

# **WoDS Transmission HoldCo Limited**

## **Annual Report and Group Financial Statements 2016/17**

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Registered in England and Wales. Company number: 9308464

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## **Glossary**

# Group strategic report

For the year ended 31 March 2017

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## Introduction

This Group strategic report explains the operations of WoDS Transmission HoldCo Limited ("the Company") and that of its sole subsidiary, WoDS Transmission plc ("WoDS"), together ("the Group"), the main trends and factors underlying the development and performance of the Company and its subsidiary undertaking during the year ended 31 March 2017, as well as those matters which are likely to affect its future development and performance.

The ultimate parent company of the Company is WoDS Transmission TopCo Limited ("TopCo"), a company incorporated and registered in Jersey.

The principal activity of the Group, through its operating subsidiary, WoDS, is to provide an electricity transmission service to National Grid Electricity Transmission plc ("NGET") - the electricity transmission system operator for Great Britain. WoDS owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore electricity transmission system owned by NGET.

The Company's principal activity is to act as a holding company and receive dividends (where declared), interest and principal repayments of the loan investment it holds in WoDS and pay dividends (where declared) to TopCo in addition to servicing the Company's other borrowing liabilities due to TopCo. The contractual form of the loan investments in WoDS are exactly mirrored by the other borrowing liabilities owed to TopCo.

## Background

WoDS holds an Offshore Electricity Transmission Licence ("the Licence") granted by The Gas and Electricity Markets Authority ("the Authority") that became effective from 20 August 2015. This Licence, amongst other matters, permits and requires WoDS to maintain and operate the West of Duddon Sands offshore electricity transmission assets for as long as that Licence remains in force.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as WoDS to be certified as complying with the unbundling requirements of the European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). WoDS has been issued a certificate pursuant to Section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. WoDS has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

# Group strategic report continued

For the year ended 31 March 2017

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## The Group's offshore electricity transmission system

WoDS transmits the electrical power of the West of Duddon Sands wind farm from the offshore connection point of WoDS's electrical assets with the electrical assets owned by the windfarm to the onshore connection point of WoDS's assets with the electricity transmission system of NGET. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

The West of Duddon Sands offshore wind farm comprises 108 turbines, with a combined capacity of around 389 megawatts ("MW"), and is located in the East Irish Sea approximately 14 km from the nearest coast on Walney Island, Cumbria. The power that is generated by the wind farm is transported to shore by WoDS and connects into NGET's onshore transmission system at Heysham, Lancashire.

The wind farm turbines are interconnected in "strings" by medium voltage (33kV) submarine cables that act as a power collection and transport system. The medium voltage cables are owned by the windfarm and run to the offshore electricity substations that are owned by WoDS. At the offshore electricity substation, the voltage is "stepped up" to 132kV by electrical transformers and then transported to land by two high voltage submarine cables buried in the sea floor. At landfall, the submarine cables are joined to land cables that run to WoDS's onshore electricity substation at Heysham. At the Heysham substation, the power factor of the electricity is corrected using reactive compensation equipment and the transported power is then connected into NGET's electricity transmission system.

## The Group's long- term business objectives

The Company is a holding Company formed for the purpose of holding an investment in WoDS which itself is a special purpose vehicle formed to hold the Licence. The Group's non-financial objectives are, therefore, consistent with the objectives of the Licence. The Group will achieve these objectives by ensuring its compliance with the Licence; industry codes and legislation and by operating and maintaining its transmission system in accordance with good industry practice.

The Group's financial objective is to provide financial returns to TopCo consistent with, or in excess of, the business plan that supported its tender offer for the West of Duddon Sands offshore transmission system. The Group will achieve this objective by:

- meeting its net cash generating targets by operating the transmission system at availability levels equal to, or higher than, the Licence target;
- adopting and maintaining a financing structure that is, as a minimum, as efficient as that contemplated by the business plan;
- controlling costs and seeking efficiency improvements.

# Group strategic report continued

For the year ended 31 March 2017

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## Future Developments

The Company's sole purpose is to hold an investment in WoDS, generate returns from that investment and reward its shareholder accordingly. WoDS, as the Company's sole subsidiary, is expected to continue to operate its offshore electricity transmission system and comply with the transmission licence which it has been awarded, and generate returns based on these objectives; no changes to these objectives are likely in the future.

