business conduct and governance.

As a financing vehicle for the Group, the company obtains and provides finance to Cadent Gas Limited. The Board considers the company's financing in light of the Group's corporate, social and environmental responsibility strategy, as such the Board receives information on these topics from management to make better informed Board decisions.

Whilst not directly regulated itself, the company maintains a close relationship with the Ofgem (The Office of Gas and Electricity Markets), via its immediate parent company Cadent Gas Limited.

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

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

A O Bickerstaff
Director
26 July 2022

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 within the Strategic Report on page 2.

Events after balance sheet date

There are no post balance sheet events.

Dividends

During the year the company did not pay any interim ordinary dividends (2021: £Nil). The Directors do not recommend the payment of a final ordinary dividend (2021: £Nil).

Political donations and political expenditure

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

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, credit, exchange rate risk, interest rate risks, and inflation rate risks. These risks are managed by Cadent Gas Limited's Treasury function ("Treasury") which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Cadent Gas Limited and its subsidiary.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that Cadent Finance Plc has with each of its counterparties against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

The company acts as a conduit for finance raised and any related derivative transactions between the market and its immediate parent company, and amounts raised or entered into are passed on to its immediate parent on identical terms. The company's exposures are limited to the credit risk on the intercompany loans (as disclosed below and in note 9).

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Cadent Gas Limited's (the immediate parent company) short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of external borrowings and intercompany receivables.

Financial risk management (continued)

Credit risk

The company raises debt finance for its immediate parent company, Cadent Gas Limited. Amounts raised are passed on to Cadent Gas Limited on identical terms. Cadent Gas Limited provides guarantees for the company's obligations under these arrangements. The principal risk of these arrangements is that Cadent Gas Limited is unable to meet its obligations to the company. The company is exposed to the expected credit losses on its intercompany loan with Cadent Gas 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. There were no such loans at 31 March 2022 (2021: £Nil).

Inflation rate risk

The company also has intercompany assets whose principal varies in line with changes in UK inflation. To the extent that the company enters into intercompany loan agreements, the company's exposure to inflation rate cash flow risk arises on such loans on which the loan principal accretes in line with UK RPI.

Foreign exchange risk

To the extent that the company enters into loan and derivative agreements in currencies different to that of the company's functional currency, there is an exposure to movements in exchange rates. At the reporting date, the remeasurement of the Euro bonds (aggregate notional: €1,875,000,000) was a gain of £870,000 (2021: gain of £49,006,000) and the amortised cost of the debt in Sterling functional currency was £1,586,311,000 (2021: £1,589,336,000). The remeasurement of the JPY bond (notional: ¥10,000,000,000) was a gain of £3,138,000 (2021: gain of £9,237,000) and the amortised cost of the debt in Sterling functional currency was £62,160,000 (2021: £65,280,000). The remeasurement of the USD bond (notional: $200,000,000) was a loss of £7,300,000 (2021: gain of £15,955,000) and the amortised cost of the debt in Sterling functional currency was £151,937,000 (2021: £144,592,000).

Derivative financial instruments

Derivative financial instruments in the form of cross-currency interest rate swaps are entered into for the purposes of hedging foreign exchange risk, as well as inflation linked swaps to hedge inflation risk. These derivative financial instruments are recorded at fair value in the financial statements. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values. In other cases, fair values have been calculated using quotations from independent financial institutions, or by discounting expected cash flows at prevailing market rates.

As at 31 March 2022, the net fair value of these derivative financial instruments resulted in an external liability of £163,154,000 (2021: £48,306,000 liability) which is matched by amounts owed to the company by its immediate parent company of £163,154,000 (2021: £48,306,000 owed to).

Derivative financial instruments (continued)

The gross notional amounts of the external and intercompany derivative contracts was £2,830,803,000 (2021: £1,836,031,000). For the cross currency swaps, the net notional principal of contracts, including both external and intercompany derivatives, was £Nil (2021: £Nil) with a net foreign exchange exposure of £Nil (2021: £Nil). The net future cashflows from these external and internal derivatives are not affected by changes in the exchange rate. The contracts have fixed settlement dates.

Directors' indemnity

Quadgas HoldCo Limited, a Group company which indirectly holds 100% of the shares in Cadent Finance Plc, has arranged, in accordance with the Companies Act 2006 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.

