Company Registration Number: 10615396

Quadgas MidCo Limited

Annual Report and Financial Statements

For the year ended 31 March 2018

Quadgas MidCo Limited
Strategic Report
For the year ended 31 March 2018

The Directors present their Strategic Report on the Group for the year ended 31 March 2018.

Principal activities

Quadgas MidCo Limited (the Company) holds investments in a number of Quadgas HoldCo Limited (its indirect parent company) subsidiary companies and obtains and provides finance to fellow subsidiary companies via intercompany balances.

The Group comprises Quadgas MidCo Limited, Quadgas Finance Plc, Cadent Services Limited, Cadent Finance Plc and Cadent Gas Limited. Cadent Gas Limited is the main trading company and operates four of the eight regional gas distribution networks in Great Britain, which comprise approximately 82,000 miles of gas distribution pipeline and transports gas from the gas national transmission system to around 11 million consumers on behalf of 40 gas shippers.

Strategy

The Group's strategy is simple – to deliver strong performance for customers and shareholders, and improve that performance such that we stand up well against industry benchmarks as we move towards the next price control period. It is about engaging with our communities, being a responsible business, safeguarding customers, and having a motivated workforce with the right skills and the right opportunities to develop careers within the organisation and the industry more broadly.

Future developments

Our focus, through our main trading company, will remain on driving the performance of the business to deliver strong Group returns and increasing the value to our equity holders including efficiently financing the group.

To achieve this, Cadent Gas Limited (Cadent Gas), our regulated business, will continue looking for ways to optimise performance. In 2018/19, we'll work to shape the Ofgem framework for RIIO-2 and future plan to create value for customers and investors. The performance of our regulated business will be underpinned by continued investment, so we can make sure we deliver a safe, reliable and affordable service for our customers.

Business environment

The Group manages the gas distribution networks to keep the gas flowing safely and reliably to help keep our 11 million customers connected, safe and warm. The Group are incentivised through Ofgem's regulatory framework called RIIO (Revenue = Incentives + Innovation + Output) to operate efficiently and deliver services that our customers and stakeholders value. These are expressed as output commitments across six key categories (safety, reliability, environment, social obligations, customers satisfaction and facilitating connections).

The regulator, Ofgem, safeguards customers' interests by setting the level of charges we are allowed to recover associated with the output commitments we must deliver. Ofgem is able to make comparisons across all eight gas distribution networks. The output targets are defined such that Cadent Gas maintains safe and reliable networks; make a positive contribution to sustainability and protect the environment; provide connections to supply new consumers and support new gas entry points into the network; meet social obligations such as reducing fuel poverty and raising awareness of the dangers of carbon monoxide; and provide an agreed standard of service to consumers and other stakeholders.

Cadent Gas collaborates with the industry on issues, such as innovation, safety and the future of networks to deliver outcomes that customers value.

Gas remains a critical part of the current and future energy mix as the prime source of heat, hot water and cooking for homes and businesses. Cadent Gas are working with our customers and stakeholders to develop our networks to accommodate gas from new sources, such as bio-methane, as well as exploring new technologies such as BioSNG (Bio-Substitute Natural Gas) and hydrogen blending as well as looking at how Compressed Natural Gas could be used to fuel transport vehicles.

Group Priorities for the year ahead

Delivering a safe and reliable network	• Reduce 'gas off' times for high-rise buildings. • Increase delivery of replacement pipes to meet 8 year targets. • Deliver remaining asset health investments. • Ensure our data capture is efficient and robust.
Performing for our customers and communities	• Embed customer-focused mindset to improve satisfaction scores. • Work to achieve consistent performance across networks. • Roll out change initiatives to enhance operational flexibility and • optimise delivery of connections services. • Focus on reinstatement times to improve customer satisfaction. • Develop new processes to reflect the change in rules of the Fuel • Poor Network Extensions scheme to try to maximise continued • connections. • Continue industry leadership role on safeguarding customers in • vulnerable situations.
Driving efficiencies	• Create IS infrastructure that is optimised for Cadent transitioning • away from reliance on National Grid services. • Transform our Connections business, reduce lead times and • deliver better service. • Manage the increasing cost pressures on replacement and • capital works.
Sustainability	• Facilitate connection of next stream of renewable gas plants, • CNG filing stations and power generation. • Continued focus on reducing shrinkage through managing • operating pressures, replacement work and minimising joint • leakage. • Drive to zero waste to landfill and reducing use of plastics.
Shaping our future	• Work to shape the RIIO-2 framework and future plan to create • value for customers and investors. • Establishing Customer Engagement Group and regional • stakeholder engagement plan. • Hynet North West– progress to next stage of feasibility. • Hydeploy – progress field trials. • BioSNG – move to commissioning.
Engaging our people	• Continue to embed cultural transformation to deliver customer • outcomes with pace.
Driving excellent financial performance	• Complete refinancing of short-term debt. • Continue to drive continuous improvement on efficiency of total expenditure.

Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

- investment in network assets;
- operational "run the business" costs;
- performance against incentives;
- regulatory return on equity and cost of debt; and
- inflation adjustments.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet our output commitments as well as the efficiency and innovation targets included in the RIIO licence agreements.

Cash flow

Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong sustainable returns for our shareholders. Cash generation is underpinned by our charging methodology (part of the industry's network code) which being a capacity based regime provides stability and predictability of cashflows.

Investment

We invest efficiently in our networks to deliver strong regulated asset growth over the long term. This drives additional future revenues, which in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our ultimate shareholders.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

Consolidated Results

Revenue
Revenue was £1,852 million driven by our regulatory allowed revenues which account for 99% of our turnover. Each year our revenues are largely fixed in line with the profile set out by our price control settlement which determines the pricing of our services to the gas shippers. Any differences between our allowed revenues and the amounts collected through our pricing are adjusted in future periods.

Operating profit
Operating profit was £648 million with operational expenditure largely comprised of charges associated with our usage of the National Grid Gas Transmission network, business rates and employment costs of our direct workforce and contract partners.

Net finance costs
Net finance costs before exceptional items and re-measurements of £269 million were driven by external debt funding. Prior year finance costs included interest on loans with National Grid Plc which were settled on 31 March 2017 as part of the sale completion of the gas distribution business. There were net nil remeasurements arising from the changes in fair value of derivative financial instruments during the year.

Taxation
In common with other utilities, we have a significant deferred tax provision that mainly relates to the benefits received in the past from tax allowances on capital expenditure before the depreciation on those assets has been charged to our profits. This provision is released to the income statement as the depreciation catches up with the tax allowances received. The provision is calculated at the rate of tax applicable when the provision is expected to reverse. During the year and in accordance with our obligations under Finance Act 2016 Schedule 19, we published our Tax Strategy Statement. We are committed to being a responsible and compliant taxpayer and the Tax Strategy Statement sets out our approach to a number of key tax policies including our approach to tax governance and risk management, our attitude towards tax planning, our risk appetite in relation to UK taxation and our approach to dealing with HMRC.

The consolidated statement of financial position sets out all the Group's assets and liabilities at the period end, analysed between the net assets we have for use in the business. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Capital Investment

Capital investment was £612 million (2017: £nil) and is primarily associated with the ongoing gas mains replacement programme which saw 1,550km of mostly cast iron pipes replaced by Polyethylene (PE) during the year. The remaining capital investment was to maintain the integrity of our network infrastructure, growing to £205 million (2017: £nil).

Cashflow and net debt

Borrowings (both current and non-current) at 31 March 2018 were £9,163 million (2017: £8,926 million) mainly comprised fixed rate and index linked debt.

Driven by the need to fund our capital investment programme, the Group has a material amount of debt, with regular maturities and requirements for new incremental debt, therefore the Group operates a pro-active policy of meeting credit investors and the Group's relationship banks regularly to provide updates and information to facilitate ongoing access to the capital markets.

As at 31 March 2018, Quadgas MidCo Limited was rated BBB+ (negative outlook) by S&P, with any notes issued by the Company rated BBB (negative outlook). On 11 May 2018, S&P revised its outlook on Cadent Gas Limited and on Quadgas MidCo Limited to stable from negative, given the improved outlook for operational performance.

Intangible assets

The Group had a considerable goodwill balance of £3,312 million arising from the acquisition of Cadent Gas Limited, Cadent Finance Plc and Cadent Services Limited in the prior period. The Group also holds a balance of £2,143 million relating to the gas distribution licence also acquired at the same time. Both balances have been assessed for impairment with no issues noted with an acceptable level of headroom given the proximity to the acquisition date.

Pensions

The Group operates pension arrangements for employees many of whom are members of Section C of the defined benefits section of the National Grid UK Pension Scheme (NGUKPS) which is closed to new entrants. Membership of the defined contribution scheme is offered to all new employees.

With respect to the DB pension arrangements the Group made contributions of £60 million during the course of the year including £38 million as part of a deficit reduction plan agreed with the trustees.

On an IAS 19 basis the defined benefits pension scheme is in a net asset position of £507 million at 31 March 2018 (2017: £34 million) due to actuarial gains and higher returns on plan assets than the discount rate.

Impact of new accounting standards – IFRS 9, 15 and 16

Three new accounting standards are to be introduced, two of which came into effect on 1 April 2018 (IFRS 9 and IFRS 15), with the third, IFRS 16, coming into effect on 1 April 2019 for the Group.

IFRS 9 'Financial Instruments' addresses accounting for our financial assets and financial liabilities. As part of this, it introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has reviewed its existing financial assets and liabilities accounting and does not expect the impact of IFRS 9 to have a material impact on its financial position.

IFRS 15 'Revenue from Contracts with Customers' is based on the principle that revenue is recognised when control of a good or service transfers to a customer. We have reviewed a sample of contracts from across the Group and expect to see an accretive impact on revenue recognition for diversion and contributions during the year ending 31 March 2019.

IFRS 16 'Leases' will primarily effect the accounting for the Group's operating leases and will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The new standard will be adopted on 1 April 2019. An assessment of the impact is ongoing and we will formally conclude on this later in this financial year.

Performance summary

We believe that transparent disclosure of performance against our targets is essential. The KPIs reported are reviewed regularly by the Group's Executive Committee and the Executive SHES Committee, who are accountable for environmental policy and performance. Some of our measures have been imposed by our regulator and are marked accordingly.

Objective	Target	2017/18 outturn	2016/17 outturn
Category 1 incidents (monitor only)		0	1
Major non-conformance against ISO14001	0	0	0
* Transport emissions – Commercial fleet and business mileage	4% reduction over RIIO period	-13%	-6%
* Energy consumption in offices & depots	27% reduction over RIIO period	-33% (31.2 GWh)	-31% (32.5 GWh)
* Waste spoil diversion from landfill	90%	97.80%	92.60%
* Virgin aggregate used (no more than)	30%	14.90%	18.46%
Environmental baseline score	100%	63%	N/A

Risk & Compliance Process Overview

The Board is committed to protecting and developing our reputation and business interests, it has overall responsibility for risk management within the business. It has set the risk appetite for the Group and reviews the risk profile at least annually.

We have adopted a risk management model which places responsibility for actively managing risks firmly with the business. There is a central team who set the risk management framework, facilitate reporting, provide advice and challenge to the business.

Executive Committee members regularly review their risks to assess their current status, progress of mitigation plans and toidentify emerging or developing risks. The Executive Committee reviews the Group's risk profile on a regular basis bringing together top down and bottom up risk management.

The Group are always seeking better ways to deliver our risk management process. The Audit and Risk Committee reviews the effectiveness of the overall risk management policy and process on an annual basis.

In addition to the risk management process there are a number of assurance processes operated by specialist teams embedded within the business. These teams provide assurance over the effectiveness of the financial and non-financial internal controls
operating across the business.

The Board places the responsibility for monitoring the effectiveness of the risk management process and internal controls through the Audit and Risk Committee's annual review and regular compliance reports. This includes compliance with our licence conditions which is recognised as a principal risk.

Financial risk management

The management of the Group and the execution of the Group's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Group's material financial risks, including liquidity, credit, interest rate risks and foreign currency risks. These risks are monitored through a Group Treasury management function ("Treasury") which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Quadgas MidCo Limited and its subsidiaries.

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 the Group as with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met whendue. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

The Board is responsible for monitoring the policies, setting the limits on the maturity of liquidity and deposit funding balances and taking any action as appropriate.

Credit risk

The Group takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk. The counterparties under treasury activities consist of financial institutions. In accordance with IAS 39, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. The exposure to counterparty credit risk will continue to be monitored. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties andby limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

Significant changes in the economy or in the utilities sector could result in losses not necessarily provided for at the Statement of Financial Position date. There are only forty principal customers. The credit worthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these,
the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor adherence to this process.