## The Group's operating model

The Group's operating model is to outsource all operational and maintenance ("O&M") activities and management. O&M activities are outsourced to a third party, and management services are outsourced to Frontier Power Limited ("FPL") through a Management Services Agreement ("MSA"). In addition, other accounting services, company secretarial services and administrative support are provided to the Company by Infrastructure Managers Limited ("IML"). As part of its general asset management responsibilities FPL fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Group meets its Licence obligations and complies with good industry practice. The Group mitigates the performance risk of its outsourced service providers through contract.

## The Group's approach to managing the business

The Group's general approach to the management and operation of its business is based on ensuring that the right balance is achieved between cost, quality, performance, innovation and financial returns so as to optimise the cost of its services to the end consumer. In doing so the Group:

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Group's assets and operations requires an extraordinary focus on Health Safety and the Environment ("HS&E");
- has the right people working safely to standards using the right processes, technology and systems;
- has implemented a risk management approach that ensures that risks are assessed, managed and reported appropriately;
- has adopted a governance framework that enforces compliance with law, regulations and licence conditions.

# Group strategic report continued

For the year ended 31 March 2017

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## Principal regulatory, industry contracts and industry code matters

The Group is subject to a number of regulatory and contractual obligations arising from and including: the Licence; the Transmission Owner Construction Agreement ("TOCA") with NGET and the System Operator – Transmission Owner Code ("STC"). The Group's operations are also subject to a range of industry-specific legal requirements.

A summary of some of the major features of the Licence, industry contracts and electricity code matters are described below.

### Licence obligations

Under the terms of the Licence, WoDS is required to carry out its licenced activities and have in place governance arrangements that ensure (amongst other obligations) that WoDS does not provide cross-subsidies to, or receive cross-subsidies from any other business of the Licensee or of any affiliate. In addition, the Licence places restrictions on WoDS activities and how it conducts its transmission activities. In carrying out its transmission activities it must do so in a manner that does not confer upon it an unfair commercial advantage, in particular, in relation to any activity that does not relate to the operation of the offshore transmission business.

A failure by the Group to materially comply with the terms of the Licence could ultimately lead to the revocation of the Licence. The Directors take very seriously their obligations to comply with the terms of the licence and has processes, procedures and controls in place to ensure compliance.

### Regulated revenue and incentives

The Licence awarded by the Authority to WoDS determines how much WoDS may charge for the OFTO services that it provides to NGET in any relevant charging year in accordance with a regulatory formula. The charging year is from 1 April to 31 March. The Licence also provides WoDS with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of WoDS transmission system in any given calendar year versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of WoDS's electricity transmission system (as determined by WoDS's Services Capability Specification) in any given calendar year, or part thereof.

Transmission charges are based on the target transmission system availability of 98%, and increase on 1 April following any given calendar year end by reference to the rate of increase in the UK retail price index ("RPI") in the 12-month period through to the previous September. The revenue derived from charges based on this target availability represents the Group's "base revenue". For the avoidance of doubt, transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

As previously noted, the Licence contains mechanisms to incentivise the Group to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The Licence includes incentives to maximise availability on a monthly basis with higher targets, and higher potential penalties or credits, in the winter months, and lower targets, and lower potential penalties or credits, in the summer months. These incentive mechanisms are designed to encourage the Group to proactively manage transmission system availability by focusing maintenance activities, which could lower transmission system availability, into those months with the lowest targets and related penalties or credits.

# Group strategic report continued

For the year ended 31 March 2017

If the achieved transmission system availability is different to the target availability, then there is a mechanism contained within the Licence that could potentially affect the Group's charges and hence its revenue in future periods. The Licence provides for adjustments to "base revenue" where the OFTO's system availability performance is different from the target system availability. If transmission system availability in any given calendar year is in excess of the target availability level, then credits are "earned" and if availability is less than target then penalties accrue. These availability credits and penalties are measured in megawatt hours ("MWhrs"). The Group is then permitted or required under the Licence, as the case may be, to change its prices to convert the availability credits earned or penalties accrued into a financial adjustment to "base revenue". The maximum availability credit which the Group can "earn" and then collect in charges in any one charging year is the financial equivalent of around 5% of base revenue for the immediately preceding charging year, and the maximum availability penalty that can be reflected in charges for any one charging year is the financial equivalent of 10% of base revenue for the immediately preceding charging year. Availability credits and penalties that arise in the first and final period of operations reflect a partial period of operations and the financial impact on charges is apportioned accordingly.