Going concern

The statement of financial position shows net liabilities of £4,034,000 at 31 March 2022 (2021: £2,339,000). It is appropriate to prepare the accounts on a going concern basis despite the net liability position of the company as the company raises debt from external sources and lends on a back to back basis to Cadent Gas Limited and relies on Cadent Gas Limited as its only income source. Cadent Gas Limited has £93m of cash and current asset investments at 31 March 2022, as well as undrawn facilities amounting to £500m. Management analysis concluded that sufficient headroom exists in the forecast and against the requirements of key banking covenants.

The income statement shows interest income for the year ended 31 March 2022 of £142,726,000 (2021: £123,210,000). The loss for the financial year of £1,695,000 (2021: £1,875,000 profit) is driven by the impairment of a 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 31 March 2022 was in a consolidated net asset position of £2,514,000,000 (2021: £2,355,000,000 net assets), reported consolidated profit before tax for the financial year of £369,000,000 (2021: £779,000,000 profit before tax), had access to an undrawn £500,000,000 liquidity facility and had a company credit rating of BBB+ (S&P). See Cadent Gas Limited Annual Report and Accounts for further details.

The company 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.

Directors

The Directors of the company during the year and up to the date of signing of the financial statements were:

J Korpancova

M W Braithwaite

S G Hurrell (resigned 23 December 2021)

A O Bickerstaff (appointed 7 February 2022)

Directors' Report (continued)

For the year ended 31 March 2022

Disclosure of information to the auditor

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 s418 of the Companies Act 2006.

The auditor has 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

As the company is part of a larger Group, the internal control and risk management procedures are integrated with the internal control and risk management procedures in Cadent Gas Limited. Cadent Gas Limited 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.

Cadent Finance Plc is subject to the requirements of Rule 7.1 of the Disclosure Guidance and Transparency Rules (“DTRs”) in relation to audit committees and their functions. For the purposes of DTR 7.1.5 R, the Audit and Risk Committee of Cadent Finance Plc is responsible for fulfilling functions required by DTR 7.1.3R and the committee is composed as follows:

- Sir Adrian Montague CBE (Chair)
- Dr Catherine Bell CB
- Mark Braithwaite

Capital structure

The share capital of the company consists of 50,000 ordinary shares of £1 each. There have been no changes in the capital structure during the year.

Directors' Report (continued)

For the year ended 31 March 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with UK 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 year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

A O Bickerstaff
Director
26 July 2022

Registered office:
Pilot Way
Ansty Park
Coventry
CV7 9JU

Registered in England and Wales

Company registration number: 05895068

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CADENT FINANCE PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Cadent Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 17.

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).

2. 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the recoverability of amounts owed by the immediate parent company. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £28.3m which was determined on the basis of total borrowings.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our approach is largely consistent with the prior year.

4. 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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluation of financing facilities including nature of facilities, repayment terms and covenants;
- assessment of linkage to business model and medium-term risks;
- evaluation of assumptions used in the forecasts;
- assessment of the amount of headroom in the forecasts (cash and covenants);
- evaluation of the sensitivity analysis; and
- assessment of sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Recoverability of amounts owed by the immediate parent company

Key audit matter description	Amounts owed by the immediate parent company Cadent Gas Limited ("immediate parent company") are stated in the balance sheet at £6,016.2m (2021: £6,241.5m) Cadent Finance Plc loans borrowed funds to Cadent Gas Limited on back to back terms. There is a significant level of judgement involved in determining the recoverability of these receivable amounts from the immediate parent company based on its financial position and future prospects and recognition of an expected credit loss amount. This expected loss is calculated by determining the probability of default of the counterparty and the amount of loan deemed likely to be recoverable in the event of default and takes into consideration a range of factors including the historical trading performance of Cadent Gas Limited; this is a gas distribution business regulated by Ofgem and is the only cash generating business of Cadent Gas Limited and its subsidiaries (the "Group") and other factors considered to be relevant. The company applies IFRS 9 Financial Instruments and as detailed further in Notes 1 and 2 an impairment loss was recognised on amounts owed by the immediate parent company using the twelve months expected credit loss method. The accumulated impairment as of 31 March 2022 is £4.1m (2021: £2.4m). Further details are included within critical accounting estimates and judgements note in note 2 and debtors note 9 to the financial statements.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the appropriateness of the expected credit loss model and reasonability of key judgements used in the estimation of the probability weighted expected credit loss. We involved our financial instruments specialists in auditing these key judgements and also re-performed the calculation of expected credit loss. In addition, we have assessed the appropriateness of the method adopted to calculate the expected credit loss against the requirements of IFRS 9. We also evaluated the appropriateness of the carrying value of amounts owed by the immediate parent company obtaining a copy of the latest audited financial information and our understanding of the future trading performance of the group undertaking Cadent Gas Limited. To address Cadent Gas Limited's future prospects, we assessed Cadent Gas Limited's future cash flow forecasts and the key assumptions. We also reviewed the historical accuracy of Cadent Gas Limited's forecasts by comparing the actual results to forecasts.
Key observations	Based on the work performed, we concluded that amounts owed by the immediate parent company are appropriately stated.

