

Company Registration Number: 10614954

Quadgas PledgeCo Limited

Annual Report and Audited Financial Statements

For the year ended 31 March 2020

Quadgas PledgeCo Limited Strategic Report

For the year ended 31 March 2020

The Directors present their Strategic Report for Quadgas PledgeCo Limited (“the company”) for the year ended 31 March 2020.

Review of the business

The principal activity of the company is to hold investments in other Quadgas HoldCo Limited subsidiary companies; the only direct investment currently held is in Quadgas MidCo Limited. The Directors are not aware at the date of this report, of any likely major changes in the company’s activities or prospects in the next year.

Executive summary

During the year the company recognised an impairment against its investment held in Quadgas MidCo Limited and its subsidiaries of £305 million (2019: £1,550 million) after management conducted their annual impairment review. The impairment was driven by receipt of the Ofgem Draft Determinations on RIIO-2 in July 2020 which had an impact on the recoverable amount (see note 7).

Results

The company’s loss for the year was £30 million (2019: Loss of £1,210 million).

Financial position

The financial position of the company is presented in the statement of financial position. Total shareholders’ funds at 31 March 2020 were £3,250 million (2019: £3,555 million) comprising primarily of investments in group undertakings of £3,251 million (2019: £3,556 million). Intercompany loans receivable and payable prior to impairments net to £Nil as debt is passed through the Quadgas HoldCo Group.

Key performance indicators and principal risks and uncertainties

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

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

Future Developments

In early 2020, the spread of a coronavirus ‘COVID-19’ caused huge change to daily life in the UK and across the world. By nature of its operating business, Quadgas PledgeCo has not been significantly impacted and the Directors believe the company will continue to act as a holding company for the foreseeable future.

Quadgas PledgeCo Limited
Strategic Report (continued)

For the year ended 31 March 2020

S172 Statement

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

The company has no employees and no operational activities; it holds investments in other Quadgas Holdings TopCo Limited subsidiary companies. The main purpose of the company is to act as a guarantor for debt in other Group companies and act as a financing company for privately held subsidiary level debt. However, 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 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 with the aim of maximising investment returns for the benefit of its shareholder and ensuring that its subsidiaries maintain high standards of business conduct and governance.

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

The Directors continued to provide oversight governance of its subsidiaries to ensure that they comply with the Group’s policies and maintain high standards of business conduct. The company provides regular updates on its activities to the Directors. During the year under review three new Directors were appointed to broaden the skills and experience of the Board.

Whilst not directly regulated itself, the company maintains a close relationship with the Ofgem (The Office of Gas and Electricity Markets), via the indirect subsidiary company Cadent Gas Limited. For further information on the Group activities and disclosure please refer to the Cadent Gas Annual Report and Accounts 2019/20.

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



M W Braithwaite
Director
12 August 2020

Quadgas PledgeCo Limited Directors' Report

For the year ended 31 March 2020

The Directors present their Report and the audited financial statements of the company for the year ended 31 March 2020.

Future developments

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

Dividends

An interim dividend of 2.69p per ordinary share amounting to £137,350,000 was declared and paid on the 27 September 2019.

A second interim dividend of 2.69p per ordinary share amounting to £137,350,000 was declared on 19 March 2020 and paid on the 23 March 2020.

No further dividends are proposed for the current financial period.

Political donations and political expenditure

The company did not make any donations during the year (2019: £Nil).

Research and development

The company spent £Nil (2019: £Nil) on research and development during the year.

Financial risk management

The management of the company and the execution of the company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the company's material financial risks, including liquidity and credit risk. These risks are managed by Cadent Gas Limited's (a fellow Group company) Treasury function ('Treasury') for the company and fellow Group subsidiaries.

The company acts as a holding company. Debt finance passes through the company from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. The company's exposures are limited to the credit risk on the intercompany loans (as disclosed below and in note 8). Its net exposures are therefore £Nil.