Notional availability penalties and credits as measured in MWhrs are recorded on a monthly basis during the calendar year. If at the end of any calendar year, there is a cumulative net credit this net credit is eligible for conversion as a financial adjustment to charges during the following charging year. The financial conversion of availability credits and penalties is carried out by reference to the "base revenue" for the charging year immediately prior to the charging year that the credits/penalties adjust charges.

In respect of net availability penalties which are outstanding at the end of the calendar year then, in principle, these net availability penalties would be converted as a financial adjustment to base revenue in respect of the following charging year. Net availability penalties can only be converted as an adjustment to base revenue to the extent that such adjustment does not exceed 10% of the base revenue for the previous charging year. Any net availability penalties not converted as adjustment to base revenue are carried forward on a cumulative and notional basis and aggregated with additional availability credits and penalties arising in subsequent years. Net availability penalties that arise in any one calendar year can only be carried forward for a maximum of five charging years.

There are a number of risks that the Group faces that affect the level of transmission system availability and therefore affects potential incentive credits and penalties that otherwise might arise under the incentive arrangements.

The principal factors governing transmission system availability stem include the following:

- 1) the inherent design of the transmission system e.g. system redundancy;
- 2) the management of maintenance activities so that the assets are maintained to good industry practice, thereby avoiding unnecessary equipment failure, and where possible the Group seeks to carry out such maintenance without the need for planned outages whilst having regard to the safe operation of those assets; and
- 3) the management of planned outages of the transmission system having regard to the activities of other interested parties and to bias such outages towards those periods during the period, with the lowest system availability targets and related penalties or credits.

# Group strategic report continued

For the year ended 31 March 2017

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The Group mitigates the risk of system unavailability due to equipment failure through the maintenance regime described above, the holding of strategic spares, and a robust contingency plan to respond to any unplanned system outages.

In certain circumstances, and in respect of certain costs, such as non-domestic rates relating to the Group's onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the Group is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required.

## **Transmission system capability (capacity)**

As described above, the Group is incentivised to provide the maximum transmission system availability as is possible having regard to the safe running of the system. The maximum availability of the system is defined in the Licence and is expressed in megawatt hours ("MWhrs").

There is a risk that the assets do not operate in the manner expected, resulting in unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs. The Group has minimised this risk by carrying out appropriate due diligence on the assets prior to their acquisition, which included a consideration of the design of the transmission system and a physical inspection of the assets.

The Group has provided 99.86% transmission capacity based on the operational maximum capacity of the system, being the Transmission Entry Capacity ("TEC") of 382MW during the performance year ended 31 December 2016 compared with 100% transmission capacity being provided for the part period 25 August 2015 to 31 December 2015. – see "Transmission System Availability" below.

During the performance year ended 31 December 2016, there were some short duration planned outages for routine maintenance activities.

The Group manages the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice.

## **Transmission system quality of supply**

The STC sets out the minimum technical, design, operational and performance criteria that Offshore Transmission Owners must ensure that their transmission system can satisfy. For the Group's transmission system, the most significant requirements are in respect of the reactive power capability, voltage control and the quality of the power (as measured by harmonic performance) deliverable at the connection point of the Group's transmission system with NGET's transmission system. During the period under review, and up to the date of this report, the Group has been fully compliant with the STC requirements in respect of reactive power and voltage control.



# Group strategic report continued

For the year ended 31 March 2017

## Key performance indicators (“KPIs”)

The Group has identified the following KPIs as being instrumental to the management of the transmission business. Such KPIs include financial and non-financial KPIs as follows:

	Definition	Objective
<b>Financial KPIs</b>		
Operating profit plus interest income	Profit before costs of financing and taxation: £13,596k (2015/16: £7,896k)	To increase*.
Cash available for debt service**	Net cash inflows from operating activities plus cash inflows from investing activities**: £17,632k (2015/16: £11,337k)	To increase*.
<b>Non-Financial KPIs</b>		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year to 31 December 2016: 99.86% (31 December 2015: 100%- a part period).	To exceed the Licence target availability 98%.
Ensure that the quality of electricity at the export connection point is compliant with Security and Quality of Supply Standard (SQSS) and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	To be compliant for voltage control, harmonics and reactive power, which has been achieved since the commencement of operations.
HS&E	1) Zero lost time accidents (“LTIs”) for employees and contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under the Marine Management Organisation (“MMO”) Licence; 4) Zero unauthorised access incidents in accordance with Electricity Safety, Quality and Continuity Regulations (“ESQCR”).	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence; 4) Zero unauthorised access incidents in accordance with ESQR.  All of the above objectives have been met since the commencement of operations.