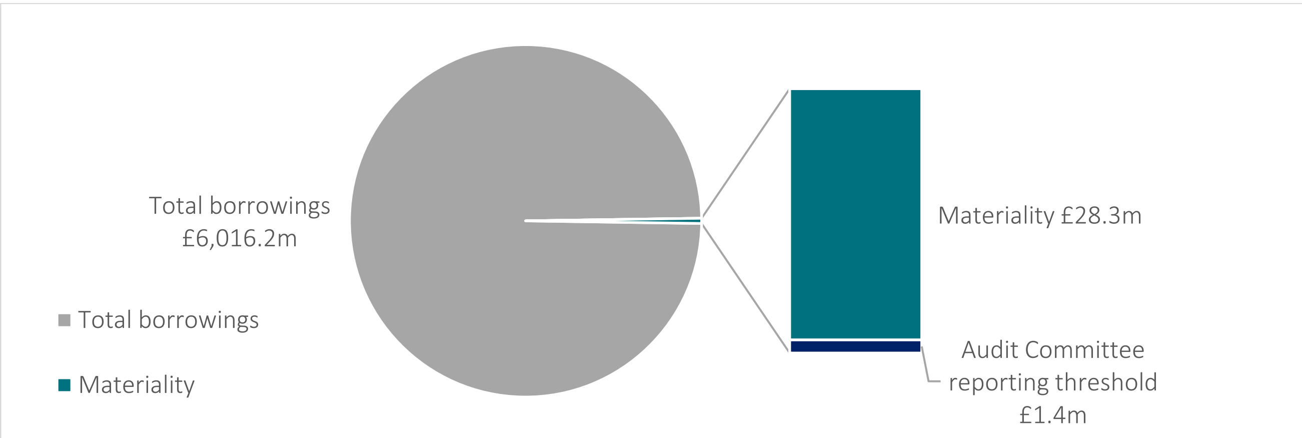
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£28.3m (2021: £34.7m)
Basis for determining materiality	Approximately 0.5% of total borrowings (2021: Approximately 0.6% of total borrowings) – this has then been capped at 90% (2021: 90%) of Cadent Gas Limited group materiality.
Rationale for the benchmark applied	The primary purpose of the company is to raise funding from external sources and provide funding to the immediate parent company. We have therefore used total borrowings as the benchmark.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment;

b. the low volume of corrected and incorrected misstatements in previous audits; and

c. the consistency of the business year on year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.4m (2021: £1.7m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

The primary purpose of the company is the provision of long term finance for its immediate parent, Cadent Gas Limited.

A full scope audit of the company was performed, covering 100% (2021: 100%) of net liabilities and 100% (2021: 100%) of loss before tax. Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. All audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

The company's accounting records are held within the group's financial accounting and reporting software platform, SAP. We have worked with our IT specialists to test key General Information Technology Controls (GITC) within the platform, including testing over controls for access, change management and segregation of duties.

We also gained an understanding over the control environment over the treasury business cycle and the related account balances.

8. 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.

9. 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.

10. 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.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006 and tax legislation.

In addition, we considered provisions of other laws and regulations that 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.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Directors on 22 November 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 March 2018 to 31 March 2022.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
26 July 2022

Cadent Finance Plc

Income statement

For the year ended 31 March 2022

	Notes	**2022**	2021
		£'000	£'000
Interest receivable and similar income	5	**142,726**	123,210
Interest payable and similar charges	6	**(142,726)**	(123,210)
Net losses on external derivative financial instruments	7	**(126,050)**	(12,673)
Net gains on intercompany derivative financial instruments	7	**126,050**	12,673
(Impairment) and impairment reversal of intercompany loans	3	**(1,695)**	1,850
Other	3	**-**	30
(Loss)/profit before taxation		**(1,695)**	1,880
Tax	8	**-**	(5)
(Loss)/profit for the financial year		**(1,695)**	1,875

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

See note 1 for basis of presentation.