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk, inflation risk and exchange risk in relation to debt issued in foreign currency. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new hedging instruments entered into. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Head of Treasury under delegated authority from the Board.

The Group has no significant transactional foreign exchange, equity or commodity exposure. The Group has exposure to interest rate risk and inflation risk and this is explained in the sections below.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

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

Interest rate risk

Interest rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's fixed rate borrowings and derivatives are exposed to a risk.

Our principal risks and uncertainties include:

1. **Safety, health, environment and security**

   Safety remains a top priority and whilst major incidents are rare, human factors, asset and system malfunctions carry an inherent risk to our staff and the communities we serve.

   A major incident could cause disruption for our customers, result in reputational damage, loss of credibility with regulators and significant financial penalties or claims.

   Risk management:

   - We have a robust safety and environmental management systems in place which are underpinned by an HSE approved Safety Case.
   - There is visible leadership and commitment to health, safety and environmental matters, including regular Leadership Safety Visits which has created a strong safety culture throughout the organisation.
   - We operate Process Safety controls which are supported by robust incident investigation and review processes.
   - We have long term, risk based investment and replacement programmes to ensure that we maintain a safe and efficient network.
   - In the event of an incident we have well practiced crisis management response procedures in place.
   - To support continual improvement across the industry there are structures in place for cross-industry sharing of good practice and learning.

2. **Failure to protect consumers' interests**

   We must keep both current, and future consumers, safe and warm whilst delivering good value for money. Although a small proportion of the overall bill, we are mindful of the effect that network costs have on our consumers' energy bills and are committed to improving the service levels they can expect from us.

   Risk Management:

- Customer performance is recognised as a priority for our business and a dedicated 'Customer Performance' Function has been established to ensure we are performing for our customers.
- We are pioneering developments in a cross industry safeguarding customers group looking at services that are provided to customers in vulnerable situations.
- We continue to invest in our networks to maintain and improve service levels.
- We have a culture of continuous improvement to drive down cost and better serve our customers
- We have established clear customer targets which are closely monitored, with improvement plans in place where necessary. This is monitored and governed by our Customer Performance Committee.
- There is a commitment, at all levels of the organisation, to improve customer performance. This is reinforced through regular employee communications, which share good practice across the organisation.
- Strategic projects have been established to specifically tackle areas of historic poor performance, such as connections.

3. Failure to effectively manage assets and maintain network reliability

To ensure that we efficiently maintain a safe and reliable network for our customers, we must implement an effective asset management framework. It must, through appropriate policies and procedures, good quality asset data, suitable investment and competent personnel, deliver an effective process for preserving the integrity of both individual assets and the operation of our networks as a whole to deliver the right service to our customers and stakeholders.

Failure to effectively manage risk on individual assets or on our networks could lead to asset failures which may result in customer service failures, a safety or environmental incident or failure to meet our regulatory standards of service. This could damage our reputation and may lead to additional costs, enforcement action or financial penalties.

Risk management:

- Asset management framework in place and independently accredited to ISO55001 standard.
- Risk based investment programmes developed with appropriate decision support tools.
- Funding to deliver required work agreed.
- Qualified and trained engineering staff in key engineering integrity roles.
- Engineering policies and procedures are in place designed to manage risk
- Robust project controls to manage delivery of remediation and replacement programmes of work
- Insurance against damage claims

4. Failure to comply with legal and regulatory requirements or failure to deliver regulatory outputs

As a regulated business, compliance with legislative and regulatory requirements is fundamental to our ability to operate.

Failure to comply could indicate failures in delivering an adequate service to our customers, result in financial penalties, disruption of the operational business and damage our reputation.

Failure to deliver regulatory outputs would damage our credibility with the regulator and customers and could impact our ability to earn future returns.

Risk management:

- We have structured our business around the delivery of our regulatory outputs. Dedicated operational teams are in place to focus on the delivery of our standards of service, delivery of our mains replacement programme and upgrading our network assets.
- Detailed work plans were submitted at the beginning of the RIIO price control and these are carefully monitored through a governance framework which includes weekly issues calls and monthly customer performance reviews to ensure that emerging risks and issues are escalated and managed in a timely manner.
- There is a strong compliance culture. This is reflected in our values of ‘courage’ and ‘commitment’. To sustain this culture, all employees are training in our ethical guide, ‘Always Doing the Right Thing’ and suppliers are expected to sign up to our Supplier code of conduct. This is also supported by a strong ‘tone from the top’ and internal communication programme.
- We operate a compliance process which includes the review of our compliance with legal and regulatory obligations and is reported through the organisation to our Audit and Risk Committee and Board.
- We have established a horizon scanning forum to identify, and ensure we prepare, for regulatory changes and developments.

5. Cyber breach or critical system failure

Due to the nature of our business, we rely on technological systems to support our operational procedures. We recognise, that our critical national infrastructure (CNI) systems, may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for a malicious attack.

Risk management:

- Critical processes and systems are understood and security controls designed on a risk based approach.
- Cyber controls are currently provided under an arm’s length agreement from National Grid’s Digital Risk and Security team.
- We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the Goup’s business resilience.
- We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with Business, Energy and Industrial Strategy (BEIS) and the Centre for Protection of National Infrastructure on key cyber risks and development of an enhanced CNI security strategy.
- BCM and resilience steering groups are in place to ensure the effective management of BCM and resilience across our business.
- BCM plans are in place for critical processes and routinely tested.

6. Failure to secure critical skills and engagement

The people who work for us are essential to the success of our business. Both our direct workforce and those engaged through our partners and supply chain must be resilient and capable of adapting to the needs of the industry. The aging profile of our workforce and competition for limited skilled resources in our supply chain means this is a key risk that we must manage.

Our people are essential to delivering our future vision. Without the right balance of skills our operational performance, customer service and ability to adapt to the future needs of the industry will be adversely affected.

Risk management:

- The aging workforce and ability to secure enough skilled workers is a risk for our industry. We are pursuing both internal and industry wide approaches to mitigate this risk. Strategic workforce planning helps us understand our future resourcing needs, including those operationally critical roles to evaluate the best mitigation strategies.
- Succession plans are in place for operationally critical roles.
- To build our internal resource pool and develop our future pipeline of talent, we have developed a series of entry talent programmes, including those for graduates and apprentices and have training programmes and facilities in place to ensure the skills we need are developed.
- To attract and retain the right people, our reward packages are competitively benchmarked and incentivise performance aligned to the performance of the Group's objectives.
- To ensure that employees remain engaged we undertake regular monitoring of employee engagement which allows us to identify and address any areas of concern.
- As this is an industry wide issue we also support development of the STEM subjects through associated bodies such as the ENA.
- We work closely with our Strategic Partners to monitor the availability of skilled teams to undertake our mains replacement work and have targeted recruitment programmes.

7. Disruptive forces and regulatory responses

The gas industry is evolving and we must respond. Comparative regulation is increasingly driving network operators to deliver greater efficiencies against increasing expectations from customers. In addition, the UK has to deliver stretching climate change targets which will require significant decarbonisation of energy heat and transport. Hence this makes innovation essential to our continued success to deliver for current and future customers.

As a regulated business our future opportunities are directly affected by factors driving the landscape of the energy industry. These include emergent technologies, political events, changes in consumer habits and social trends, media coverage, public opinion and government views, which are reflected in the decisions of policy makers and regulators to define the way in which we run our business.

Risk management:

- We will gain credibility for delivery through the careful management of our current regulatory obligations and workload. There is a dedicated process improvement team to facilitate the implementation of change plans where improvement is needed, and a dedicated innovation team to seek ways to improve and outperform our targets.
- We monitor external developments to understand potential disruptive forces, including emerging technologies, changes in societal norms and the political consensus which may affect our business plan. These may include both negative threats, and potential new opportunities.
- Establish a Stakeholder Advisory panel to test our approach to engagement and strategy.
- We undertake regional and national Stakeholder engagement to understand policy, customer driven and regulatory landscape.
- We have established a 'Future Role of Gas' programme looking at future scenarios and considering how network needs to adapt and evolve to a decarbonised world.
- There are extensive structures in place through the Energy Networks Association, Energy Innovation Centre and with BEIS, Ofgem and the third parties to share innovations with other gas distribution networks and across utilities and third parties to ensure we are implementing best practice and coordinating our approach to solving decarbonisation.
- Involved in industry code development and market workgroups to monitor and input to industry change.

- Special measures in place for customers identified by the priority services register and mechanisms in place to help customers register as priority customers.

8. **Macro-economic factors, such as Retail Price Index (RPI), impacting negatively on the business.**

   Higher RPI may cause increasing cost pressure as employee and external material and labour costs increase in advance of a true-up in regulatory allowances.

   Lower RPI levels may drive down allowances whilst cost pressures remain higher.

   Lower RPI levels will also reduce new debt capacity due to Net Debt / RAV covenants and may therefore reduce dividends.

   Risk management:

   - Monitoring the potential exposure to fluctuating factors through forecasts from a range of financial institutions.
   - Inflation sensitivities part of business planning process.
   - A proportion of our Group debt is RPI-linked to provide an economic hedge between allowed revenues and some of our financing costs.

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

M W Braithwaite
Director
2 July 2018

Quadgas MidCo Limited
Directors' Report
For the year ended 31 March 2018

The Directors present their Report and the audited financial statements of the Group and the Company for the year ended 31 March 2018.

Principal activities and business review

A full description of the Group's and Company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 1 to 11, which are incorporated by reference into this report.

Directors

The Directors of the Company during the period and up to the date of signing of the financial statements were:

M W Braithwaite	
C J Waters	
J Korpancova	
A J Agg	
L N Shaw	
J Bao	
C P Bennett	
M Bradley	
H C Higgins	
D Karnik	
P D Noble	(Appointed 24 April 2017)
M J Gregory	(Appointed 22 May 2017)
D J Xie	(Appointed 22 May 2017)
A McMenamin	(Appointed 22 May 2017)
I M Coucher	(Appointed 26 January 2018)
A M Al-Ansari	(Appointed 17 May 2018)
N J Axam	(Appointed 17 May 2018)
P F Hofbauer	(Appointed 31 March 2017, Resigned 26 January 2018)
A G Ray	(Appointed 31 March 2017, Resigned 16 May 2018)
R Greenleaf	(Appointed 22 May 2017, Resigned 10 August 2017)
A B F Al-Thani	(Appointed 22 May 2017, Resigned 17 May 2018)

Future developments

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

Dividends

Our dividend policy is to balance the distribution of available surplus funds to shareholders but after having the forward committed cash requirements of the business to support our investment programmes and importantly the managing the appropriate level of gearing. During the year we paid dividends totalling £369 million (2017: £nil)

Political donations and political expenditure

We paid £20,000 to sponsor an event at the Conservative Party Conference to promote the future role of gas. At the time of writing this was incorrectly classified as a donation of £11,500 and political expenditure of £8,500 made by the company to the Conservative and Unionist Party. We have approached the the Electoral Commision and asked for this to be corrected.

The Company did not make any political donations during the current year or prior period.

Research and development

Expenditure on research and development was £8 million during the period (2017: £nil).

Directors' indemnity

Quadgas Holdco Limited (the indirect parent company) 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

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.

Capital structure

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt.

Control and Risk Management

The Group has established internal control and risk management systems in relation to the process for preparing consolidated 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 consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit and Risk Committee is also kept appraised of such developments.
- 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 Financial Reporting function compares the financial statements to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the Financial Reporting function.
- The Audit and Risk Committee and the Board review the draft consolidated financial statements. The Audit and Risk Committee receives reports from management and the external auditor on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

Post balance sheet events

National Grid announced on 1 May 2018 their agreement to sell their residual investment in Quadgas HoldCo Limited (a indirect parent company of the Group) to the existing consortium company - Quadgas Investments Bidco Limited. This announcement has been assessed by management that there are no indicators of impairment of the goodwill, as valuation of the 100% holding at Quadgas HoldCo Limited has not changed.

On 11 April 2018, Ofgem announced it has begun an investigation into Cadent Gas's record keeping relating to gas pipes (risers) in high-rise buildings. Between January and February 2018 Cadent Gas identified that a number of its records concerning high-rise buildings of six storeys and above were not included on its digitised records. Cadent Gas informed Ofgem at the earliest opportunity and implemented a survey recovery programme, which will be substantially completed by July 2018.

Disclosure of information to 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.