The company has limited direct exposure to impacts of Brexit however, we recognise the potential macroeconomic impacts which are addressed through our financial risk management.

Liquidity risk

The company finances its operation through a combination of new share issues and intercompany balances to ensure that the company has sufficient long-term and short-term funds available for current operations and future activities. The company passes debt finance from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms.

Quadgas PledgeCo Limited Directors' Report (continued)

For the year ended 31 March 2020

Credit risk

The company passes debt finance from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. The principal risk of these arrangements is that Quadgas MidCo Limited is unable to meet its obligations to the company. The company is exposed to the expected credit losses on its intercompany loan with Quadgas MidCo Limited. The expected credit loss has been calculated by considering the probability of default and the loss given default on the balance outstanding on the intercompany loan.

Interest rate risk

The company has interest bearing intercompany assets. To the extent that the company enters into intercompany loan agreements, the company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon a floating index. There were no such loans at 31 March 2020.

Directors

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

M W Braithwaite
J Korpancova
H C Higgins
DA Karnik
P D Noble
D J Xie
N J Axaam
A M Al-Ansari
H Su
R Greenleaf
M W Mathieson
E B Fidler
M J Gregory (Resigned 15 May 2019)
S Fennell (Appointed 15 May 2019)
J Bao (Appointed 28 June 2019)
I M Coucher (Resigned 24 March 2020)
H N M De Run (Appointed 06 April 2020)

Directors' indemnity

Quadgas HoldCo Limited has arranged, in accordance with the Companies Act 2006 section 234 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, Quadgas HoldCo Limited places Directors' and Officers' liability insurance for each Director and these costs have been borne by Quadgas HoldCo Limited.

Quadgas PledgeCo Limited Directors' Report (continued)

For the year ended 31 March 2020

Going concern

PledgeCo Limited is a guarantor for debt at Quadgas MidCo Limited and Quadgas Finance Plc, and the statement of financial position shows net assets of £3,250 million at 31 March 2020 (2019: £3,555 million). The income statement shows a loss for the year ended 31 March 2020 of £30 million (2019: Loss of £1,210 million) driven by the impairment of the investment held in Quadgas MidCo Limited, which is a non-cash movement. The company continues to receive dividend income from Quadgas MidCo Limited which continues to operate as a going concern and as at 31 March 2020. See Quadgas MidCo Limited Annual report and accounts for further details.

In early 2020, the spread of a COVID-19 caused huge change to daily life in the UK and across the world. By nature of its operating business, Quadgas PledgeCo Limited has not been significantly impacted and having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

There were no post balance sheet events.

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 section 418 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

The company has established internal control and risk management systems in relation to the process for preparing its financial statements. The key features of these internal control and risk management systems are:

- The Risk Assurance function and management conducts various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting.
- The financial statements are subject to review by the Financial Reporting function for unusual items, unexplained trends and completeness. Any unexplained items are investigated.
- The Board review the draft financial statements. The Board receive reports from management on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Quadgas PledgeCo Limited
Directors' Report (continued)
For the year ended 31 March 2020

Capital structure

The share capital of the company consists of 5,105,581,781 ordinary shares of £0.0001 each.

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 Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 then 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:

M W Braithwaite
Director
12 August 2020



Registered office:
Ashbrook Court
Prologis Park
Central Boulevard
Coventry
CV7 8PE

Registered in England and Wales
Company registration number: 10614954

Independent Auditors' report to the members of Quadgas PledgeCo Limited

For the year ended 31 March 2020

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Quadgas PledgeCo Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditors' report to the members of Quadgas PledgeCo Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditors' report to the members of Quadgas PledgeCo Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

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



12 August 2020

Quadgas PledgeCo Limited
Statement of comprehensive income
For the year ended 31 March 2020

		2020 £m	2019 £m
	Notes		
Dividend income from Group undertakings		275	340
Interest receivable and similar income	5	62	61
Impairment of investments	7	(305)	(1,550)
Interest payable and similar charges	5	(62)	(61)
Loss on ordinary activities before tax		(30)	(1,210)
Tax on loss on ordinary activities	6	-	-
Loss after tax		(30)	(1,210)
Total other comprehensive income		-	-
Total comprehensive loss		(30)	(1,210)

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

The notes on pages 13 to 25 form an integral part of these financial statements.