The notes on pages 21 to 36 form an integral part of the financial statements.

Cadent Finance Plc

Statement of financial position

As at 31 March 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Debtors: amounts falling due after more than one year	9	**5,972,518**	5,951,319
Derivative financial instruments: amounts falling due after more than one year	10	**176,360**	48,306
		6,148,878	5,999,625
Current assets			
Debtors: amounts falling due less than one year	9	**39,636**	290,193
		39,636	290,193
Current liabilities			
Creditors: amounts falling due within one year	11	**(39,636)**	(290,193)
		(39,636)	(290,193)
Net current assets		**-**	-
Total assets less current liabilities		**6,148,878**	5,999,625
Non-current liabilities			
Creditors: amounts falling due after more than one year	12	**(5,976,552)**	(5,953,658)
Derivative financial instruments: amounts owing after more than one year	10	**(176,360)**	(48,306)
		(6,152,912)	(6,001,964)
Net liabilities		**(4,034)**	(2,339)
Equity			
Share capital	14	**50**	50
Retained losses		**(4,084)**	(2,389)
Total shareholders' deficit		**(4,034)**	(2,339)

The notes on pages 21 to 36 are an integral part of these financial statements.

The financial statements on pages 18 to 36 were approved by the Board of Directors on 26 July 2022 and were signed on its behalf by:

A O Bickerstaff
Director

Cadent Finance Plc
Company registration number: 05895068

Cadent Finance Plc

Statement of changes in equity

For the year ended 31 March 2022

	Share capital £'000	Retained losses £'000	Total £'000
At 1 April 2021	**50**	**(2,389)**	**(2,339)**
Loss for the financial year	**-**	**(1,695)**	**(1,695)**
As at 31 March 2022	**50**	**(4,084)**	**(4,034)**

	Share capital £'000	Retained losses £'000	Total £'000
At 1 April 2020	50	(4,264)	(4,214)
Profit for the financial year	-	1,875	1,875
At 31 March 2021	50	(2,389)	(2,339)

The notes on pages 21 to 36 are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2022

1 Summary of significant accounting policies

Cadent Finance Plc (the "company") is a public limited company and is incorporated and registered in England and Wales, with its registered office at Pilot Way, Ansty Park, Coventry, CV7 9JU.

The nature of the company's operations and its principal activities are set out in the Strategic Report on page 1.

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

Going Concern

The financial statements of Cadent Finance Plc have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards (FRS 101) and the Companies Act 2006. The statement of financial position shows net liabilities of £4,034,000 at 31 March 2022 (2021: £2,339,000). It is appropriate to prepare the accounts on a going concern basis despite the net liability position of the company as the company raises debt from external sources and lends on a back to back basis to Cadent Gas Limited and relies on Cadent Gas Limited as its only income source. Management analysis concluded that sufficient headroom exists in the forecast and against the requirements of key banking covenants.

The income statement shows interest income for the year ended 31 March 2022 of £142,726,000 (2021: £123,210,000). The loss for the financial year of £1,695,000 (2021: profit of £1,875,000) is driven by the impairment of a 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 31 March 2022 was in a consolidated net asset position of £2,514,000,000 (2021: £2,355,000,000 net assets), reported consolidated profit before tax for the financial year of £369,000,000 (2021: £779,000,000 profit before tax), had access to an undrawn £500,000,000 liquidity facility and had a company credit rating of BBB+ (S&P). See Cadent Gas Limited Annual Report and Accounts for further details.

The company 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.

The financial statements have been prepared on an historical cost basis except for the derivative financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council, as it is a member of a Group (Cadent Gas Limited, the immediate parent company) where the parent of the Group prepares publicly available consolidated financial statements which include the company's results.

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, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, and related party transactions.

Where relevant, equivalent disclosures have been presented in the Group financial statements of Cadent Gas Limited.

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of turnover and expenses during the reporting period. Actual results could differ from these estimates.

The key accounting estimates are in respect of

- the fair value of derivative financial instruments which are calculated by discounting future cash flows; and
- the recoverability of intercompany balances

Derivatives values are calculated by discounting future cash flows using discount rates which are derived from yield curves based on quoted interest rates and are adjusted for credit risk, which is estimated based on market observations.