Auditor

Following a competitive tender process during the year, PWC resigned as auditor of the Company and Group and Deloitte LLP was appointed in their place on 20 December 2017. Resolutions to re-appoint Deloitte LLP as auditor of the Company will be proposed at the Annual General Meeting for shareholder approval.

Employees

Across the Group, we communicate with our employees across a wide variety of topics and have established effective channels to do this, for example: emails, the Group intranet, cascade briefings, sms alerts, voice messages and in-house newsletters. We believe that it is important to seek the views of our employees to inform decision making on matters which may affect them, and both formal and informal mechanisms are used to ensure that regular consultation takes place with employees and their trade union representatives.

We are committed to equality, inclusion and diversity and aim to support employees in achieving and maintaining a good balance between their work and personal lives. We promote equality in the development and application of our policies, through our recruitment processes and in training and development opportunities.

It is our policy that people with disabilities are treated fairly in relation to job applications and opportunities for training, career development and promotion. When employees are unable to continue working in their current role due to disability during their employment, every effort is taken to make reasonable adjustments, provide suitable training and identify alternative roles, if required.

Read about our policies in relation to ethical conduct, gender pay, anti-corruption and bribery, modern slavery and other topics at https://cadentgas.com/about-us/corporate-governance.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, 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 group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and 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
2 July 2018

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

Registered in England and Wales
Company registration number: 10615396

Independent auditor's report to the members of Quadgas MidCo Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Quadgas Midco Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 34 to consolidated financial statements; and
- the related notes 1 to 16 to parent company only financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

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 group and the parent 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 group's or the parent 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 auditor's report to the members of Quadgas MidCo 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 group's and the parent 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 group or the parent 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.

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 has been prepared in accordance with applicable legal requirements.

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

Independent auditor's report to the members of Quadgas MidCo Limited (continued)

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Jacqueline Holden

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 July 2018

Quadgas MidCo Limited
Consolidated Income Statement
For the year ended 31 March 2018

	Notes	**2018 £m**	**2018 £m**	2017 £m	2017 £m
Revenue	4		**1,852**		-
Operating costs			**(1,184)**		(10)
Operating profit / (loss)					
Before exceptional items	5	**668**		(10)	
Exceptional items	6	**(20)**		-	
Total Operating profit / (loss)	5		**648**		(10)
Income from interests in associated undertakings			**-**		-
Finance income	9		**3**		-
Finance costs					
Before exceptional items and remeasurements	9	**(272)**		-	
Exceptional items and remeasurements	6/9	**-**		-	
Total interest payable and similar charges			**(272)**		-
Profit / (loss) before tax					
Before exceptional items and remeasurements		**399**		(10)	
Exceptional items and remeasurements	6	**(20)**		-	
Total profit / (loss) before tax			**379**		(10)
Tax					
Before exceptional items and remeasurements		**(80)**		-	
Exceptional items and remeasurements	6	**4**		-	
Total tax	10		**(76)**		-
Profit / (loss) after tax					
Before exceptional items and remeasurements		**319**		(10)	
Exceptional items and remeasurements		**(16)**		-	
Profit / (loss) for the period			**303**		(10)

On 31 March 2017, Quadgas MidCo Limited acquired 100% of the share capital of Cadent Gas Limited including its subsidiary, Cadent Finance Plc, and 100% of the share capital of Cadent Services Limited. Comparison therefore between this financial year and the prior year are not particularly meaningful.

The results reported above relate to continuing activities.

The notes on pages 24 to 72 are an integral part of the financial statements.

Quadgas MidCo Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 March 2018

	2018 £m	2017 £m
Profit /(loss) for the year	**303**	(10)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	**436**	-
Tax on remeasurements of post-employment benefit obligations	**(75)**	-
Total items that will never be reclassified to profit or loss	**361**	-
Items that may be reclassified subsequently to profit or loss		
Net gains/(losses) in respect of cash flow hedges	**14**	-
Tax on net gains/(losses) in respect of cash flow hedges	**(2)**	-
Total items that may be reclassified subsequently to profit or loss	**12**	-
Other comprehensive income for the year, net of tax	**373**	-
Total comprehensive income /(loss) for the year	**676**	(10)

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and in exchange rates. The net gain for the period was £12m.

Quadgas MidCo Limited
Consolidated Statement of Financial Position
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	13	**5,514**	5,546
Property, plant and equipment	14	**10,614**	10,330
Investments in associates	15	**-**	-
Pension and other post-retirement benefit assets	27	**507**	34
Other non-current assets	17	**50**	54
Derivative financial assets	18	**13**	-
Total non-current assets		**16,698**	15,964
Current assets			
Inventories	16	**6**	7
Trade and other receivables	17	**237**	218
Derivative financial assets	18	**5**	2
Current asset investments	19	**161**	59
Cash and cash equivalents		**20**	5
Total current assets		**429**	291
Total assets		**17,127**	16,255
Current liabilities			
Trade and other payables	20	**(421)**	(354)
Derivative financial liabilities	18	**(3)**	-
Borrowings	22	**(53)**	(60)
Current tax liabilities		**(55)**	(67)
Provisions	23	**(17)**	(21)
Total current liabilities		**(549)**	(502)
Non-current liabilities			
Derivative financial liabilities	18	**(9)**	(11)
Borrowings	22	**(9,110)**	(8,866)
Other non-current liabilities	21	**(58)**	
Deferred tax liabilities	10	**(1,921)**	(1,870)
Provisions	23	**(78)**	(88)
Total non-current liabilities		**(11,176)**	(10,835)
Total liabilities		**(11,725)**	(11,337)
Net assets		**5,402**	4,918
Equity			
Share capital	24	**1**	4,928
Share premium account		**-**	-
Cash flow hedge reserve		**12**	-
Retained earnings		**5,389**	(10)
Total equity		**5,402**	4,918

The notes on pages 24 to 72 are an integral part of these financial statements.

The consolidated financial statements on pages 19 to 72 were authorised and approved for issue by the Board of Directors on 2 July 2018 and were signed on its behalf by:

M W Braithwaite
Director
Quadgas MidCo Limited
Company registration number: 10615396

Quadgas MidCo Limited
Consolidated Statement of Changes in Equity
For the year ended 31 March 2018

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 April 2017	4,928	-	-	(10)	4,918
Profit for the period	**-**	**-**	**-**	**303**	**303**
Other comprehensive income/ (loss) for the period	**-**	**-**	**12**	**361**	**373**
Total comprehensive income for the period	**-**	**-**	**12**	**664**	**676**
New shares issued	**177**	**-**	**-**	**-**	**177**
Share capital reduction	**(5,104)**	**-**	**-**	**5,104**	**-**
Equity dividends	**-**	**-**	**-**	**(369)**	**(369)**
At 31 March 2018	**1**	**-**	**12**	**5,389**	**5,402**

The cash flow hedge reserve on interest rate swap contracts will be recycled to the income statement over the life of the hedged items.

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 13 February 2017	-	-	-	-	-
(Loss) for the period	-	-	-	(10)	(10)
Other comprehensive income/ (loss) for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(10)	(10)
Issue of share capital	4,928	-	-	-	4,928
Dividends paid	-	-	-	-	-
At 31 March 2017	4,928	-	-	(10)	4,918

Quadgas MidCo Limited
Consolidated Statement of Cashflows
For the year ended 31 March 2018

	2018 **£m**	2017 £m
Cash flows from operating activities		
Total operating profit	**648**	(10)
Adjustments for:		
Exceptional items	**20**	-
Depreciation, amortisation and impairment	**354**	-
Changes in working capital	**15**	-
Capital contribution income	**-**	-
Changes in provisions	**(1)**	-
Loss/(gain) on disposal of property, plant and equipment	**(1)**	-
Changes in pensions and other post-retirement obligations	**(32)**	-
Cashflows relating to exceptional items	**(18)**	-
Cash generated from operations	**985**	(10)
Tax paid	**(116)**	-
Net cash from operating activities	**869**	(10)
Cash flows from investing activities		
Purchases of intangible assets	**(3)**	-
Purchases of property, plant and equipment	**(577)**	-
Capital contributions	**59**	-
Disposals of property, plant and equipment	**1**	-
Acquisition of Gas Distribution	**-**	-
Interest received	**(102)**	-
Net cash (used in)/from investing activities	**(622)**	-
Cash flows from financing activities		
Proceeds received from loans	**1,018**	1,785
Repayment of loans	**(673)**	(1,775)
Loans advanced	**-**	-
Interest paid	**(194)**	-
Dividends paid to shareholders	**(369)**	-
Net cash (used in)/from financing activities	**(218)**	10
Net increase/(decrease) in cash and cash equivalents	**29**	-
Cash and cash equivalents at beginning of period	**-**	-
Cash acquired	**(15)**	(15)
Net cash and cash equivalents/(overdraft) at end of period	**14**	(15)
Comprising - Cash	20	5
- Overdraft	(6)	(20)

1 Summary of significant accounting policies

Quadgas MidCo Limited is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE, UK.

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

(a) Basis of preparation

The financial statements for the Group have been prepared on the going concern basis (see Directors' report on page 12) under the historical cost convention modified to include certain items at fair value.

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.

(i) Consolidated financial statements

The consolidated financial statements of Quadgas MidCo Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations issues and effective and ratified by the European Union as at 31 March 2018 and the Companies Act 2006.

(b) Basis of consolidation

The consolidated financial statements include the results of Quadgas MidCo Limited and its subsidiaries and associate undertakings. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

Associates are accounted for on an equity basis where the Group holding is 20% or more or the Group has the power to exercise significant influence.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

(c) Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset and goodwill, which represents the excess of what was paid to acquire businesses over the fair value of their net assets at the acquisition date and the gas distribution licences, which allows the operation of the four gas distribution networks.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Goodwill is recognised as an asset and is not amortised as it has been deemed that it has an indefinite life, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

1 Summary of significant accounting policies (continued)

(c) Intangible assets (continued)

Impairment of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if an asset is created that can be identified; the technical feasibility of completing the intangible asset so that it will be available for use; the intention to complete the intangible asset and use it; the ability to use the intangible asset; it is probable that the asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset ;and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and warn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation (see note 12). An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis.

Intangible assets under development are not amortised. Other non-current intangible assets relate to software and are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is up to 8 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

(d) Property, plant and equipment and depreciation

The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and reduced value of asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economical life) and charging the cost of the asset to the income statement equally over this period.

1 Summary of significant accounting policies (continued)

(d) Property, plant and equipment and depreciation (continued)

We operate a gas distribution business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment assets are recorded at cost, less accumulated depreciation and impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment assets, as well as the cost of any associated asset retirement obligations.

Property, plant and equipment assets includes assets which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions towards the cost of tangible assets from customers for connections to the gas distribution networks are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing the estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessment of estimated useful lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	**Years**
Freehold and leasehold buildings	Up to 50
Plant and Machinery	30 to 50
Motor vehicles and other equipment	Up to 10

(e) Fixed asset investments

Investments in subsidiaries and associated companies are carried at cost, less any provisions for impairment.

(f) Impairment of fixed assets

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

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their 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. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

1 Summary of significant accounting policies (continued)

(g) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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 Group 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.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the income statement as it accrues.

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Borrowings, which include interest-bearing loans and overdrafts, 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

Where the Group has derivative financial instruments:

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 period they arise.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

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

1 Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Where possible, derivatives held as hedging instruments are formally designated as hedge as defined in IAS 39. Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

(h) Trade and other receivables

Trade, loan and other receivables are initially recognised at amortised cost and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

(i) Trade and other payables

Trade payables are initially recognised at amortised cost and subsequently measured at amortised cost. Due to their short maturities, the fair value of trade and other payables approximates their book values.

(j) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(k) Tax

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

1 Summary of significant accounting policies (continued)

(k) Tax (continued)

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authorities and the Company intends to settle their current tax assets and liabilities on a net basis.

(l) Provisions for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of past events where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditure, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost off the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are record as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

(m) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the Company’s shareholders are recognised as a liability in the Company’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

1 Summary of significant accounting policies (continued)

(n) Revenue

Revenue comprises sales value derived from the distribution of gas, including an assessment of the value of services provided, but not invoiced, at the period end. It excludes value added tax and intra-group sales.

The sales value for the distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis.

When revenue for the year exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services, Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

(o) Exceptional items and remeasurements

Management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairment of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Remeasurements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

(p) Pensions

The Group operates various post-employment schemes, including both defined benefit (DB) and defined contribution (DC) pension plans.

For DC pension plans, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For DB pension plans, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The cost of providing benefits in a DB plan is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

1 Summary of significant accounting policies (continued)

(p) Pensions (continued)

The Group's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

The Group takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

(q) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Assets for use in the Group's business where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments and are included in property, plant and equipment and depreciated accordingly.

