

Interim management report



Cadent Finance Plc

Report for the six months ended 30 September 2021

Operations

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

The principal activity of the company is the provision of long-term finance for its immediate parent. 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 £584,000 (six months ended 30 September 2020: £83,000 profit) in line with management expectations. For the full year, the company is on track to make neither an operating loss nor an operating profit (pre-intercompany loan impairment), as amounts are fully recharged to Cadent Gas Limited. The profit of £584,000 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 0.15% (31 March 2021: 0.19%), 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

On 12 April 2021 the company entered into £500m of CPI-linked swaps, with £100m maturing in 2028 and £400m maturing in 2031. On 3 June 2021 the company entered into £200m of CPI linked swaps maturing in 2028.

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

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

Cadent Finance Plc

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	584	83	501
Profit after tax	584	83	501

Interest

Interest received during the period from Cadent Gas Limited, the immediate parent company of Cadent Finance Plc, was £68,635,000 (six months ended 30 September 2020: £63,660,000) arising from the intercompany loans in place. Interest payable during the period was £68,635,000 (six months ended 30 September 2020: £63,660,000) due on external borrowings. The increase is driven by higher inflation and the effect on RPI linked debt.

Derivatives

The net losses on external financial derivatives consists of losses on derivatives not designated in a hedge relationship of £18,081,000 (six months ended 30 September 2020: gains of £3,684,000) and exchange losses on the revaluation of foreign currency denominated loans of £28,950,000 (six months ended 30 September 2020: losses of £19,595,000). The net losses on external financial derivatives include losses of £47,106,000 (six months ended 30 September 2020: £Nil) arising from £700,000,000 of CPI swaps taken out within the period which were impacted by volatility seen in inflation rates.

Result for the period

The company made a profit of £584,000 for the period (six months ended 30 September 2020: £83,000 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.

Creditors: amounts falling due within one year

Creditors decreased by £270,279,000 in the six months to 30 September 2021 primarily due to the repayment of loan notes with a notional value of £250,000,000 in September 2021. As all debt is on-lent to Cadent Gas on a back-to-back basis these movements are mirrored in the debtor balances falling due within one year.

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 £1,755,000 (shareholders' deficit at 31 March 2021: £2,339,000).

Related party transactions

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

Events after the balance sheet date

Since 30 September 2021 Cadent Finance Plc has entered into 4 CPI-linked swaps totalling £300 million, which mature in September 2031.

Cadent Finance Plc

Interim management report (continued)

Key performance indicators

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

For information on the development, performance, risks, uncertainties and position of Cadent Gas Limited and its subsidiaries and of the key performance indicators used, refer to the Strategic Report included in Cadent Gas Limited's Annual Report and Accounts 2020/21, which does not form part of this report.

Impact of new accounting standards

These 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 to 5 of the 2020/21 Cadent 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
- Inflation rate cash flow risk
- Foreign exchange risk

Going concern

The condensed statement of financial position shows net liabilities of £1,755,000 (31 March 2021: £2,339,000). The condensed income statement shows a profit for the period of £584,000 (2020: £83,000 profit). The profit for the period is driven by the reversal of the impairment of an intercompany loan, which is a non-cash movement. 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 interest income from Cadent Gas Limited who also guarantees the debt at Cadent Finance Plc. Cadent Gas Limited continues to trade and operate as a going concern and as at 30 September 2021 was in a consolidated net asset position of £2,304,000,000 (31 March 2021: £2,367,000,000), reported consolidated profit before tax for the six month period of £211,000,000 (2020: £386,000,000), and had access to an undrawn £500,000,000 liquidity facility. 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.

Cadent Finance Plc

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 Cadent Finance Plc.

Cautionary statement

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

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

By order of the Board,

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

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

Cadent Finance Plc

Responsibility statement

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

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

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

J Korpancova

M W Braithwaite

S G Hurrell

By order of the Board,

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 CADENT FINANCE PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 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

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

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 101 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). The condensed set of financial statements included in this half-yearly financial report 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 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

Deloitte LLP

Deloitte LLP

Statutory Auditor

London, United Kingdom

24 November 2021

Cadent Finance Plc

Condensed income statement

Six months ended 30 September 2021

		Six months ended 30 September 2021 (unaudited)	Six months ended 30 September (unaudited)
	Notes	£'000	£'000
Interest receivable and similar income	4	68,635	63,660
Interest payable and similar charges	5	(68,635)	(63,660)
Net losses on external derivative financial instruments	6	(47,031)	(15,911)
Net gains on intercompany derivative financial instruments	6	47,031	15,911
Reversal of the impairment of intercompany loans		<u>584</u>	<u>83</u>
Profit before tax		584	83
Tax	7	-	-
Profit for the period		<u>584</u>	<u>83</u>