The recoverability of intercompany loans is determined by estimating the probability of default of the counterparty and the amount of the loan deemed likely to be recoverable in the event of default. The expected loss calculation is discussed further in note 1(f) Financial instruments and note 9 Debtors.

(b) New IFRS accounting standards and interpretations

The company has adopted the 'Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16' with effect from 1 April 2021. There are no other new or amended standards or interpretations during the year that have a significant impact on the financial statements.

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16

The replacement of key interest rate benchmarks such as the London Inter-bank Offered Rate (LIBOR) with alternative benchmarks in the UK, EU, US and other territories occurred at the end of 2021 for most benchmarks, with remaining USD LIBOR tenors expected to cease in 2023.

Notes to the financial statements (continued)

For the year ended 31 March 2022

1 Summary of significant accounting policies (continued)

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

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16' Phase I and Phase II were issued by the IASB in September 2019 and August 2020, and adopted by the UK Endorsement Board on 5 January 2021 to provide practical expedients and reliefs when changes are made to contractual cash flows or hedging relationships because of the transition from Inter-bank Offered rates to alternative risk-free rates. Phase I of the amendment modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms. Phase II also provided that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform should be reflected by adjusting their effective interest rate and no immediate gain or loss should be recognised.

The company adopted these amendments from 1 April 2021 and they were applied prospectively from that date. There were no financial instruments held currently by the company that directly reference LIBOR. Our current portfolio of derivatives consist of those in a designated hedge relationship (cross-currency interest rate swaps) and those not designated in a hedge relationship (our CPI swaps). The cross-currency interest rate swaps and underlying hedged items designated in hedge relationships all pay/receive fixed rates of interest, so there was no impact in this context. However, the valuation of our derivatives have been updated following the LIBOR transition, owing to changes in the market convention of arriving at a discounted fair value.

(c) Net finance 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.

(d) Tax

The tax charge for the year is recognised in the income statement, the statement of 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 is the best estimate expected to become payable, 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.

(e) Foreign currency transactions and balances

Foreign currency transactions are re-measured into the functional currency of the company using the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1 Summary of significant accounting policies (continued)

(f) 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.

If the transaction price differs from fair value at initial recognition, the company will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised as a gain or loss on initial recognition (i.e. day 1 profit or loss); or

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss such that it reaches a value of zero at the time when the entire contract can be valued using active market quotes or verifiable objective market information. Depending on the type of financial instrument, the company can adopt one of the following policies for the amortisation of day 1 gain or loss:

- calibrate unobservable inputs to the transaction price and recognise the deferred gain or loss as the best estimates of those unobservable inputs change based on observable information; or

- release the day 1 gain or loss in a reasonable fashion based on the facts and circumstances (i.e. using either straight-line or non-linear amortisation).

Classification and measurement

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).

1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Classification and measurement (continued)

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.

1 Summary of significant accounting policies (continued)

(f) 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 immediate parent company at an amount equal to the 12 month expected credit loss (representing a stage 1 financial model). The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the company recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the company recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the company recognises the lifetime expected credit loss.

A significant increase in credit risk would by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

Impairment of financial assets (continued)

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.

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.

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 fair value of derivative financial instruments which are calculated by discounting future cash flows; and
- The amounts recognised in the financial statements for the impairment of amounts owed by the immediate parent company. The expected loss is calculated by determining the probability of default of the counterparty and the amount of the loan deemed likely to be recoverable in the event of default. The expected loss calculation is discussed further in note 1(f) Financial instruments and note 9 Debtors.

Below is sensitivity analysis on how the key assumptions might impact the carrying amounts of the balances owed by its immediate parent of £6,012,154,000 after impairment (current and non-current) (2021: £6,241,512,000 after impairment).

	2022		2021	
	Income Statement	**Net Assets**	Income Statement	Net Assets
	£'000	**£'000**	£'000	£'000
Probability of default change of 0.1%	**1,201**	**1,201**	1,258	1,258
Recovery rate change of 10%	**2,042**	**2,042**	1,195	1,195

The probability of default change of 0.1% and recovery rate change of 10% are changes that management deem reasonably likely within the next 12 months.

The cumulative impairment on the amounts owed by immediate parent company balance at the reporting date is £4,085,000 (2021: £2,390,000). There have been no changes to the assessment methodology in the year.