The obligations related to finance leases, net of finance charges in respect of future years, are included within creditors. The interest element of the rental obligation is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation for each accounting period.

1 Summary of significant accounting policies (continued)

(r) New IFRS accounting standards and interpretations not yet adopted

The Group enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. We are assessing the likely impact of these standards on the financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments'principally impacts the accounting for the classification of financial instruments, impairment of financial assets and hedge accounting. The Group has performed an assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships in place as at the date of adoption (1 April 2018). It is not expected that the adoption of IFRS 9 will materially impact our profits or net assets on transition or prospectively.

IFRS 9 will be adopted on 1 April 2018. The full impact of adopting IFRS 9 will depend on the financial instruments that the Group has during the year ending 31 March 2019 as well as on economic conditions and judgements made as at the year end.

Classification and measurement: financial assets

The number of categories of financial assets has been reduced under IFRS 9 compared to IAS39. Under IFRS 9 the classification of financial assets is based on the business model within which the asset is held and contractual terms of the asset. There are three principal classification categories for financial assets i) amortised cost ii) fair value through other comprehensive income (FVOCI) and iii)fair value through profit or loss (FVTPL). With FVTPL, any fair value movements will be reported as remeasurements. For the Group, its available for sale investments of £160 million at 31 March 2018 representing investments in money market funds will be reallocated to FVTPL as the contractual terms are such that they do not qualify for any other category.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred losses under IAS 39. The new impairment model will apply to the Group's financial assets that are debt instruments measured at amortised cost as well as the Group's trade receivables. The Group expects to apply the simplified approach, recognising lifetime losses for its trade receivables. The Group's preliminary calculation of the loss allowance for these assets at 31 March 2018 results in an immaterial impact compared to IAS39.

Hedge Accounting

On initial application of IFRS 9, an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9. The Group has elected to apply IFRS 9 requirements as these align with the Group's risk management policies.

An assessment of the Group's designated hedging relationships under IAS 39 has been performed and it has been determined that all would qualify as continuing hedge relationships under IFRS9. However, in order to apply elective changes to the treatment of costs of hedging, certain relationships will be formally redesignated from the date of adoption, The Group is considering additional opportunities to apply hedge accounting under IFRS 9. The Group does not anticipate the application of IFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

The area of hedging is where we are likely to see the most significant impact as the model for hedge accounting has been substantially revised with a more simple principles based approach designed to align the accounting result with the economics of the hedging strategy. This is likely to result in more hedging strategies eligible for hedge accounting. We are currently reviewing the guidance to assess of whether hedge accounting will be possible for our index linked swaps.

1 Summary of significant accounting policies (continued)

(r) New IFRS accounting standards and interpretations not yet adopted (continued)

IFRS 15 ‘Revenue from Contracts with Customers’

IFRS 15 ‘Revenue from Contracts with Customers’ replaces IAS 18 and the core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This differs from the principle under IAS 18 that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

The Group has performed an assessment of the effects of applying the new standard and has concluded that while there are minor areas of difference they are not expected to have a material impact on the Group’s revenue recognition.

99% of current Group revenue is derived from gas transportation charges and this has been reviewed against IFRS 15. Based on the assessment, management have concluded that revenues are being appropriately recognised across the periods when the performance obligation has been fulfilled and do not expect any changes to the revenue recognition.

A key element of the remaining revenue relates to customer contributions received towards altering, diverting or relocating a tangible fixed asset, which are currently included in trade and other payables as deferred income and credited on a straight line basis to the income statement over the estimated useful economic lives of the assets to which they relate. Under IFRS 15, we expect the revenue recognition to alter with the income recognised once the diversion has been completed. There is no change to the accounting for customer contributions received for connections which continues to be recognised when the connection has been completed and the performance obligation satisfied.

IFRS 15 will be adopted on 1 April 2018 but there are no restatements necessary in the comparative period as the modified retrospective approach will be applied whereby the historical cumulative transition adjustment is reflected through retained earnings. The transition adjustment through retained earnings of £21m will result in a reduction in capital contribution liabilities of £25m and a corresponding deferred tax impact of £4m.

IFRS 16 ‘Leases’

IFRS 16 ‘Leases’ (IFRS 16) is effective for the year ending 31 March 2020. The Group enters into a significant number of operating lease transactions. Under IFRS 16, our operating leases will be accounted for on the balance sheet as ‘right-of-use’ assets. This treatment will increase both our assets and liabilities and subsequently, an increase to finance costs and depreciation and a reduction in rental costs. The Group continues to assess the impact that this standard will have on the profits and net assets of the Group.

Other

Other standards and interpretations or amendments thereto which have been issued and are effective are not expected to have a material impact on the Company’s consolidated financial statements

- Annual improvements to IFRSs 2014-2016 Cycle;
- Amendments to IAS 7 ‘Statement of Cash Flows’; and
- Amendments to IAS 12 ‘Income Taxes’

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group'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.

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

- The recognition of surpluses in respect of the defined benefit pension scheme reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14– note 27
- The allocation of the purchase consideration across the various asset categories – note 12
- The impairment of goodwill and intangible assets – note 12 and 13

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- **Presentational formats:** we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit/(loss), profit/(loss) before tax and profit/(loss) from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- **Financial instruments**: we normally opt to apply hedge accounting in most circumstances where this is permitted.

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:

- Review of residual lives, carrying values and impairment charges for intangible assets and property, plant and equipment – notes 13 and 14;
- Estimation of liabilities for pensions and other post-retirement benefits – note 27;
- Valuation of financial instruments and derivatives – notes 18 and 28;
- Environmental and decommissioning provisions – note 23.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 29.

3 Segmental analysis

The Directors believe that the whole of the Group'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.

4 Revenue

	2018 £m	2017 £m
Revenue from distribution of gas	**1,809**	-
Other income	**43**	-
	1,852	-

Geographical analysis of revenue is not provided as the Company's operations are all undertaken in the UK for customers based in the UK.

Analysis of revenue by major customer

	2018 £m	2017 £m
Customer A	**505**	-
Customer B	**180**	-
	685	-

One customer contributed 10% or more to the Group's revenue during the year to 31 March 2018 (2017: Nil).

5 Operating profit

	2018	2017
	£m	£m
Operating profit is stated after charging/(crediting):		
Depreciation and amortisation	**354**	-
Payroll costs	**192**	-
Inventory consumed	**9**	-
Purchases of gas	**20**	-
Rates	**198**	-
Operating leases	**8**	-
Research and development expenditure	**8**	-

	2018	2017
Services provided by the Company's auditor	**£'000**	£'000
Audit services		
Audit of parent company and consolidated financial statements	**50**	1,001
Audit of subsidiary company financial statements	**583**	-
Other services		
Fees payable to the company's auditor for audit-related assurance services	**72**	62
Other non-audit services	**113**	125

Fees payable to the Company's auditor for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditor such as regulatory accounts. Other non-audit services relate to services provided in connection with the raising of debt or structuring activities.

In 2018, fees were payable to Deloitte LLP who were appointed as auditor during the year. The 2017 fees payable to auditor were paid to PriceWaterhouseCoopers LLP.

6 Exceptional items and remeasurements

	2018 £m	2017 £m
Included within operating costs:		
Separation activities (i)	**(20)**	-
Included within finance costs:		
Remeasurements		
Net losses on derivative financial instruments (ii)	**-**	-
Total included within profit before tax	**(20)**	-
Included within taxation:		
Tax on separation activities	**4**	-
Tax on remeasurements	**-**	-
	4	-
Total exceptional and remeasurements after tax	**(16)**	-
Analysis of total exceptional items and remeasurements after tax		
Total exceptional items after tax	**(16)**	-
Total remeasurement after tax	**-**	-
	(16)	-

(i) As a result of the acquisition of Cadent Gas Limited, a number of separation activities have arisen.

(ii) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

7 Employment costs

The average number of persons (including Executive Directors) employed by the Group was 4,012 (2017:4,049).

	2018 £m	2017 £m
Wages and salaries	**180**	**-**
Social security costs	**22**	**-**
Other pension costs	**42**	**-**
Share-based payments	**-**	**-**
	244	**-**
Less: payroll costs capitalised	**(52)**	**-**
	192	**-**

7 Employment costs (continued)

Key management comprises the Board of Directors of the Company together with those Executive Directors of Quadgas Holdco Limited who have managerial responsibility for the businesses of Quadgas Holdco Limited.

	2018 £'000	2017 £'000
Salaries and other short-term employee benefits	**951**	-
Post-employment benefits	**502**	-
Share-based payments	**-**	-
	1,453	-

8 Directors emoluments

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.

9 Finance income and costs

	2018 £m	2017 £m
Finance income		
Interest income from bank deposits	**-**	-
Pension interest income	**2**	-
Interest income from financial instruments	**1**	-
Finance income	**3**	-
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**59**	-
Other borrowings	**125**	-
Intercompany	**71**	-
Derivatives	**15**	-
Unwinding of discounts on provisions	**2**	-
Interest expense from pensions	**-**	-
Less: interest capitalised (i)	**-**	-
Finance costs	**272**	-
Remeasurements		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges	**-**	-
Cash flow hedges	**11**	-
Derivatives not designated as hedges or ineligible for hedge accounting	**(11)**	-
Remeasurements included within finance costs	**-**	-
Finance costs	**272**	-
Net finance costs	**269**	-

i) Interest on funding attributable to assets in the course of construction was capitalised during the period at a rate of 2.2% (2017: Nil). Capitalised interest of £128,000 (2017: £1,482,000) qualifies for a current year tax deduction with tax relief claimed of £24,000 (2017: £200,000).

ii) Includes a net foreign exchange loss on financing activities of £11m (2017: £Nil). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

10 Taxation

Tax charged to the income statement

	2018 £m	2017 £m
Tax before exceptional items and remeasurements	**80**	-
Tax on other exceptional items and remeasurements	**(4)**	-
Tax on total exceptional items and remeasurements (note 6)	**(4)**	-
Total current tax expense	**76**	-

Taxation as a percentage of profit before tax

	2018 %	2017 %
Before exceptional items and remeasurements	**20.1**	-
After exceptional items and remeasurements	**20.1**	-

The tax charge for the period can be analysed as follows:

	2018 £m	2017 £m
Current tax		
UK corporation tax at 19%	**103**	-
UK corporation tax adjustment in respect of prior years	**(1)**	
Total current tax	**102**	-
Deferred tax		
UK deferred tax	**(28)**	-
UK deferred tax adjustment in respect of prior years	**2**	
Total deferred tax	**(26)**	-
Total Tax charge	**76**	-

Tax charged to other comprehensive income and equity

	2018 £m	2017 £m
Deferred tax		
Cash flow hedges	**2**	-
Remeasurements of net retirement benefit obligations	**75**	-
Total tax charged to other comprehensive income	**77**	-

10 Taxation (continued)

The tax charge for the period after exceptional items and remeasurements is higher than the standard rate of corporation tax in the UK of 19%:

	Before exceptional items and Remeasure-ments 2018 £m	**After exceptional items and Remeasure-ments 2018 £m**	Before exceptional items and Remeasure-ments 2017 £m	After exceptional items and Remeasure-ments 2017 £m
Profit/(loss) before tax				
Before exceptional items and remeasurements	**399**	**399**	(10)	(10)
Exceptional items and remeasurements	**-**	**(20)**	-	-
Loss before tax	**399**	**379**	(10)	(10)
Loss before tax multiplied by UK corporation tax rate of 19%	**76**	**72**	(2)	(2)
Effect of:				
Expenses not deductible for tax purposes	**2**	**2**	2	2
Non-taxable income	**(1)**	**(1)**	-	-
Transfer pricing	**-**	**-**	-	-
Deferred tax impact of change in UK	**1**	**1**	-	-
Other	**1**	**1**	-	-
Prior year adjustments	**1**	**1**		
Total tax	**80**	**76**	-	-
	%	**%**	%	%
Effective tax rate	**20.1**	**20.1**	-	-

Factors that may affect future tax charges

The Finance Act 2016 was enacted on 15 September 2016. The Act reduced the corporate tax rate to 17% from 1 April 2020. Deferred tax balances forecast to reverse in the period to 31 March 2020 have been provided for at 19%. Deferred tax balances forecast to reverse in the period after 31 March 2020 have been provided for at 17%. The tax impact of new accounting standards not yet adopted have been included in note r on page 32 where appropriate.