Quadgas PledgeCo Limited
Statement of financial position

As at 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investments in Group undertakings	7	3,251	3,556
Amounts owed by subsidiary undertakings	8	901	901
Total non-current assets		<u>4,152</u>	<u>4,457</u>
Total assets		4,152	4,457
Non-current liabilities			
Amounts owed to Group undertakings	10	(902)	(902)
Total non-current liabilities		<u>(902)</u>	<u>(902)</u>
Total liabilities		(902)	(902)
Net assets		<u>3,250</u>	<u>3,555</u>
Equity			
Share capital	11	1	1
Retained earnings		3,249	3,554
Total shareholders' funds		<u>3,250</u>	<u>3,555</u>

The notes on pages 13 to 25 are an integral part of these financial statements.

The financial statements on pages 10 to 25 were approved by the Board of Directors on 12 August 2020 and were signed on its behalf by:



M W Braithwaite

Director

Quadgas PledgeCo Limited
 Company registration number: 10614954

Quadgas PledgeCo Limited
Statement of changes in equity
For the year ended 31 March 2020

	Notes	Share capital £m	Retained earnings £m	Total £m
At 1 April 2019		1	3,554	3,555
Total comprehensive loss for the year		-	(30)	(30)
Equity dividends paid	9	-	(275)	(275)
At 31 March 2020		1	3,249	3,250

	Share capital £m	Retained earnings £m	Total £m
At 1 April 2018	1	5,104	5,105
Total comprehensive loss for the year	-	(1,210)	(1,210)
Equity dividends paid	-	(340)	(340)
At 31 March 2019	1	3,554	3,555

The notes on pages 13 to 25 are an integral part of these financial statements.

Quadgas PledgeCo Limited

Notes to the financial statements

For the year ended 31 March 2020

1 Summary of significant accounting policies

Quadgas PledgeCo Limited holds investments in other Quadgas HoldCo Limited subsidiary companies. The company is a private limited company incorporated and domiciled in England and is registered in England and Wales, with its registered office at Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Quadgas PledgeCo Limited is exempt from the requirement to prepare consolidated accounts under the Companies Act 2006 section 400 given it is a wholly owned subsidiary of Quadgas HoldCo Limited. Quadgas HoldCo Limited is registered in England and Wales. Copies of Quadgas HoldCo Limited's consolidated financial statements can be obtained from the Company Secretary, Cadent Gas Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared on an historical cost basis and modified to include certain items at fair value where applicable. Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the 'functional currency'). The financial statements are presented in pounds sterling which is also the company's functional currency.

PledgeCo Limited is a guarantor for debt at Quadgas MidCo Limited and Quadgas Finance Plc, and the statement of financial position shows net assets of £3,250 million at 31 March 2020 (2019: £3,555 million). The income statement shows a loss for the year ended 31 March 2020 of £30 million (2019: Loss of £1,210 million) driven by the impairment of the investment held in Quadgas MidCo Limited, which is a non-cash movement. The company continues to receive dividend income from Quadgas MidCo Limited which continues to operate as a going concern and as at 31 March 2020. See Quadgas MidCo Limited Annual report and accounts for further details.

In early 2020, the spread of a COVID-19 caused huge change to daily life in the UK and across the world. By nature of its operating business, Quadgas PledgeCo Limited has not been significantly impacted and having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) as issued by the Financial Reporting Council.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, non-current assets held for sale, financial instruments, capital management, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been presented in the Group financial statements of Quadgas HoldCo Limited. The Group comprises Quadgas HoldCo Limited, Quadgas PledgeCo Limited, Quadgas MidCo Limited, Quadgas Finance Plc, Cadent Services Limited, Cadent Finance Plc, Cadent Gas Limited, Cadent Gas Pension Trustee Limited, Cadent Gas Pension Property Company 1 Limited, Cadent Gas Pension Property Company 2 Limited and Cadent Gas Pension Services Limited.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

As noted above, the 2020 Annual Report and Financial Statements have been prepared under FRS 101. As a result, the new accounting standard under IFRS, namely, IFRS 16 'Leases' is applicable to reporting periods beginning on or after 1 January 2019. It should be noted, however, that IFRS 16 has no impact on the company as the company has no leases.