\* After making appropriate adjustments for part years, and where events give rise to unusual patterns of income, expenditure and/or one-off events.

\*\*After adjustment for the initial acquisition cost of the OFTO assets.

# Group strategic report continued

For the year ended 31 March 2017

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## The Group's operational performance

The Group's prime operational objectives are to maximise transmission system availability and to ensure that the quality of electricity at the onshore connection point is compliant with the SQSS and the STC having regard in all respects to the safety of employees, contractors and the general public at large.

In support of these objectives the Group has developed a comprehensive asset management policy and framework that is consistent with good industry practice. The policy and framework are derived by applying a risk assessment model that considers the probability and consequences, of failure to determine overall risk to components within the generic asset classes that comprise the OFTO assets: offshore platform; offshore substation; offshore cable; onshore cables and onshore substation.

During the year, the Group has successfully applied its asset management policy and framework, and has carried out its asset management activities in accordance with the resulting Asset Operating Plan. Maintenance activities have been successfully carried out in accordance with the maintenance plan, and the Group has developed its network outage plan and this has been submitted to, and approved by, NGET.

The Vendors have largely completed the agreed work that they were required to carry out following the Group's acquisition of the West of Duddon Sands offshore electricity transmission assets pursuant to certain agreements with those Vendors. Progress on minor snagging work has been monitored by the Group and signed off by the Group on completion of same with one remaining item currently in progress being the disconnection of redundant metering equipment, with close out expected later this Summer. Additional work was also carried out by DONG Energy West of Duddon Sands (UK) Limited and ScottishPower Renewables (WODS) Limited in their capacity as the Vendors to address certain instances of seabed scour, at their expense. This seabed scour remediation programme was completed during the Autumn of 2016 and seabed surveys have been undertaken following completion of the works. The reports from these surveys are awaited.

# Group strategic report continued

For the year ended 31 March 2017

## Transmission system availability

The performance of the Group's transmission system for the performance year ended 31 December 2016 was as tabulated below:

MW hours	Notes	Performance Year ended 31 December 2016	Performance Year ended 31 December 2015
Maximum system availability (capability – MWhrs) <sup>1</sup>	(a)	3,355,488	1,182,672
Actual system availability (MWhrs) <sup>1</sup>		3,350,790	1,182,672
Actual system availability (%)		99.86%	100%
Regulatory target system availability (%)		98%	98%
<b>Availability credits (MWhrs)</b>			
Net availability credits at 1 April 2016		25,943	-
Net availability credits reflected in charges for 2016/17		(25,943)	-
Net availability credits for the performance year <sup>1</sup>		63,478	25,943
Net availability credits at 31 March 2017	(b)	63,478	25,943

<sup>1</sup> Maximum and actual system availability for the performance year ended 31 December 2015 is for the period 25 August 2015 to 31 December 2015 inclusive.

- a) The maximum system availability of the Group's transmission system as declared to NGET during the performance period.
- b) Net availability credits at 31 March 2017 represent "banked" availability credits through to 31 December 2016 (31 December 2015). Consequently, this excludes any potential credits that have arisen between 1 January 2017 and 31 March 2017 (1 January 2016 and 31 March 2016) as these potential availability credits are not eligible to be "banked" until 31 December 2017 (31 December 2016).

# Group strategic report continued

For the year ended 31 March 2017

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## Quality of supply

The quality of supply constraints agreed with NGET (See “Transmission system quality of supply above”) require the Group to transmit electricity within certain parameters in relation to: voltage control; reactive power; and harmonic distortion. A failure to meet these quality of supply constraints could result in NGET requiring the Group’s transmission system to be disconnected from NGET’s transmission system, resulting in loss of transmission availability and reduced incentive credits or performance penalties. The Group closely monitors compliance with these quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Group to meet these quality of supply obligations.

During the year the Group has met its obligations to transmit electricity compliant with its operational obligations. The Group has continued to comply with these obligations through to the date of this report in relation to voltage control and reactive power.