10 Taxation (continued)

Taxation included within the statement of financial position
The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current reporting period:

	Accelerated tax depreciation £m	Gas distribution licence £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
At 1 April 2017	1,511	364	6	(8)	(3)	1,870
Charged/(credited) to income statement	(30)	-	1	2	1	(26)
Charged to other comprehensive income and equity	-	-	75	2	-	77
At 31 March 2018	**1,481**	**364**	**82**	**(4)**	**(2)**	**1,921**
Deferred tax assets at 31 March 2018	-	-	-	(4)	(2)	(6)
Deferred tax liabilities at 31 March 2018	1,481	364	82	-	-	1,927
At 31 March 2018	**1,481**	**364**	**82**	**(4)**	**(2)**	**1,921**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,921m (2017: £1,870m). At the balance sheet date there were no material current deferred tax assets or liabilities.

11 Dividends

	2018 £m	2017 £m
Interim dividend of £3.77 per ordinary share amounting to £185,500,000 was paid on the 22 November 2017	186	-
Second interim dividend of £1,083.83 per ordinary share amounting to £183,200,000 was declared on the 23 March 2018 and paid on the 27 March 2018	183	-
	369	-

No further dividends are proposed for the current financial period.

12 Business combination

On 31 March 2017, Quadgas MidCo Limited acquired 100% of the share capital of Cadent Gas Limited including its subsidiary, Cadent Finance Plc, and 100% of the share capital of Cadent Services Limited for £7,744 million, funded through intercompany loans from its parent company and external borrowings. The acquisition by Quadgas MidCo Limited was part of a plan announced in November 2015 by National Grid Plc to sell a majority stake of its gas distribution networks.

The Group has applied IFRS 3 'Business Combinations'. The acquisition has been accounted for using the acquisition method with the difference between the fair value of the consideration and the fair value of the the net assets acquired recognised as goodwill. For Cadent Services Limited the consideration was equal to the book value.

The Group is required to complete a purchase price allocation exercise for the acquisition. Provisional allocations were completed in the prior year accounts. A purchase price allocation exercise was undertaken for its interest in Cadent Gas Limited and Cadent Service Limited, resulting in a fair value uplift. The table below shows the final allocations. The fair value of assets and liabilities acquired were as follows:

	Cadent Gas*	Cadent Services	Fair value uplift	Total
	£m	£m	£m	£m
Intangible assets – Software	88	-	-	88
Intangible assets – Licence	-	-	2,143	2,143
Property, plant and equipment	8,509	36	1,785	10,330
Net pension asset	34	-	-	34
Inventories	7	-	-	7
Trade and other receivables	277	1	(6)	272
Net derivative financial instruments	(9)	-	-	(9)
Current asset investments	59	-	-	59
Cash and cash equivalents	-	5	-	5
Trade and other payables	(376)	(31)	23	(384)
Borrowings	(6,042)	-	(25)	(6,067)
Tax liabilities	(67)	-	-	(67)
Provisions	(103)	(6)	-	(109)
Capital contributions > 1 year	(855)	-	855	-
Deferred tax liability	(1,057)	-	(813)	(1,870)
	465	5	3,962	4,432

* Including its subsidiary Cadent Finance Plc

Consideration paid	7,744
Goodwill (representing the excess of consideration over the fair value of assets acquired)	3,312

The consideration paid of £7,744m includes a price adjustment of £33m based on a final valuation, of which £13m was non-cash settled through related party loans.

Goodwill encompasses the management related portion of incentive income, an element of financial outperformance, the benefit of a clean capital structure on acquisition and the established workforce.

The acquisition has had a £1,852m impact on revenue and £303m on profit for the period.

13 Intangible assets

	Goodwill £m	Licence £m	Software £m	Total £m
Cost:				
At 1 April 2017	3,315	2,143	88	5,546
Additions	-	-	2	2
Disposals	-	-	-	-
Change in consideration	(3)	-	-	(3)
At 31 March 2018	**3,312**	**2,143**	**90**	**5,545**
Accumulated amortisation:				
At 1 April 2017	-	-	-	-
Amortisation charge for the period	-	-	(31)	(31)
Disposals	-	-	-	-
At 31 March 2018	**-**	**-**	**(31)**	**(31)**
Net book value:				
At 31 March 2018	**3,312**	**2,143**	**59**	**5,514**
At 31 March 2017	3,315	2,143	88	5,546

As part of the purchase price allocation exercise (see note 12), £2,143m has been attributed to the gas distribution licence and £1,785m has been attributed to the gas distribution assets, leaving £3,312m as goodwill after a change in the consideration of £3m.

Ofgem provide the business with an exclusive right to operate, invest in the infrastructure and earn a fair return on that invested capital over a 25-year daily renewing basis governed by a comprehensive regulatory framework. On the basis that the Licence gives the owner the right to operate and invest in the gas distribution networks within the licenced geographic area, the Licence has been separately recognised and valued as part of the purchase price allocation (see note 12). An indefinite useful economic life has been assumed for the Licence due to the daily renewing basis.

Goodwill encompasses the management related portion of incentive income, an element of financial outperformance, the benefit of a clean capital structure on acquisition and the established workforce.
Goodwill is recognised as an asset and is not amortised but is tested for impairment annually or more frequently if events or circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units that are expected to benefit from the business combination in which goodwill arose. The cash generating unit has been determined as the level of Quadgas MidCo Limited as this is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

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 discount rate, inflation and terminal value cashflow. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating unit (post-tax cash flows have been discounted at a post-tax discount rate as opposed to pre-tax cash flows with a pre-tax discount rate as the difference are not significant). The inflation rates are based on market forecasts. A long-term inflation rate of 3.15% has been used.

13 Intangible assets (continued)

The group prepares cash flow forecasts derived from the most recent financial budgets / business plan approved by management for the next 3 years and in addition, performs a detailed assessment of cashflows beyond the next price control period out to 2045 A terminal value cash flow is applied in 2045. This has been achieved by identifying a 'steady state' set of assumptions for the cash flows in the last year of the forecasts and applying a terminal value RAV multiple to those cash flows. The terminal value RAV multiple of 1.2 has been derived by reviewing external sources of information on similar transactions.

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.

Cashflow projections have been discounted to reflect the time value of money, using a post-tax discount rate of 5.00%. The equivalent pre-tax discount rate is 6.00%.

The Group has conducted a sensitivity analysis on the impairment test of the cash generating unit. The recoverable amount exceeds its carrying amount by £193 million.

A 0.1% change in the post-tax discount rate would reduce the headroom to nil but would not result in an impairment charge.

0.1% change in the inflation rate would reduce headroom to nil but would not result in an impairement charge.

The terminal value RAV multiple would need to reduce to 1.13 to reduce headroom to nil but would not result in an impairement charge.

Further sensitivity and key assumptions are included in note 29.

14 Property, plant and equipment

	Land and buildings £m	Plant and Machinery £m	Assets in the course of construction £m	Motor vehicles and other equipment £m	Total £m
Cost					
At 1 April 2017	76	10,180	8	66	10,330
Additions	1	561	18	30	610
Reclassifications	6	(4)	(5)	3	-
Disposals	-	(1)	(1)	(1)	(3)
At 31 March 2018	**83**	**10,736**	**20**	**98**	**10,937**
Accumulated depreciation and impairment					
At 1 April 2017	-	-	-	-	-
Charge for the period	(7)	(293)	-	(23)	(323)
Disposals	-	-	-	-	-
At 31 March 2018	**(7)**	**(293)**	**-**	**(23)**	**(323)**
Net book value:					
At 31 March 2018	**76**	**10,443**	**20**	**75**	**10,614**
At 31 March 2017	76	10,180	8	66	10,330

Included within plant and machinery cost is £1,785m and plant and machinery depreciation is £47m relating to fair value adjustments arising from the acquisition of Cadent Gas Limited.

The cost of property, plant and equipment at 31 March 2018 included £1,462,000 (2017: £1,482,000) relating to interest capitalised, with £128,000 capitalised during the year.

The net book value of land and buildings comprises:

	2018 £m	2017 £m
Freehold	**51**	57
Long leasehold (over 50 years)	**-**	-
Short leasehold (under 50 years)	**25**	19
	76	76

15 Investments in associates

The Group's only associate is in respect of its 45.57% equity stake in Xoserve Limited which was acquired through its acquisition of Cadent Gas Limited on 31 March 2017, but has been fully impaired in the prior year.

	Total £m
Cost	
At 1 April 2017 & 31 March 2018	-
Provision	
At 1 April 2017 & 31 March 2018	-
Net book value	
At 31 March 2017 & 31 March 2018	-

At the point of acquiring Cadent Gas Limited, its investment in Xoserve Limited of £456 had been fully impaired.

Details of the associate undertaking are set out below:

Company	Class of share held	Place of business and country of incorporation	Percentage held	Principal activities
Xoserve Limited	Ordinary share of £0.01 designated as an A Share in the capital of the company	Registered address Lansdowne Gate, 65 New Road, Solihull, B91 3DL. Incorporated in England and Wales.	45.57%	Gas transportation transaction services

16 Inventories

	2018 £m	2017 £m
Raw materials and consumables	**6**	7
	6	7

Inventories are stated after provisions for impairment of £318,000 (2017: £593,000).

17 Trade and other receivables

	2018	2017
	£m	£m
Amounts falling due within one year:		
Trade debtors	**27**	15
Other debtors	**16**	8
Prepayments and accrued income	**194**	195
	237	218
Amounts falling due after more than one year:		
Prepayments and accrued income	**36**	44
Other debtors	**14**	10
	50	54

Trade debtors are stated after provisions for impairment of £3,645,000 (2017: £1,712,000).

Due to the short term nature of trade debtors, the fair value approximates its book value.

Ageing of past due but not impaired receivables

	2018	2017
	£m	£m
31 - 60 days	**-**	-
61 - 90 days	**-**	-
91 - 180 days	**2**	1
	2	1

18 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

		2018	
	Assets	Liabilities	Total
	£m	£m	£m
Amounts falling due within one year	**5**	**(3)**	**2**
Amounts falling due after more than one year	**13**	**(9)**	**4**
	18	**(12)**	**6**

		2017	
	Assets	Liabilities	Total
	£m	£m	£m
Amounts falling due within one year	2	-	2
Amounts falling due after more than one year	-	(11)	(11)
	2	(11)	(9)

18 Derivative financial instruments (continued)

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

	2018	2017
	£m	£m
Interest rate swaps	-	-
Cross-currency interest rate swaps	676	638
Foreign exchange forward currency	-	-
Forward rate agreements	-	-
Inflation linked swaps	400	-
	1,076	638

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

19 Current asset investments

	2018	2017
	£m	£m
Investments in short-term money funds	**160**	55
Loans to other entities	**1**	4
	161	59

20 Trade and other payables

	2018	2017
	£m	£m
Trade creditors	**213**	176
Other tax and social security	**51**	45
Other creditors	**24**	10
Accruals and deferred income	**133**	123
	421	354

Due to the short term nature of trade creditors, the fair value approximates its book value.

21 Other non-current liabilities

	2018	2017
	£m	£m
Accruals and deferred income	**58**	-
	58	-

Accruals and deferred income mainly comprises contributions to capital projects.

22 Borrowings

	2018	2017
	£m	£m
Amounts falling due within one year		
Bank loans	**2**	2
Bank overdrafts	**5**	20
Bonds	**45**	38
Other loans	**1**	-
	53	60
Amounts falling due after more than one year		
Bank loans	**2,578**	3,014
Bonds	**5,624**	4,773
Amounts owed to parent company	**902**	1,079
Finance leases	**6**	-
	9,110	8,866

	2018	2017
	£m	£m
Total borrowings are repayable as follows:		
Less than 1 year	**53**	60
In 1-2 years	**1,041**	-
In 2-3 years	**1**	1,040
In 3-4 years	**1,249**	-
In 4-5 years	**1**	1,669
More than 5 years	**6,818**	6,157
	9,163	8,926

The notional amount of borrowings outstanding as at 31 March 2018 was £8,570m (2017: £8,389m), £8,803m (2017: £8,573m) including accretion.

The Group’s borrowings comprise a mixture of listed and unlisted fixed rate, floating rate and indexed linked debt. Listed debt has been issued out of or novated into the Group’s finance conduit, Cadent Finance Plc, unlisted debt has been issued out of or novated into Cadent Gas Limited and Quadgas Midco Limited. The table below summarises the bank and bond debt, including their fair values.