Amendment to IFRS 7, IFRS 9 and IAS 9 - Interest rate benchmark reform (phase 1)

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The IASB has embarked on a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform. For Phase 1, the IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Our cross currency interest rate swaps and underlying hedged items designated in (cash flow) hedge relationships all pay/receive fixed rates of interest, so no impact is anticipated in this context.

Financial instruments held currently by the Group that directly reference IBOR are term debt, liquidity facilities and RPI swaps. The volume of supplier contracts that reference IBOR are minimal.

It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

Industry working groups have reviewed methodologies for calculating adjustments between GBP LIBOR and SONIA. The Working Group on Sterling Risk-Free Reference Rates has stated that it anticipates that a term SONIA reference rate could be developed in the first quarter of 2020.

The company has performed an internal audit to determine those contracts and financial instruments that reference IBOR, and associated findings were presented for review to the Finance Committee. We continue to strive to promote awareness of the issue, and introduce a robust internal structure of governance and control to manage the transition. Policies and procedures will be revised where relevant to monitor any possible financial impact e.g. comparison of derivative fair values owing to differing discounting methodologies.

Additionally, we continue to closely monitor external developments in the relevant markets as rate of progress is expected to converge over the next 12 months. Empirically, of our existing contracts that directly reference IBOR, we expect transition developments to be slower in those contracts influenced by the Loan Market Association (LMA), as those contracts are more bi-lateral in nature.

The amendments are mandatory and should be applied for annual periods beginning on or after 1 January 2020. The amendments are subject to endorsement in the EU/EEA.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)

For the year ended 31 March 2020

1 Summary of significant accounting policies (continued)

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

Other

In the current year, the company has applied a number of amendments to IFRS standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These are:

- Amendments to IFRS 9 Prepayment features with negative compensation;
- Amendments to IAS 28 Long-term interests in Associated and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs;
- Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement; and
- IFRIC 23 Uncertainty over Income Tax Treatments

At the date of authorisation of these financial statements, the company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance contracts*;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendment to IFRS 7, IFRS 9 and IAS 9 - Interest rate benchmark reform;
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 Business Combinations - definition of a business*;
- Amendments to IAS 1 and IAS 8 - definition of material; and
- Amendment to IAS 1 - classification of liabilities*.

*Denotes that the standard or interpretation has not yet been adopted by the EU (European Union).

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the company in future periods, except as noted on the next below.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)

For the year ended 31 March 2020

1 Summary of significant accounting policies (continued)

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Net interest costs

Interest income and interest costs are accrued on a timely basis by reference to the principal outstanding and at the effective interest rate applicable. Interest income is included in interest receivable and similar income and interest cost is included in the interest payable and similar charges.

(e) Tax

The tax charge for the year is recognised in the statement of total comprehensive income or directly in equity according to the accounting treatment of the related transaction.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes positions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(f) Investments in group undertakings

Investments in group undertakings are held at cost less accumulated impairment losses.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that investments are not carried above their estimated recoverable amounts. Impairments are recognised in the income statement, and, where material, are disclosed separately. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

Impairments of investments are calculated as the difference between the carrying value of the investment and its recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken.

(g) Financial instruments

Initial recognition

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

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

Classification and measurement

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

Quadgas PledgeCo Limited
Notes to the financial statements (continued)

For the year ended 31 March 2020

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

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

- financial assets at amortised cost; and
- financial assets at fair value through other comprehensive income (FCTOCI); and
- financial assets at fair value through profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the income statement.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the year they arise.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date, and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Derecognition

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Impairment of financial assets

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

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables; and
- loan receivables; and
- other receivables.