Notes to the financial statements (continued)

For the year ended 31 March 2022

3 (Loss)/profit before taxation

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

	2022	2021
	£'000	£'000
Net losses on external financial instruments (note 7)	(126,050)	(12,673)
Net gains on intercompany financial instruments (note 7)	126,050	12,673
(Impairment) and impairment reversal of intercompany loans	(1,695)	1,850
Reversal of audit fee	-	30
	(1,695)	1,880

Fees payable to the company's auditors for the audit of the company's annual financial statements of £48,882 (2021: £52,829) and non-audit services amounting to £70,683 (2021: £43,049) have been borne by its parent company, Cadent Gas Limited. No other fees were payable to the auditors (2021: £Nil). The credit of £30,000 in 2021 is a reversal of an audit fee recognised in a prior year which was subsequently borne by Cadent Gas Limited.

4 Directors and employees

There were no employees of the company during the year (2021: Nil).

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 Cadent Gas Limited subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements (2021: Nil).

5 Interest receivable and similar income

	2022	2021
	£'000	£'000
Interest receivable from immediate parent company	142,726	123,210
	142,726	123,210

6 Interest payable and similar charges

	2022	2021
	£'000	£'000
Interest payable on other borrowings	(142,726)	(123,210)
	(142,726)	(123,210)

Notes to the financial statements (continued)

For the year ended 31 March 2022

7 Net (losses)/gains on financial instruments

	2022	2021
	£'000	£'000
External		
Net (losses)/gains on derivatives not designated in a hedge relationship	**(122,758)**	(86,871)
Exchange (losses)/gains on revaluation of foreign currency denominated loans	**(3,292)**	74,198
	(126,050)	(12,673)
Internal		
Net gains on derivatives not designated in a hedge relationship	**122,758**	86,871
Exchange gains/(losses) on revaluation of foreign currency denominated loans	**3,292**	(74,198)
	126,050	12,673

8 Tax

Tax charged to the income statement	**2022**	2021
	£'000	£'000
Current Tax		
UK Corporation tax	**-**	5
Total tax charge	**-**	5

The tax charge for the year is higher (2021: lower) than the standard rate of corporation tax in the UK of 19%. The differences are explained below.

(Loss)/profit before tax	**(1,695)**	1,880
(Loss)/profit before tax multiplied by UK corporation tax rate of 19%	**(322)**	357
Effect of:		
Non-taxable income	**-**	(352)
Non-deductible expenditure	**322**	-
Total tax charge	**-**	5

Factors affecting future tax charges

The Finance Bill 2021-22 received Royal Assent in June 2021. As a result, the main rate of UK corporation tax will increase from 19% to 25%, effective 1 April 2023.

Notes to the financial statements (continued)

For the year ended 31 March 2022

9 Debtors

	2022	2021
Amounts falling due within one year:	**£'000**	£'000
Amounts owed by immediate parent company	**39,636**	290,193
	39,636	290,193
Amounts falling due after more than one year:		
Amounts owed by immediate parent company	**5,976,603**	5,953,709
Loss allowance	**(4,085)**	(2,390)
	5,972,518	5,951,319

The company raises debt finance for its immediate parent company, Cadent Gas Limited. Amounts raised are passed on to Cadent Gas Limited on identical terms, these terms are set out in note 13. Cadent Gas Limited provides guarantees for the company's obligations under these arrangements. The amounts owed are unsecured, with phased repayments to August 2048.

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.

10 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

		2022	
	Assets	**Liabilities**	**Total**
	£'000	**£'000**	**£'000**
Amounts falling due after more than one year - external (note 12)	**6,603**	**(169,757)**	**(163,154)**
Amounts falling due after more than one year - internal (note 12)	**169,757**	**(6,603)**	**163,154**
	176,360	**(176,360)**	**-**

		2021	
	Assets	Liabilities	Total
	£'000	£'000	£'000
Amounts falling due after more than one year - external (note 12)	-	(48,306)	(48,306)
Amounts falling due after more than one year - internal (note12)	48,306	-	48,306
	48,306	(48,306)	-

10 Derivative Financial instruments (continued)

The derivative financial instruments included on the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

The hierarchy levels are explained below:

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.