22 Borrowings (continued)

Summary of Borrowings	31-Mar-2018					
Currency	Type	Notional £m	Rate	Maturity Date	Book Value £m	Fair Value £m
Fixed Rate						
GBP	Unlisted	125	Fixed	31/03/2037	125	130
GBP	Unlisted	902	Fixed	31/03/2037	902	902
GBP	Unlisted	292	Fixed	31/10/2027	294	293
DOLLAR***	Unlisted	38	Fixed	31/10/2024	36	36
GBP	Listed	650	Fixed	22/09/2021	643	643
EUR*	Listed	658	Fixed	22/09/2024	646	647
GBP	Listed	850	Fixed	22/09/2028	850	840
GBP	Listed	700	Fixed	22/09/2038	693	665
GBP	Listed	800	Fixed	22/09/2046	799	755
GBP	Listed	300	Fixed	21/03/2040	295	302
		5,315			**5,283**	**5,213**
Index Linked						
GBP	Unlisted	314	RPI +	31/03/2037	312	312
GBP	Unlisted	153	RPI +	31/03/2037	157	146
GBP	Unlisted	78	RPI +	02/10/2023	92	88
GBP	Unlisted	75	RPI +	18/06/2024	86	83
GBP	Unlisted	75	RPI +	25/06/2024	87	83
GBP	Unlisted	76	RPI +	29/04/2024	89	86
GBP	Unlisted	76	RPI +	30/04/2024	88	85
GBP	Unlisted	76	RPI +	07/05/2024	88	85
GBP	Listed	138	RPI +	02/05/2039	229	212
GBP	Listed	141	RPI +	10/08/2048	259	240
GBP	Listed	141	RPI +	14/08/2048	255	236
		1,343			**1,742**	**1,656**
Floating Rate						
GBP	Unlisted	646	LIBOR +	31/03/2020	641	651
GBP	Unlisted	218	LIBOR +	31/03/2022	218	223
GBP	Unlisted	77	LIBOR +	31/03/2037	77	77
GBP	Unlisted	393	LIBOR +	14/10/2021	391	397
GBP	Unlisted	400	LIBOR +	14/10/2019	400	402
GBP	Unlisted	400	LIBOR +	27/03/2027	400	389
		2,134			**2,127**	**2,139**
Overdraft		**5**			5	5
Finance lease obligation		**6**			**6**	**6**
TOTAL		**8,803**			**9,163**	**9,019**

* Euro amount is €750m *** Dollar amount is $50m
**Index Linked debt notional is the accreted value

22 Borrowings (continued)

The majority of the fixed rate bonds were issued on 22 September 2016 by Cadent Finance plc under its £6,000m Euro Medium Term Note Programme and are guaranteed by Cadent Gas Limited following the transfer of assets on 1 October 2016. A further £125m of unlisted fixed rate debt was raised by Quadgas Midco on 31 March 2017 and intercompany debt was issued at fixed rate.On 4 October, Quadgas Finance plc, a subsidiary of Quadgas Midco Limited, placed £330m (£292m Sterling and £38m US dollar denominated) of private loan notes to seven investors. In addition, on the 19 March 2018, Cadent Finance Plc issed a further £300m fixed rate bonds under its £6,000m Euro Medium Term Note Programme.

£439m of unlisted index linked debt was novated from National Grid Gas Plc to Cadent Gas Limited on 1 October 2016 and the listed index linked debt novated to Cadent Finance Plc on 24 November 2016, both transfers made at fair value. A further £300m unlisted index linked debt was raised by Quadgas MidCo Limited on 31 March 2017. On 25 September 2017, Quadgas MidCo Limited palced £150m of private loan notes.

The Floating rate debt is a combination of Term Debt drawn under the £1,700m Term Loan and Revolving Credit Facility agreed in October 2016, and drawn for the first time immediately before the date of sale and debt issued to the EIB, drawn down on 27 March 2017. A further £1,369m of floating debt was raised by Quadgas MidCo Limited on 31 March 2017(£428m was repaid in the year leaving balance of £941m).

The fair value of borrowings at 31 March 2018 was £9,019m. Where market values were available, the fair value of borrowings (Level 1) was £3,852m. Where market values were not available, the fair value of borrowings (Level 2) was £5,167m, calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2018 was £8,803m (including accretion).

None of the Group's borrowings are secured by charges over assets of the Group.

Obligations under finance leases

	Minimum lease payments	
	2018	2017
	£m	£m
Amounts payable under finance leases:		
Within one year	**1**	-
In the second to fifth years inclusive	**3**	-
After five years	**4**	-
Less: future finance charges	**(1)**	-
Present value of lease obligations	**7**	-

22 Borrowings (continued)

Obligations under finance leases (continued)

	Present value of minimum lease payments 2018 £m	2017 £m
Amounts payable under finance leases:		
Within one year	**1**	-
In the second to fifth years inclusive	**2**	-
After five years	**4**	-
Present value of lease obligations	**7**	-
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**1**	-
Amounts due for settlement after 12 months	**6**	-
	7	-

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease length is 8 years. For the year ended 31 March 2018, the average effective borrowing was 3.49% (2017: Nil). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

23 Provisions for liabilities

	Decommissioning £m	Environmental £m	Other £m	Total £m
At 1 April 2017	21	37	51	109
Charged to the income statement	-	1	3	4
Utilised	(14)	-	(3)	(17)
Released to the income statement	(1)	(1)	(1)	(3)
Unwinding of discount	1	1	-	2
At 31 March 2018	**7**	**38**	**50**	**95**

	2018 £m	2017 £m
Current	**17**	21
Non-current	**78**	88
	95	109

23 Provisions for liabilities (continued)

Decommissioning provision
The decommissioning provision represents expenditure relating to the demolition of gas storage facilities expected to be incurred until 2019.

Environmental provision
The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Group (discounted using a real rate of 1.0% (2017: 1.0%)). Cash flows are expected to be incurred between 2018 and 2068.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision. The undiscounted amount of the provision at 31 March 2018 was £51m (2017: £49m), being the undiscounted best estimate liability having regard to these uncertainties.

Other provisions
The other provision represents all other provisions, including claims which are not covered by insurance.

24 Share capital

	Number of shares	£m
At 1 April 2017	4,928,450,000	4,928
New shares issued in the period	177,131,781	177
Reduction in nominal value	-	(5,104)
At 31 March 2018	5,105,581,781	1

On 22 November 2017 the Company issued a further 177,131,781 ordinary shares of £1 for consideration of £177,131,781.

On the 25 January 2018, the Company completed a capital reduction. Prior to the capital reduction, share capital consisted of 5,105,581,781 ordinary shares of £1 that were alloted,called up and fully paid up. The capital reduction resulted in the share capital account being reduced by £5,105,071,223 to £510,558 by reducing the nominal value of the shares from £1 to £0.0001.

25 Net debt

	2018 £m	2017 £m
Increase in cash and cash equivalents	**30**	-
Decrease / (increase) in financial investments	**102**	-
Increase in borrowings & related derivatives	**(350)**	(1,785)
Decrease in related party borrowings	**-**	1,775
Net interest paid on the components of net debt	**197**	-
Change in net debt arising from cash flows	**(21)**	(10)
Changes in fair value of financial assets and liabilities and exchange movements	**15**	-
Other non-cash changes	**171**	(8,846)
Net interest charge on the components of net debt	**(270)**	-
Movement in net debt (net of related derivative financial instruments)	**(105)**	(8,856)
Cash acquired as part of Gas Distribution acquisition	**-**	(15)
Net debt (net of related derivative financial instruments) at the start of the period	**(8,871)**	-
Net debt (net of related derivative financial instruments) at the end of the period	**(8,976)**	(8,871)

Composition of net debt:

	2018 £m	2017 £m
Cash, cash equivalents and financial investments	**176**	64
Borrowings and bank overdrafts	**(9,158)**	(8,926)
Derivatives	**6**	(9)
Total net debt	**(8,976)**	(8,871)

25 Net debt (continued)

Analysis of changes in net debt:

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total £m
Cost							
At 1 April 2017	5	(20)	(15)	59	(8,906)	(9)	(8,871)
Cashflow	**15**	**15**	**30**	**102**	**(154)**	**1**	**(21)**
Fair value gains and losses and exchange movements	**-**	**-**	**-**	**-**	**(14)**	**29**	**15**
Interest charges	**-**	**-**	**-**	**-**	**(255)**	**(15)**	**(270)**
Other non-cash changes	**-**	**-**	**-**	**-**	**171**	**-**	**171**
At 31 March 2018	**20**	**(5)**	**15**	**161**	**(9,158)**	**6**	**(8,976)**

Balances at 31 March 2018 comprise:

Non-current assets	-	-	**-**	**-**	**-**	**13**	**13**
Current assets	**20**	**-**	**20**	**161**	**-**	**5**	**186**
Current liabilities	**-**	**(5)**	**(5)**	**-**	**(48)**	**(3)**	**(56)**
Non-current liabilities	**-**	**-**	**-**	**-**	**(9,110)**	**(9)**	**(9,119)**
At 31 March 2018	**20**	**(5)**	**15**	**161**	**(9,158)**	**6**	**(8,976)**

Other non-cash changes include the capitalisation of an intercompany loan of £177m.

26 Capital and other commitments

	2018 £m	2017 £m
Contracts for future capital expenditure not provided in the financial statements	**741**	792
Letters of credit	**300**	300
	1,041	1,092

The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £m	2017 £m
Less than 1 year	**8**	9
In 2-5 years	**10**	20
More than 5 years	**1**	4
	19	33

In respect of the Group's commitment to property and vehicle leases, there are no contingent rentals payable, or restrictions on dividends, debt or further leasing imposed by these lease arrangements. Escalation of rents is via rent reviews at agreed intervals.

27 Pensions

The Group operates a number of pension schemes for its employees.

Defined contribution (DC) scheme

For DC pension plans, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

Up to 31 March 2017, the Group contributed to the National Grid YouPlan (YouPlan). With effect 1 April 2018, Cadent Gas Limited exited the YouPlan as participating Employer and all members became deferred members, pending a bulk transfer later in the year to the Cadent Gas MyPension DC scheme (MyPension).

MyPension was established in 2017 as the DC pension scheme for the Group. Under the rules of the plan, the Group double matches member contributions to MyPension up to a maximum of 6%. MyPension is the qualifying scheme used for automatic enrolment and new hires are enrolled into MyPension.

The amount recognised as an expense for the defined contribution scheme was:

	2018 £m	2017 £m
Current period contributions	13	-

Defined benefit (DB) scheme

The Group's DB pension arrangements are held in the National Grid UK Pension Scheme. With effect 1 January 2017 the scheme was split into three sections, each which is legally and actuarially separate. Section C is supported by the Group and its membership is limited to the Group's employees (active and deferred). Sections A and B are supported by companies with the National Grid Group.

27 Pensions (continued)

Members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The Group underwrites both financial and demographic risks associated with this type of plan.

The cost of providing benefits in a DB plan is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The Group's obligation in respect of the plan is calculated separately for Section C of the Scheme by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

The Group takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net asset recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

The National Grid UK Pension Scheme is a defined benefit pension scheme, funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee Group with a board consisting of Group and member appointed Directors. The Directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with the Group, the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable.

The last full actuarial valuation for the National Grid UK Pension Scheme was carried out at 31 March 2017. As part of this valuation, based on long-term financial assumptions, a contribution rate to meet future benefit accrual was agreed of 52.1% (2017: 36%) of pensionable earnings less any member contributions. In addition, the Group makes payments to the scheme to cover administration costs and the Pension Protection Fund levy.

The results of the 2017 valuation are shown below:

Last full actuarial valuation	**31 March 2017**	30 September 2015
Actuary	**Willis Towers Watson**	Willis Towers Watson
Market value of scheme assets at latest valuation	**£7,004m**	£16,551m
Actuarial value of benefits due to members	**£7,233m**	£18,176m
Market value as percentage of benefits	**97%**	91%
Funding deficit	**£229m**	£1,625m

27 Pensions (continued)

With effect from 1 January 2017, the National Grid UK Pension Scheme was split into three sections, each of which are legally and actuarially separate. The figures for 2015 covers the whole of the Scheme as at that date, whereas the 2017 valuation covers Section C, which is supported by the Group.

Section C of the National Grid UK Pension Scheme
The Group and the Trustees have agreed a schedule of contributions, under which payments of £37.1m will be made each year from September 2018 until September 2021 and £31.4m in 2022, adjusted for the change in RPI from 31 December 2016 to 3 months prior to the date of payment.