The company measures the loss allowances for amounts owed by its immediate subsidiary company at an amount equal to the 12 month expected credit loss. The way this is calculated is based on the applied impairment methodology, as described 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 be by any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased. 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 probably 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.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

1 Summary of significant accounting policies (continued)

(h) Dividends distributions

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

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 recoverability of intercompany balances. An assessment of recoverability is performed under IFRS 9 which mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised. The company has a significant intercompany balance which is required to be impaired under IFRS 9 - **note 8**.

Below is sensitivity analysis on how the key assumptions might impact the carrying amounts of the balances owed by its immediate subsidiary of £901m (2019: £901m).

	Income statement	Net assets
	£'000	£'000
Probability of default change of 0.1%	180	180
Recovery rate change of 10%	496	496

- Review of carrying values of investments and calculation of impairment. Investments are reviewed annually for impairment by comparison of the cost of the investment with equity value, where equity value is equal to the value in use of the company invested in less any external borrowings plus any cash and cash equivalents. The impairment review requires management to calculate the value in use for investments. The key assumptions for the value in use calculation are those regarding the underlying cash flows, discount rate, regulatory weighted average cost of capital, inflation and terminal value cashflow - **note 7**.

3 Loss before tax

Loss before tax is stated after charging/ (crediting) the following:	2020	2019
	£m	£m
Dividend income from group undertakings	275	340
Amounts written off investments (note 7)	(305)	(1,550)

Fees payable to the company's auditor for the audit of the company's annual financial statements were £8,112 (2019: £7,800). No other fees were payable to the auditor.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)

For the year ended 31 March 2020

4 Directors and employees

There were no employees of the company during the year.

The emoluments of the Directors are not paid to them in their capacity as Directors of the company and are payable for services wholly attributable to other Quadgas HoldCo Limited subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

5 Interest income and costs

	2020	2019
	£m	£m
Interest income from financial instruments	<u>62</u>	61
Interest receivable and similar income	<u>62</u>	<u>61</u>
Finance costs		
Interest expense on financial liabilities held at amortised cost	<u>(62)</u>	(61)
Interest payable and similar charges	<u>(62)</u>	<u>(61)</u>
Remeasurements		
Net losses on derivative financial instruments included in remeasurements	<u>-</u>	-
Finance costs		
Net interest costs from continuing operations	<u>-</u>	<u>-</u>

6 Taxation

Taxation	2020	2019
	£m	£m
Current Tax		
UK Corporation tax at 19% (2019: 19%)	-	-
Deferred tax		
UK deferred tax	-	-
Total tax charge	<u>-</u>	<u>-</u>

The tax charge for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%)

	2020	2019
	£m	£m
Loss before tax	(30)	(1,210)
Loss before tax multiplied by UK Corporation tax rate of 19% (2019: 19%)	(6)	(230)
Effect of :		
Tax effect of dividend income not taxable in determining taxable profit	(52)	(65)
Expenses not deductible for tax expenses	<u>58</u>	<u>295</u>
Total Tax charge	<u>-</u>	<u>-</u>

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

7 Investments in group undertakings

	Shares in Subsidiary Undertakings £m
Cost	
At 1 April 2019 & 31 March 2020	5,106
Provision	
At 1 April 2019	(1,550)
Impairment loss	(305)
At 31 March 2020	<u><u>(1,855)</u></u>
Net book value	
31 March 2020	<u><u>3,251</u></u>
31 March 2019	<u><u>3,556</u></u>

The net carrying value of the investment held in Quadgas MidCo Limited and its subsidiaries was compared to its recoverable amount as part of the annual impairment review carried out by management.