## Health, safety, and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety, and the environment. Safety is critical both to business performance and to the culture of the Group. The operation of the Group’s assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm, and to safeguard members of the general public.

The Board is pleased to report that, during the period under review there were no health or safety incidents that required reporting under applicable legislation and that contractor “lost days” arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 were zero.

The Group is committed to reducing the environmental impact of its operations to as low as practically possible. The Group will do so by reducing the effect its activities have on the environment by: respecting the environmental status and biodiversity of the area where the Group’s assets are installed; considering whole life environmental costs and benefits in making business decisions; looking for ways to use resources more efficiently through good design, use of sustainable materials, responsibly refurbishing existing assets, and reducing and recycling waste; and continually improving management systems to prevent pollution and to reduce the risk of environmental incidents.

The Board is pleased to report that during year ended 31 March 2017 there were no environmental incidents or matters that required reporting to any relevant competent authority and that it had complied with the Marine licence obligations transferred to it by the Vendors when the transmission assets were acquired by the Group.

# Group strategic report continued

For the year ended 31 March 2017

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## Stakeholder relationships

The potentially hazardous nature of the Group's operations and the environmentally sensitive nature of the locations where its assets are located require the Group to engage and communicate with a wide audience of stakeholders and to establish good relationships with them. As well as industry participants and local and national government bodies this audience includes: Port Authorities; the emergency services; the maritime community; environmental agencies and organisations; landowners and the general public. Accordingly, the Group has defined and implemented a stakeholder engagement and communications plan. The Directors consider that stakeholder relationships are satisfactory.

## Principal risks and uncertainties

The principal risks and uncertainties faced by the Group have been discussed and referenced in this Group strategic report, alongside a discussion of the operational and financial performance of the Group.

## Other

At the date of this report, one Director is female and all other Directors of the Company are male.

# Group strategic report continued

For the year ended 31 March 2017

## The Group's financial performance

### Summary

The financial performance of the Group's operations for the year ended 31 March 2017, and its financial position as at 31 March 2017, was satisfactory and is summarised below. In this report, all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k. The Group reports its results in accordance with International Financial Reporting Standards ("IFRS"); the currency used in reporting these financial statements is GBP.

	2017 £k	2016 £k
Operating profit	13,591	7,865
Other finance income	5	31
Operating profit plus other finance income	13,596	7,896
Finance costs	(12,390)	(7,758)
Profit before taxation	1,206	138
Taxation	(392)	(103)
Profit after taxation	814	35
Net cash inflow from operating activities and investing activities <sup>1</sup>	17,632	11,337
Cash inflows to finance acquisition of the Transmission owner asset and initial working capital requirements	-	298,315
Cash outflows relating to acquisition of Transmission owner asset	-	(277,033)
Net cash flows used in financing activities <sup>2</sup>	(22,828)	(10,508)

<sup>1</sup> Excluding acquisition of Transmission owner asset.

<sup>2</sup> Excluding all proceeds from funding activities.

### Operating and finance income

Operating and finance income is derived from the Group's activities as a provider of transmission services to its principal customer - NGET.

Finance income for the year amounted to £12,291k (2016: £7,362k), and represents the finance income that would have been generated from an efficient standalone "transmission owner". The increase in finance income for the year reflects the first full year of operations. Finance income for the year ended 31 March 2016 was generated over the period of operations of the Group from the date that the Transmission owner asset was acquired on 25 August 2015 through to 31 March 2016. The finance income has been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 32.

# Group strategic report continued

For the year ended 31 March 2017

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Operating income for the year amounted to £4,672k (2016: £2,725k), and represents the operating income that would be generated by an efficient provider of operating services to NGET, our principal customer. Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner. The increase in operating income for the year reflects the first full year of operations. Operating income for the year ended 31 March 2016 was generated over the period of operations of the Group from the date that the Transmission owner asset was acquired on 25 August 2015 through to 31 March 2016. Operating income has been recorded in accordance with the principal accounting policies adopted by the Group.

## Operating costs

Operating costs for the year amounted to £3,372k (2016: £2,222k). The most significant cost included within these costs relates to the operations, maintenance and management of the OFTO and amounted to £3,173k (2016: £2,057k). This cost covers operations and maintenance fees, insurance fees, management service fees, and non-domestic rates associated with the transmission network. The increase in operating costs for the year as compared with 2016, reflects a full year of operations.