The Group has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to the Group's credit rating or gearing levels. At 31 March 2018 the value of this was required to be £285m. This was provided via £300m in letters of credit. The assets held as security will be paid to Section C in the event that the Group is subject to an insolvency event, if the Group is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if the Group fails to make the required contributions in relation to Section C, if the Group's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days, or if the Group grants any charges over its assets other than where agreed with the Trustees. The assets held as security will be released back to the Group if the scheme moves into surplus. In addition, the Group will make a further payment of £77m (increased in line with RPI) into Section C if the Group's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme ceased to allow new hires to join from 1 April 2002, with new hires since that date having the option of joining the DC arrangement.

Risks
The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the UK debt markets and will fluctuate as yields change. Plan funds are invested in a variety of asset classes, principally: equities, government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net balance sheet liability.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

27 Pensions (continued)

Amounts recognised in the statement of financial position

	2018 Total £m	2017 Total £m
Present value of funded obligations	(6,306)	(6,967)
Fair value of plan assets	6,816	7,004
	510	37
Present value of unfunded obligations	(3)	(3)
Other post-employment liabilities	-	-
Net defined benefit asset	507	34

	2018 Total £m	2017 Total £m
Represented by:		
Liabilities	(6,309)	(6,970)
Assets	6,816	7,004
	507	34

Amounts recognised in the income statement and statement of other comprehensive income

	2018 Total £m	2017 Total £m
Included within operating costs		
Administration costs	3	-
Included within operating costs		
Defined contribution scheme costs	13	-
Defined benefit scheme costs:		
Current service cost	29	-
Settlement (credit)/cost	-	-
Special termination benefit (gain)/cost – redundancies	(3)	-
	42	-
Included within operating costs		
Net interest (credit)/cost	(2)	-
Total included in income statement	40	-
Remeasurements of net retirement benefit obligations	433	-
Return on plan assets less or (greater) than discount rate	7	-
Total included in the statement of other comprehensive income	440	-

Reconciliation of the net defined benefit asset

	2018 Total £m	2017 Total £m
Opening net defined benefit asset	34	-
Net pension liability acquired	-	34
Costs recognised in the income statement	(27)	-
Employer contributions	60	-
Other movements	440	-
Closing net defined benefit asset	**507**	34

27 Pensions (continued)

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2018 Total £m	2017 Total £m
Opening net defined benefit liability	6,970	-
Net pension liability acquired	-	6,970
Current service cost	29	-
Interest cost	162	-
Actuarial (gains)/losses – experiences	55	-
Actuarial (gains)/losses – demographic assumptions	(192)	-
Actuarial (gains)/losses – financial assumptions	(296)	-
Special termination benefit cost – redundancies	(3)	-
Settlement of Defined Benefit Obligation	-	-
Benefits paid	(416)	-
Closing net defined benefit liability	**6,309**	6,970

Changes in the fair value of plan assets

	2018 Total £m	2017 Total £m
Opening fair value of plan assets	7,004	-
Pension asset acquired	-	7,004
Interest income	164	-
Return on assets (less)/greater than assumed	7	-
Administration costs	(3)	-
Employer contributions paid	60	-
Employee contributions	-	-
Benefits paid	(416)	-
Settlement of assets	-	-
Closing fair value of plan assets	**6,816**	7,004
Actual return on plan assets	170	-
Expected contributions to plans in the following year	61	62

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2018 Quoted £m	**2018 Unquoted £m**	**2018 Total £m**	2017 Quoted £m	2017 Unquoted £m	2017 Total £m
Equities	714	270	984	945	281	1,226
Corporate bonds	2,020	-	2,020	1,965	-	1,965
Property	-	402	402	-	348	348
Government securities	2,857	-	2,857	2,820	-	2,820
Diversified alternatives (i)	-	388	388	-	355	355
Other	-	165	165	-	290	290
Total	5,591	1,225	6,816	5,730	1,274	7,004

i) Includes return seeking non-conventional asset classes.

27 Pensions (continued)

The investment strategy for Section C of the National Grid UK Pension Scheme (NGUKPS) is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The asset allocation at 31 March 2018 is as follows:

	2018	2017
	%	%
Equities	**14**	18
Other	**86**	82
	100	100

Actuarial assumptions

Cadent Gas Limited has applied the following financial assumptions in assessing defined benefit liabilities.

	2018	2017
	%	%
Discount rate – Past service (i)	**2.60**	2.40
Discount rate – Future service (i)	**2.65**	2.40
Rate of increase in salaries (ii)	**3.40**	3.45
Rate of increase in RPI – Past service (iii)	**3.15**	3.20
Rate of increase in RPI – Future service (iii)	**3.10**	3.15

i) The discount rate for pension liabilities has been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the reporting date. From 2018, the Group has adopted a different discount rate assumption by increasing the duration of the scheme liabilities to 25 years for future service obligations. This has led to a future service discount rate of 2.65% for both the 2017 and 2018 year-ends. The 2017 discount rate was 2.40% for both past service benefits and for future service benefits based on a then expected duration of scheme liabilities of 17 years.

ii) A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2014. The assumption for the rate of increase in salaries for service after this date is 2.20% (2017: 2.20%).

iii) This is the key assumption that determines assumed increases in pensions in payment and deferment. Consistent with the derivation of the discount rate, the RPI assumption reflects the duration of the active liabilities to be adopted in the calculation of future service obligations. This approach has led to a RPI assumption for the future service rate of 3.10% at reporting date (2017: 3.15%), as compared to the 2017 published assumption of 3.20% for both past service and future service.

For sensitivity analysis, see note 29.

Assumed life expectations for a retiree age 65.

	2018	2017
	years	years
Today		
Males	**21.8**	22.8
Females	**23.7**	24.6
In 20 years		
Males	**23.2**	25.0
Females	**25.3**	26.8

27 Pensions (continued)

Maturity profile of DB obligations

The weighted average duration of the DB obligation for future service obligations of the scheme is 25 years and 17 years for past service obligations.

28 Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures, (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board of its main operating Group, Cadent Gas Limited. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Currency risk; and
- Capital risk.

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. Our limits are managed by the central treasury department of Cadent Gas Limited.

As at 31 March 2018, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Customer credit risk

Our principal commercial exposure is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the regulatory asset value (RAV) for each credit rating. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis.

28 Financial risk management (continued)

(a) Credit risk (continued)

Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 17.

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present the Group's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

The Group has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

As at 31 March 2018	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	15	-	15	-	-	15
Liabilities						
Derivative financial instruments	(9)	-	(9)	-	-	(9)
Total at 31 March 2018	**6**	**-**	**6**	**-**	**-**	**6**

28 Financial risk management (continued)

As at 31 March 2017	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	2	-	2	-	-	2
Liabilities						
Derivative financial instruments	(11)	-	(11)	-	-	(11)
Total at 31 March 2017	**(9)**	**-**	**(9)**	**-**	**-**	**(9)**

(b) Liquidity risk

We determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 26 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants such as maintaining current rating levels. Failure to comply with these covenants, or to obtain waivers of these requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

28 Financial risk management (continued)

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
As at 31 March 2018					
Non-derivative financial liabilities					
Borrowings	-	(1,046)	-	(9,042)	(10,088)
Interest on payments on borrowings (i)	(186)	(179)	(180)	(2,245)	(2,790)
Other non-interest bearing liabilities (ii)	(422)	-	-	-	(422)
Derivative financial liabilities					
Derivative contracts - receipts	17	18	19	105	159
Derivative contracts - payments	(13)	(13)	(13)	(47)	(86)
Total at 31 March 2018	**(604)**	**(1,220)**	**(174)**	**(11,229)**	**(13,227)**

i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

ii) Trade and other payables

(c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 22 (borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

28 Financial risk management (continued)

(c) Interest rate risk (continued)

As at 31 March 2018, net debt was managed for the Group using derivative instruments to hedge interest rate risk as follows:

	Fixed rate £m	Floating rate £m	RPI £m	Other (i)	Total £m
As at 31 March 2018					
Financial investments	-	181	-	-	181
Borrowings	(5,283)	(2,132)	(1,742)	(6)	(9,163)
Pre-derivative position	(5,283)	(1,951)	(1,742)	(6)	(8,982)
Derivative effect	6	-	-	-	6
Net debt position (ii)	**(5,277)**	**(1,951)**	**(1,742)**	**(6)**	**(8,976)**

i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

ii) The impact of 2017/18 short-dated interest rate derivatives is included.

(d) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

Our policy for managing foreign exchange risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, our policy is to hedge a proportion of the cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

As at 31 March 2018, derivative financial instruments were used to manage foreign currency risk as follows:

	Sterling £m	Euro £m	Dollar £m	Total £m
As at 31 March 2018				
Financial investments	181	-	-	181
Borrowings	(8,481)	(646)	(36)	(9,163)
Pre-derivative position	(8,300)	(646)	(36)	(8,982)
Derivative effect	(676)	646	36	6
Net debt position	**(8,976)**	**-**	**-**	**(8,876)**

(e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating Company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

28 Financial risk management (continued)

(e) Capital risk management (continued)

Maintaining appropriate credit ratings for our main regulated operating Company, Cadent Gas Limited, is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as adjusted net debt (statutory net debt adjusted for unamortised debt fees, unamortised fair value adjustments, accrued interest and derivatives) expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5 - 65%. The RAV gearing ratio at the Cadent Gas Limited level was 31 March 2018 was 62% (2017: 62%).

(f) Fair value analysis

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.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 31 March 2018				
Assets				
Available-for-sale investments	181	-	-	181
Derivative financial instruments	-	15	-	15
Liabilities				
Derivative financial instruments	-	(9)	-	(9)
Total	**181**	**6**	**-**	**187**

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.

29 Sensitivity analysis

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

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

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the table below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2018 would result in an increase in the income statement of £16 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	Income Statement £m	Net assets £m
As at 31 March 2018		
One year average increase in useful economic lives (pre-tax)		
Depreciation charge on property, plant and equipment	11	11
Amortisation charge on intangible assets	5	5
Environmental provision change in discount rate of 0.5%	4	4
Assets and liabilities carried at fair value change of 10% (pre-tax)		
Derivative financial instruments (i)	1	1
Goodwill impairment		
RPI change of 0.5%	1,140	1,140
Post tax WACC change of 0.25%	311	311
Terminal value change of 0.1 multiple	51	51
Pensions and other post-retirement benefits (ii) (pre-tax)		
Discount rate change of 0.5% (iii)	3	454
RPI rate change of 0.5% (iv)	2	437
Long-term rate of increase in salaries change of 0.5%	-	18
Change of one year to life expectancy at age 65	1	254
Unbilled revenue at 31 March change of 10% (post-tax)	16	16
No hedge accounting for our derivative financial instruments (post tax)	13	-

i) The effect of a 10% change in fair value assumes no hedge accounting.

ii) The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.

iii) A change in the discount is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

iv) The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

29 Sensitivity analysis (continued)

	Income statement £m	Net assets £m
As at 31 March 2018		
Financial risk (post-tax)		
UK RPI rate change of 0.5% (i)	4	-
UK interest rate change of 0.5%	6	-

i) Excludes sensitivities to LPI curve.

Financial instruments assumptions
Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. The changes in market variables impacts the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2018;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

30 Contingent liabilities

(a) Environmental claims

The environmental provision (see note 23) has been set up to deal with the costs of statutory decontamination of Cadent Gas' UK old gas-manufacturing sites and Cadent Services' gas sites. Other claims have arisen from time to time, however none of these have been significant. It is not possible to determine the level of such future claims however, based upon experience, the Directors do not consider a provision necessary.

(b) Litigation

Through the ordinary course of operations, the Group is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Group's results of operations, cash flows or financial position.

(c) Guarantees and letters of credit

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

30 Contingent liabilities (continued)

(d) Ofgem investigation

On Wednesday 11 April 2018, Ofgem announced it has begun an investigation into Cadent's record keeping relating to gas pipes (risers) in high-rise buildings. Between January and February 2018 Cadent identified that a number of its records concerning high-rise buildings of six storeys and above were not included on its digitised records. Cadent informed Ofgem at the earliest opportunity and implemented a survey recovery programme, which will be substantially completed in July 2018. Cadent will continue to co-operate fully with Ofgem's investigation.

31 Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of Quadgas MidCo Limited. The related parties identified include the immediate parent, ultimate parent, fellow subsidiaries, associated undertakings, investments and key management personnel.

	2018	2017
	£m	£m
Income:		
Goods and services supplied	**44**	-
Expenditure:		
Services rendered	**235**	-
Corporate services received	**5**	-
Interest paid on borrowings from fellow subsidiaries	**-**	-
	240	-
Outstanding balances at 31 March in respect of income and expenditure:		
Amounts receivable	**18**	-
Amounts payable	**28**	-

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Amounts of £39,000 have been provided at 31 March 2018 and recognised as an expense (2017: Nil) during the period in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 7.