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

The impairment test required the comparison of the carrying value of the net assets of the income generating unit (Cadent Gas Limited) and its recoverable amount. The impairment review was completed following receipt of the Ofgem Draft Determinations on 9 July 2020 as the RIIO-2 settlement has the potential to impact on the future cash flows and recoverable amount. The Draft Determinations included a challenging draft set of proposals, indicating the possibility of a further impairment arising over and above the impairment booked in the prior year following the publication by Ofgem of the RIIO-2 Sector Specific Methodology. Additionally, management considered the potential short and long term impacts of COVID-19 and have incorporated any risks identified into the impairment test.

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

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

7 Investments in group undertakings (continued)

Underlying cash flows

In the short term, the differences between actual cash flows and prior projections/budgets are small due to the stable and predictable nature of the business. With 93% of our revenue formula driven, there is a high level of predictability. This predictability of the cash flows can be seen in the full year performance to 31 March 2020 where our results were broadly in line with our budget.

The total expenditure (totex) forecasts included in our impairment model are a base case and assume the investment in the network will continue to 2045 and beyond. However, the base case does not include cashflows associated with the potential to re-purpose the network for Hydrogen or other fuels. In the base case we continue to assume asset depreciation of 45 years and investment is fully capitalised into the RAV. This is consistent with the Ofgem Draft Determinations proposed methodology.

We have determined the regulated weighted average cost of capital (WACC) using the ranges set out in Ofgem's Draft Determination. The regulatory cost of equity per the Draft Determination (range of low 3.6% to high 4.8%) is forecast to increase in future price controls consistent with assumptions adopted in the prior year.

Management also considered the impact of COVID-19 on the long term performance of the business. Despite operational and cost impacts in the short term, the impact on long term value was deemed to be limited concerning the operations of the business due to the stable regulatory framework of UK utilities and the engagement with Ofgem regarding the consequences of COVID-19. We are currently discussing with Ofgem how any potential under-performance against RIIO-1 regulatory targets will be managed but have assumed in our forecasts that Ofgem will act reasonably when considering any potential adverse implications.

Discount rate

Cashflow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 5.0% (2019: 5.7%). Management estimates the discount rate using post-tax rates that reflect current market assessments of the time value of money and then converts to a pre-tax rate using an iterative calculative approach in the value in use methodology. The reduction in discount rate from prior year is driven by a lower risk free rate (we have changed our approach from last year from using a spot forward rate at 31 March to take a view of the risk free rate through the financial year to normalise the impact of COVID-19 at the end of the financial year) and amendments to the risk premium to ensure comparability of risk between cash flows and the discount rate.

Inflation

The short term RPI assumption to March 2021 of 2.5% (2019: 3.25%) is based on the average RPI forecast at the time of completing the short term Business Plan. The current view is that the inflation in the year to March 2021 will be lower, however, we do not consider this to be material to long term value.

The long term CPI assumption of 2.0% (2019: 2.15%) is consistent with the Bank of England target rate and external long run forecasts which show a range of potential outcomes between 1.4% - 2.3% by 2024. Given the range of potential outcomes, this year, we have adopted the Bank of England target of 2.0% as our long run CPI assumption from 2022 to 2045.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

7 Investments in group undertakings (continued)

Terminal value cashflow

A terminal value cash flow is applied in 2045; the end of the forecast period. The terminal value is calculated based on a RAV forecast multiple at 2045. Management has derived a RAV multiple of 1.2x (2019: 1.2x) by reviewing external sources of information on similar transactions. There has been no change in the market to warrant a revision to this assumption.

IAS 38 states that projections based on budgets and forecasts should cover a maximum of five years whereas management have used projections out to 2045. However, management of Quadgas Midco Limited believe, whilst there is uncertainty when moving from one price control period in to the next, there is otherwise a degree of predictability to the cash flows of the assets and therefore management consider that it is appropriate to project out to 2045 before a terminal value is applied.

The investment impairment review was completed following the goodwill impairment at Quadgas MidCo Limited. This led to a subsequent impairment of the investment held by Quadgas PledgeCo Limited in subsidiaries of £305m (2019: £1,550m) which was recognised in its Statement of Comprehensive Income in the year.