As at 31 March 2022	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Derivative financial instruments (external)	**-**	**6,603**	**-**	**6,603**
Derivative financial instruments (internal)	**-**	**56,201**	**113,556**	**169,757**
	-	**62,804**	**113,556**	**176,360**
Liabilities				
Derivative financial instruments (external)	**-**	**(56,201)**	**(113,556)**	**(169,757)**
Derivative financial instruments (internal)	**-**	**(6,603)**	**-**	**(6,603)**
	-	**(62,804)**	**(113,556)**	**(176,360)**

As at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivative financial instruments (external)	-	-	-	-
Derivative financial instruments (internal)	-	48,306	-	48,306
	-	48,306	-	48,306
Liabilities				
Derivative financial instruments (external)	-	(48,306)	-	(48,306)
Derivative financial instruments (internal)	-	-	-	-
	-	(48,306)	-	(48,306)

The Level 3 derivative financial instruments comprise £1bn of CPI-linked inflation swaps maturing in 2028 and 2031 which are traded based on a spread to liquid RPI inflation markets. As the market for CPI swaps is still maturing with the spreads not currently observable in their own liquid market, these swaps have been classified as Level 3 instruments. The fair values for these instruments are calculated by using market forecasts of inflation rates to produce a series of future cashflows which are then discounted back to a net present value to which model-derived credit adjustments are applied. As these instruments are linked to CPI, higher inflation forecasts will result in a larger liability at maturity, negatively impacting the fair value. Conversely, a reduction in inflation forecasts will reduce the liability at maturity and positively impact the fair value.

The net loss on external derivatives is included in net losses on derivatives not designated in a hedge relationship. The net gain on internal derivatives is included in net gains on derivatives not designated in a hedge relationship.

Notes to the financial statements (continued)

For the year ended 31 March 2022

10 Derivative Financial instruments (continued)

JPY 10,000m, USD 200m and EUR 1,875m (750m, 500m, 625m) of fixed to fixed cross-currency interest rate swaps were transacted to convert principal and interest cash flows on the JPY 10,000m, USD 200m, EUR 750m, EUR 500m and EUR 625m debt maturing in 2033, 2031, 2024, 2032 and 2030 respectively, to sterling. £1bn of index linked swaps were transacted to convert fixed rate cash flows to index linked cash flows. Cadent Finance Plc has transacted equal and opposite internal fixed to fixed cross-currency interest rate swaps and fixed to index linked inflation swaps with its immediate parent company Cadent Gas Limited, and its net exposure is therefore £Nil and so hedge accounting is not applied.

For each class of derivative the notional contract amounts* are as follows:

	2022	2021
	£'000	£'000
Cross-currency interest rate swaps (external)	**1,830,803**	1,836,031
Cross-currency interest rate swaps (internal)	**(1,830,803)**	(1,836,031)
Inflation-linked swaps (external)	**1,000,000**	-
Inflation-linked swaps (internal)	**(1,000,000)**	-
	-	-

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Notes to the financial statements (continued)
For the year ended 31 March 2022

10 Derivative financial instruments (continued)

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Average contractual exchange rate		**Notional principal value**		**Fair value**	
	2022 rate	2021 rate	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
External under 5 years EUR 750M 2024	**1.17**	1.17	**638,312**	638,312	**5,130**	(5,654)
External 5 years or more - EUR 500M 2032	**1.15**	1.15	**436,396**	436,396	**(24,541)**	(12,742)
External 5 years or more - EUR 625M 2030	**1.16**	1.16	**536,650**	536,650	**(19,842)**	(12,352)
External 5 years or more - JPY 10,000M 2033	**145.63**	145.63	**68,667**	68,667	**(11,818)**	(9,692)
External 5 years or more - USD 200M 2031	**1.28**	1.28	**150,778**	156,006	**1,473**	(7,866)
External 5 years or more - CPI £1bn 2031	**-**	-	**1,000,000**	-	**(113,556)**	
			2,830,803	1,836,031	**(163,154)**	(48,306)

Internal under 5 years EUR 750M 2024	**1.17**	1.17	**638,312**	638,312	**(5,130)**	5,654
Internal 5 years or more - EUR 500M 2032	**1.15**	1.15	**436,396**	436,396	**24,541**	12,742
Internal 5 years or more - EUR 625M 2030	**1.16**	1.16	**536,650**	536,650	**19,842**	12,352
Internal 5 years or more - JPY 10,000M 2033	**145.63**	145.63	**68,667**	68,667	**11,818**	9,692
Internal 5 years or more - USD 200M 2031	**1.28**	1.28	**150,778**	156,006	**(1,473)**	7,866
Internal 5 years or more - CPI £1bn 2031	**-**	-	**1,000,000**	-	**113,556**	-
			2,830,803	1,836,031	**163,154**	48,306

The cross-currency interest rate swaps and index linked swaps settle semi-annually or annually.