32 Subsequent events

National Grid announced on 1 May 2018 of their agreement to sell their residual investment in Quadgas HoldCo Limited (a indirect parent company of the Group) to the to the existing consortium company - Quadgas Investments Bidco Limited. This announcement has been assessed by management that there are no indicators of impairment of the goodwill, as valuation of the 100% holding at Quadgas HoldCo Limited has not changed.

On Wednesday 11 April 2018, Ofgem announced it has begun an investigation into Cadent Gas's record keeping relating to gas pipes (risers) in high-rise buildings. Between January and February 2018 Cadent Gas identified that a number of its records concerning high-rise buildings of six storeys and above were not included on its digitised records. Cadent Gas informed Ofgem at the earliest opportunity and implemented a survey recovery programme, which will be substantially completed by July 2018.

33 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas PledgeCo Limited. The largest and smallest group which includes 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, Quadgas HoldCo 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, First Floor Waterloo House, Don Street, St. Helier, Jersey JE1 1AD

34 Subsidiary undertakings

The list below contains all subsidiaries included within the Quadgas MidCo Group.

Name of subsidiary	% Holding	Principal activity	Country of incorporation
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
Quadgas Finance Plc	100	Provision of long term finance	England and Wales

The registered address for all subsidiaries is Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE.

* Indirect holding

Quadgas MidCo Limited
Company Statement of Financial Position
As at 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investments	6	7,747	7,747
Total non-current assets		7,747	7,747
Current assets			
Debtors	7	46	30
Cash at bank and in hand		11	-
Total current assets		57	30
Total assets		7,804	7,777
Current liabilities			
Borrowings	11	(2)	-
Derivative financial liabilities	8	(3)	-
Creditors: amounts due within one year	9	(5)	-
Total current liabilities		(10)	-
Non-current liabilities			
Borrowings	11	(1,527)	(1,780)
Creditors: amounts due after more than one year	10	(1,230)	(1,079)
Total non-current liabilities		(2,757)	(2,859)
Total liabilities		(2,767)	(2,859)
Net assets		5,037	4,918
Equity			
Share capital	1	1	4,928
Retained earnings		5,037	(10)
Cash flow hedge reserve		(1)	-
Total equity		5,037	4,918

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from preparing the parent company profit and loss account. The profit for the year is disclosed in the statement of changes in equity.

The notes on pages 75 to 82 are an integral part of the financial statements.

The financial statements on pages 73 to 82 were approved by the Board of Directors on 2 July 2018 and signed on its behalf by:

M W Braithwaite
Director, Quadgas MidCo Limited
Company registration number: 10615396

Quadgas MidCo Limited
Company Statement of Changes in Equity
For the year ended 31 March 2018

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 1 April 2017	4,928	-	-	(10)	4,918
Profit for the period	-	-	-	312	312
Other comprehensive income for the period	-	-	(1)	-	(1)
Total comprehensive (loss) / income for the period	-	-	(1)	312	311
Issue of share capital	177	-	-	-	177
Capital reduction	(5,104)			5,104	-
Equity Dividend	-	-	-	(369)	(369)
At 31 March 2018	**1**	**-**	**(1)**	**5,037**	**5,037**

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid.

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Retained earnings £m	Total £m
At 13 February 2017	-	-	-	-	-
Loss for the period	-	-	-	(10)	(10)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive (loss) / income for the period	-	-	-	(10)	(10)
Issue of share capital	4,928	-	-	-	4,928
Dividends paid	-	-	-	-	-
At 31 March 2017	**4,928**	**-**	**-**	**(10)**	**4,918**

1 Summary of significant accounting policies

We are required to include the stand-alone balance sheet of our parent Company, Quadgas MidCo Limited, under the Companies Act 2006, and the statement of changes in equity under Financial Reporting Standard 101, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 101"). The following disclosures provide additional information to the stakeholders.

Quadgas MidCo Limited is a private company and is incorporated and domiciled in the United Kingdom. The address of its registered office is Ashbrook Court, Prologis Business 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 the current period presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the Company have been prepared on the going concern basis under the historical cost convention modified to include certain items at fair value.
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.

(i) Parent company 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 FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' 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 accounts of Quadgas MidCo 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 estimate is in respect of the fair value of derivative financial instruments which are calculated by discounting future cash flows. Discount rates are derived from yield curves based on quoted interest rates and are adjusted for credit risk, which is estimated based on market observations.

(b) Fixed asset investments

Investments in subsidiaries and associated companies are carried at cost, less any provisions for impairment. On disposal of investments in subsidiaries and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

1 Summary of significant accounting policies (continued)

(c) Impairment of fixed assets

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

Impairments of fixed assets are calculated as the difference between the carrying value of the net assets of income generating units, including where appropriate, investments, and their 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. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

(d) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the income statement as it accrues.

Borrowings, which include interest-bearing loans and overdrafts, 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.

(e) Tax

Current tax for the current period is provided at the amount expected to be paid or recovered using the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reversed, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1 Summary of significant accounting policies (continued)

(f) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 Critical accounting judgements and 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.

The area of estimation that has the most significant effect on the amounts recognised in the financial statements relates to the investment impairment. Investments are reviewed annually for impairment by comparison of the cost of the investment with the net assets of the subsidiary undertakings. Where the investment value is not supported by the underlying net assets of the subsidiary undertakings, alternative valuation methodologies are applied to support the carrying value of the investment.

3 Auditor's remuneration

Auditor's remuneration in respect of the Company is set out below:

	2018	2017
	£'000	£'000
Audit services		
Audit of parent company and consolidated financial statements	**50**	90
Audit of subsidiary company financial statements	**35**	-
Other services		
Fees payable to the Company's auditor for audit-related assurance services	**10**	-
Other non-audit services	**28**	-

4 Number of employees, including Directors

The average number of persons (including Executive Directors) employed by the Company was Nil (2017: Nil).

5 Key management compensation

Key management comprises the Board of Directors of the Company who have managerial responsibility for Cadent Gas Limited. Details of key management personnel compensation are provided in note 7 to the consolidated financial statements.

6 Investments

	Shares in Subsidiary Undertakings £m	Other investments £m	Total £m
Cost			
At 1 April 2017 & 31 March 2018	7,747	-	7,747
Provision			
At 1 April 2017 & at 31 March 2018	-	-	-
Net book value			
At 31 March 2018	**7,747**	**-**	**7,747**
At 31 March 2017	7,747	-	7,747

Name of subsidiary	% Holding	Principal activity	Country of incorporation
Quadgas Finance Plc	100	Provision of long term finance	England and Wales
Cadent Gas Limited	100	Gas Distribution	England and Wales
Cadent Services Limited	100	Provision of services (including property management)	England and Wales
Cadent Finance Plc	100 (indirect)	Provision of long term finance	England and Wales

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

7 Debtors

	2018 £m	2017 £m
Amounts falling due within one year:		
Trade debtors	**-**	-
Amounts owed by subsidiary undertakings	**40**	25
Other debtors	**5**	5
Prepayments and accrued income	**1**	-
	46	30

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable upon demand.

8 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

	Assets	**2018 Liabilities**	**Total**
	£m	**£m**	**£m**
Amounts falling due within one year	**-**	**-**	**-**
Amounts falling due after more than one year	**-**	**(3)**	**(3)**
	-	**(3)**	**(3)**

	Assets	2017 Liabilities	Total
	£m	£m	£m
Amounts falling due within one year	-	-	-
Amounts falling due after more than one year	-	-	-
	-	-	-

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

	2018	2017
	£m	£m
Interest rate swaps	-	-
Cross-currency interest rate swaps	38	-
Foreign exchange forward currency	-	-
Forward rate agreements	-	-
Inflation linked swaps	-	-
	38	-

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

9 Creditors: amounts falling due within one year

	2018	2017
	£m	£m
Amounts owed to subsidiary undertakings	**1**	-
Amounts owed to immediate parent company	**4**	-
	5	-

10 Creditors: amounts falling due after more than one year

	2018	2017
	£m	£m
Amounts owed to immediate parent company	**902**	1,079
Amounts owed to subsidiary undertakings	**328**	-
	1,230	1,079

Amounts due to immediate parent undertakings are unsecured, at an arms length interest rate of 6.8% (2017: 6.8%) and repayable on 30/04/2042.

Amounts owed to subsidiary undertakings reflect external debt raised by Quadgas Finance Plc and passed on to Quadgas MidCo Limited. The amounts are usually passed on to Quadgas MidCo Limited on identical terms to the amount raised in Quadgas Finance Plc. The amounts are unsecured with interest payments to 2027.

11 Borrowings

	2018	2017
	£m	£m
Amounts falling due within one year		
Bank loans	**2**	-
Other loans	**-**	-
	2	-
Amounts falling due after more than one year		
Bank loans	**1,527**	1,282
Bonds	**-**	498
	1,527	1,780

	2018	2017
	£m	£m
Total borrowings are repayable as follows:		
Less than 1 year	**2**	-
In 1-2 years	**641**	-
In 2-3 years	**-**	641
In 3-4 years	**218**	-
In 4-5 years	**-**	641
More than 5 years	**668**	498
	1,529	1,780

The notional amount of borrowings outstanding as at 31 March 2018 was £1,516m (2017: £1,794m), £1,533m (2017: £1,794m), including accretion.

12 Borrowings (continued)

The Company's borrowings comprise fixed rate, floating rate and indexed linked debt which has been issued out of the Company. The table below summarises the debt, including their fair values.

Summary of Borrowings	31-Mar-2018					
Currency	**Type**	**Notional £m**	**Rate**	**Maturity Date**	**Book Value £m**	**Fair Value £m**
Fixed Rate						
GBP	Unlisted	125	Fixed	31/03/2037	125	130
		125			**125**	**130**
Index Linked						
GBP	Unlisted	314	RPI +	31/03/2037	312	312
GBP	Unlisted	153	RPI +	31/03/2037	156	146
		467			**468**	**458**
Floating Rate						
GBP	Unlisted	646	LIBOR +	31/03/2020	641	651
GBP	Unlisted	218	LIBOR +	31/03/2022	218	223
GBP	Unlisted	77	LIBOR +	31/03/2037	77	77
		941			**936**	**951**
TOTAL		**1,533**			**1,529**	**1,539**

The majority of debt was issued on 31 March 2017 and guaranteed by Quadgas Pledgeco Limited, its parent company. This included unlisted external debt consisting of fixed debt with a notional value of £125m (2017: £125m), floating debt of £941 (2017: £1,369m) and index linked debt of £314 (2017: £300m). In addition, on 25 September 2017, Quadgas MidCo Limited placed £150m of private loan notes. The floating rate debt amounting to £428m was repaid in the year from the above loan note and from other intercompany funding.

As of 31 March 2018, the fair values of all Quadgas MidCo Limited debt was £1,539m (2017:£1,780m). Where market values were available, the fair value of borrowings (level 1) was £Nil (2017:£Nil). Where market values were not available, the fair value of borrowings (level 2) was £1,539m (2017: £1,780m) calculated by discounting cashflows ot prevailing rates.

None of the Company's borrowings are secured by charges over assets of the Company.

12 Share capital

	Number of shares	£m
At 1 April 2017	4,928,450,000	4,928
New shares issued in the period	177,131,781	177
Reduction in nominal value	-	(5,104)
At 31 March 2018	5,105,581,781	1

On 22 November 2017 the Company issued a further 177,131,781 ordinary shares of £1 for consideration of £177,131,781.

On the 25 January 2018, the Company completed a capital reduction. Prior to the capital reduction, share capital consisted of 5,105,581,781 ordinary shares of £1 that were alloted,called up and fully paid up. The capital reduction resulted in the share capital account being reduced by £5,105,071,223 to £510,558 by reducing the nominal value of the shares from £1 to £0.0001.

13 Contingent liabilities

Guarantees and letters of credit

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

14 Related party transactions

The Company is exempt under FRS 101.8(k) from disclosing transactions with Quadgas HoldCo 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.

Details of key management compensation are provided in note 7 to the consolidated financial statements.

15 Ultimate parent company

The ultimate parent and controlling company is Quadgas Holdings TopCo Limited and the immediate parent company is Quadgas PledgeCo Limited. The largest and smallest group which includes 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, Quadgas HoldCo 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, First Floor Waterloo House, Don Street, St. Helier, Jersey JE1 1AD.