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

Cadent Finance Plc

Condensed statement of financial position

As at 30 September 2021

	Notes	30 September 2021 (unaudited) £'000	31 March 2021 (audited) £'000
Non-current assets			
Debtors: amounts falling due after more than one year		5,987,281	5,951,319
Derivative financial instruments: amounts falling due after more than one year	9	87,047	48,306
		<u>6,074,328</u>	<u>5,999,625</u>
Current assets			
Debtors: amounts falling due within one year (owed by immediate parent company)		19,914	290,193
		<u>19,914</u>	<u>290,193</u>
Current liabilities			
Creditors: amounts falling due within one year		(19,914)	(290,193)
		<u>(19,914)</u>	<u>(290,193)</u>
Net current assets			
		-	-
Total assets less current liabilities			
		<u>6,074,328</u>	<u>5,999,625</u>
Non-current liabilities			
Creditors: amounts falling due after more than one year		(5,989,036)	(5,953,658)
Derivative financial instruments: amounts owing after more than one year	9	(87,047)	(48,306)
		<u>(6,076,083)</u>	<u>(6,001,964)</u>
Net liabilities			
		<u>(1,755)</u>	<u>(2,339)</u>
Equity			
Share capital		50	50
Retained losses		(1,805)	(2,389)
Total shareholders' deficit		<u>(1,755)</u>	<u>(2,339)</u>

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

S G Hurrell
Director



Cadent Finance Plc
Company registration number: 05895068

Cadent Finance Plc**Condensed statement of changes in equity**

Six months ended 30 September 2021

	Share capital	Retained losses	Total
	£'000	£'000	£'000
At 1 April 2021	50	(2,389)	(2,339)
Profit for the period	-	584	584
At 30 September 2021 (unaudited)	50	(1,805)	(1,755)

	Share capital	Retained losses	Total
	£'000	£'000	£'000
At 1 April 2020	50	(4,264)	(4,214)
Profit for the period	-	83	83
At 30 September 2020 (unaudited)	50	(4,181)	(4,131)

Cadent Finance Plc

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' and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The half year financial information is unaudited but has been reviewed by the Auditor and their report is attached to this document. The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 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 Cadent Finance Plc's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the company's financial statements for the year ended 31 March 2021.

The balance sheet shows net liabilities of £1,755,000 (31 March 2021: £2,339,000). Having reassessed the principal risks from a company and Group perspective, and considering the guarantees in place from its immediate parent, the Directors consider that the company has adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information. The company's immediate parent is in a net asset position of £2,304,000,000 (31 March 2021: £2,367,000,000), made a profit before tax for the six months of £211,000,000 (2020: £386,000,000) and has an undrawn £500,000,000 Revolving Credit Facility.

The company has significant intercompany balances of £6,008,950,000 as its principal activity is the provision of long term finance for its immediate parent, Cadent Gas Limited. Under IFRS 9, the company is required to calculate expected credit losses on all financial assets, including intercompany loans. The expected credit loss for its intercompany loans has been calculated by considering the probability of default and the loss given default on the outstanding balance of the intercompany loans. The probability of default has been derived by using quoted available information for the company and the loss given default has been determined by management based on available evidence. As Cadent Gas Limited is an asset intensive regulated industry, the loss given default has assumed to be low by management. The movement in the impairment charge included in the condensed income statement in the period amounts to a £584,000 credit (2020: £83,000 credit).

As noted above, these Financial Statements have been prepared under FRS 104. FRS 104 stipulates that the GAAP applicable at the year-end should be applied for the Interim Statements, which in this case is Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) as issued by the Financial Reporting Council. There have been no new accounting standards under IFRS applicable to the period.

2. Segmental analysis

The Directors believe that the company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors. The company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The company's assets are all located within the United Kingdom.

3. Seasonality

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

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Notes to the condensed financial statements (continued)

Six months ended 30 September 2021

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	68,635	63,660

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	(68,635)	(63,660)

6. Net gains/(losses) on financial derivatives

	Six months ended 30 September 2021	Six months ended 30 September 2020
	£'000	£'000
External		
Net (losses)/ gains on derivatives not designated in a hedge relationship	(18,081)	3,684
Exchange losses on revaluation of foreign currency denominated loans	(28,950)	(19,595)
	<u>(47,031)</u>	<u>(15,911)</u>

	Six months ended 30 September 2021	Six months ended 30 September 2020
	£'000	£'000
Internal		
Net gains/(losses) on derivatives not designated in a hedge relationship	18,081	(3,684)
Exchange gain on revaluation of foreign currency denominated loans	28,950	19,595
	<u>47,031</u>	<u>15,911</u>

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Notes to the condensed financial statements (continued)

Six months ended 30 September 2021

7. Taxation

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).

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 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets								
Derivative financial instruments (external)	-	11,251	-	11,251	-	-	-	-
Derivative financial instruments (internal)	-	75,796	-	75,796	-	48,306	-	48,306
	-	87,047	-	87,047	-	48,306	-	48,306
Liabilities								
Derivative financial instruments (external)	-	(75,796)	-	(75,796)	-	(48,306)	-	(48,306)
Derivative financial instruments (internal)	-	(11,251)	-	(11,251)	-	-	-	-
	-	(87,047)	-	(87,047)	-	(48,306)	-	(48,306)
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 £6,835 million (31 March 2021: £6,459 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.

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Notes to the condensed financial statements (continued)

Six months ended 30 September 2021

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

Since 30 September 2021 Cadent Finance Plc has entered into 4 CPI-linked swaps totalling £300 million, which mature in September 2031.