11 Creditors: amounts falling due within one year	**2022 £'000**	2021 £'000
Borrowings (note 13)	**39,636**	290,193
	39,636	290,193

12 Creditors: amounts falling due after more than one year	**2022 £'000**	2021 £'000
Derivative financial instruments (external) - more than 1 year (note 10)	**176,360**	48,306
Borrowings (note 13)	**5,976,552**	5,953,658
	6,152,912	6,001,964

Notes to the financial statements (continued)

For the year ended 31 March 2022

13 Borrowings

	2022	2021
	£'000	£'000
Amounts falling due within one year		
Bonds (note 11)	**39,636**	290,193
	39,636	290,193
Amounts falling due after more than one year		
Bonds (note 12)	**5,976,552**	5,953,658
	5,976,552	5,953,658

	2022	2021
	£'000	£'000
Total borrowings are repayable as follows:		
Less than 1 year	**39,636**	290,193
In 1-2 years	**-**	-
In 2-3 years	**635,653**	-
In 3-4 years	**-**	635,000
In 4-5 years	**-**	-
More than 5 years	**5,340,899**	5,318,658
	6,016,188	6,243,851

Summary of Borrowings

Currency	Type	Notional (inc accretion)* £m	Rate	Maturity Date	Book value £m	Fair Value £m
Fixed Rate						
EUR**	Listed	643	Fixed	23-Sep-24	638	637
GBP	Listed	850	Fixed	22-Sep-28	857	828
GBP	Listed	700	Fixed	22-Sep-38	705	641
GBP	Listed	800	Fixed	24-Sep-46	800	720
GBP	Listed	300	Fixed	21-Mar-40	295	287
JPY***	Listed	68	Fixed	19-Jul-33	62	66
GBP	Listed	100	Fixed	19-Mar-31	100	99
USD****	Listed	151	Fixed	19-Mar-31	152	151
GBP	Listed	200	Fixed	20-Mar-34	200	195
GBP	Listed	225	Fixed	21-Mar-39	225	215
GBP	Listed	300	Fixed	10-Oct-35	298	266
EUR*****	Listed	439	Fixed	11-Mar-32	418	378
EUR******	Listed	537	Fixed	19-Mar-30	530	481
		5,313			**5,280**	**4,964**
Index Linked						
GBP	Listed	156	RPI-linked	02-May-39	228	244
GBP	Listed	158	RPI-linked	10-Aug-48	256	274
GBP	Listed	158	RPI-linked	14-Aug-48	252	270
		472			**736**	**788**
Overdraft		-			-	-
TOTAL		**5,785**			**6,016**	**5,752**

* Indexed linked debt notional is the accreted value
** Euro amount is 750m
*** Yen amount is 10bn
**** Dollar amount is 200m
***** Euro amount is 500m
****** Euro amount is 625m

Notes to the financial statements (continued)

For the year ended 31 March 2022

13 Borrowings (continued)

The fair value of borrowings at 31 March 2022 was £5,752,000,000 (2021: £6,459,000,000). Where market values were available, fair value of borrowings (Level 1) was £4,238,000,000 (2021: £4,915,000,000). Where market values were not available, the fair value of borrowings (Level 2) was £1,514,000,000 (2021: £1,544,000,000), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2022 was £5,785,000,000 (2021: £6,011,000,000) (including accretion).

The interest rates range from 1.02% - 4.07% (nominal).

As at 31 March 2022 the company had no collateral placed or received from counterparties and no committed facilities. The company's immediate parent company is Cadent Gas Limited which has guaranteed the debt issued by the company.

14 Share Capital

	2022	2021
	£'000	£'000
Allotted, called-up and fully paid		
50,000 ordinary shares of £1 each	**50**	50

Each share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respects to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. The shares are not redeemable.

15 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.

16 Post balance sheet events

There are no post balance sheet events.

17 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Cadent Gas 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 Cadent Gas Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Cadent Gas Limited is registered in England and Wales.

Copies of Cadent Gas Limited's consolidated financial statements can be obtained from the Company Secretary, Cadent Gas Limited, 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, Third Floor, 37 Esplanade, St. Helier, Jersey JE1 1AD.