Carrying value comprised the investment in subsidiary undertakings

Name of Subsidiary	% Holding	Principal activity	Country of Incorporation
Quadgas MidCo Limited	100	Intermediate Holding Company and provision of long term finance	England and Wales
Quadgas Finance Plc	100*	Provision of long term finance	England and Wales
Cadent Gas Limited	100*	Gas Distribution	England and Wales
Cadent Finance Plc	100*	Provision of long term finance	England and Wales
Cadent Services Limited	100*	Provision of services (including property management)	England and Wales
Cadent Gas Pension Trustee Limited	100*	Trustee of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 1 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Property Company 2 Limited	100*	Trustee of property assets of occupational pension scheme	England and Wales
Cadent Gas Pension Services Limited	100*	Management of pension services	England and Wales

* Indirect ownership

The registered address if these investments is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)

For the year ended 31 March 2020

8 Trade and other receivables

Amounts falling due after more than one year:	2020	2019
Amounts owed by subsidiary undertakings	902	902
Loss allowance	(1)	(1)
	901	901

The company acts as a holding company. Debt finance passes through the company from its immediate parent Quadgas HoldCo Limited to its immediate subsidiary Quadgas MidCo Limited on identical terms. The exposure prior to the loss allowance is therefore £Nil.

The company measures the loss allowance for amounts owed by immediate parent company at an amount equal to 12 month expected credit loss, representing a stage 1 financial asset.

The financial asset will move to stage 2 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.

A financial asset will move to stage 3 when it has become credit impaired, and the company will recognise the lifetime expected credit loss.

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.

9 Dividends	2020	2019
	£000	£000
An interim dividend of 3.33p per ordinary share amounting to £170,000,000 was declared and paid on the 28 September 2018.	-	170,000
An second interim dividend of 3.33p per ordinary share amounting to £170,000,000 was declared on 21 March 2019 and paid on the 27 March 2019.	-	170,000
An interim dividend of 2.69p per ordinary share amounting to £137,350,000 was declared and paid on the 27 September 2019.	137,350	-
A second interim dividend of 2.69p per ordinary share amounting to £137,350,000 was declared on 19 March 2020 and paid on the 23 March 2020.	137,350	-
	274,700	340,000

No further dividends are proposed for the current financial period.

10 Borrowings

The following table analyses the company's total borrowings:	2020	2019
	£m	£m
Amounts falling due after more than one year:		
Bank loans	-	-
Bonds	-	-
Borrowings from immediate parent company	902	902
	902	902

Borrowings comprise of an unsecured loan of £902 million from Quadgas HoldCo Limited, the company's immediate parent company. The loan carries a fixed rate of interest of 6.8% per annum with repayment on 30 April 2042.

Quadgas PledgeCo Limited
Notes to the financial statements (continued)
For the year ended 31 March 2020

11 Share Capital

	2020	2019
	£	£
Allotted, called-up and fully paid		
5,105,581,781 ordinary shares of £0.0001 each	510,558	510,558

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

12 Commitments and contingencies

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

13 Post balance sheet events

There are no post balance sheet events.

14 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas HoldCo Limited. The largest and smallest groups which include the company and for which consolidated financial statements are prepared are headed by Quadgas Holdings TopCo Limited and Quadgas HoldCo Limited respectively. Quadgas Holdings TopCo Limited is registered in Jersey and Quadgas HoldCo Limited is registered in England and Wales.

Copies of Quadgas HoldCo Limited's consolidated financial statements can be obtained from the Company Secretary, Cadent Gas Limited, Ashbrook Court, Prologis Park, Central Boulevard, Coventry, CV7 8PE.

Copies of Quadgas Holdings TopCo Limited's consolidated financial statements can be obtained from the Registered Office, Quadgas Holdings TopCo Limited, 3rd Floor 37 Esplanade, St. Helier, Jersey, JE1 1AD.