## Operating profit

Operating profit being the residual of operating income, finance income and operating costs amounted to £13,591k (2016: £7,865k). The increase in operating profit for the year as compared with 2016, reflects a full year of operations.

## Other finance income

Other finance income of £5k (2016: £31k) relates solely to interest earned on bank deposits.

## Finance costs

Finance costs amounted to £12,390k (2016: £7,758k). The vast majority of the finance costs relates to the interest cost of servicing the senior debt bondholders £8,435k (2016: £5,207k) and holders of the other borrowing £3,607k (2016: £2,302k). Interest expense and other financial costs principally arise from the cost of debt used to finance the initial acquisition of the Transmission owner asset – described below under “Cash flows”. The increase in finance costs for the year as compared with 2016, reflects a full year of operations.

## Taxation

The net taxation charge on profit before taxation for the year is £392k (2016: £103k) and relates solely to deferred taxation. There was no current taxation arising in the year (2016: £nil) as the Group has no taxable profit (2016: no taxable profit). The taxation charge for the year has been computed at 20% and adjusted to 17% following a remeasurement of deferred taxation balances at 31 March 2017 (2016: 18%).

A taxation credit of £1,052k (2016: charge of £469k) has been recognised in other comprehensive income relating to pre-taxation losses (2016: gains) arising on marking the Group’s cash flow hedges to market at the balance sheet date. The taxation credit relates solely to deferred taxation (2016: charge). This taxation credit has been computed at 20% (2016: 20%) and adjusted to 17% (2016: 18%) following a remeasurement of deferred taxation balances at 31 March 2017.

# Group strategic report continued

For the year ended 31 March 2017

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## Profit after taxation

Profit for the year after taxation amounted to £814k (2016: £35k). The increase in profit after taxation for the year as compared with 2016, reflects a full year of operations.

## Cash flows

Net cash flows from operations amounted to £17,627k (2016: £11,306k) primarily reflecting the amounts invoiced and received from NGET in relation to the provision of transmission services for the year ended 31 March 2017 (2016: arose over the period of operations from 25 August 2015 through to 31 March 2016) net of cash outflows relating to operating activities incurred during the year.

Net cash flows generated from investing activities amounted to £5k (2016: net outflow of £277,002k). The 2016 net cash outflows included £277,033k associated with the acquisition of the Transmission owner asset.

Net cash inflows from financing activities amounted to £nil (2016: £287,807k) which comprised cash inflows of: £nil (2016: £251,377k) from the senior bondholders; £nil (2016: £46,469k) from issuers of the other borrowing; and £nil (2016: £469k) by way of equity share capital. The cash inflows arising during the year ended 31 March 2016 were used to finance the acquisition of the Transmission owner asset and to finance the initial working capital requirements of the Group.

Cash available for debt servicing defined as net cash flows from operations plus net cash flows generated from investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) being interest income received of £5k (2016: £31k) amounted to £17,632k (2016: £11,337k). Payments to service the senior bondholders during the year amounted to £17,512k (2016: £7,395k) and payments to service the other borrowing during the year amounted to £5,316k (2016: £3,113k). Cash available for debt servicing and payments made to debt holders for the year ended 31 March 2017 are higher than for the year ended 31 March 2016, as the cash flows for the year ended 31 March 2017 relate to a 12-month period of operations whereas the cash flows arising during the year ended 31 March 2016 relate to the period of operation from 25 August 2015 to 31 March 2016.

No income taxation or dividends were paid in the year (2016: £nil).



# Group strategic report continued

For the year ended 31 March 2017

## Balance sheet and consideration of financial management

### Balance sheet

The Group's balance sheet at 31 March 2017 is summarised as follows:

	Assets	Liabilities	Net assets/ (liabilities)
	£'000	£'000	£'000
Non-current Transmission owner asset	267,039	-	267,039
Non-current deferred taxation	88	-	88
Current assets and liabilities	6,218	(1,159)	5,059
Non-current decommissioning provision	-	(2,698)	(2,698)
Total before net debt	273,345	(3,857)	269,488
Net debt	16,915	(287,934)	(271,019)
Totals at 31 March 2017	290,260	(291,791)	(1,531)
Totals at 31 March 2016	302,488	(299,847)	2,641

\* Excluding those current assets and liabilities included within net debt.

### Transmission owner asset and decommissioning provision

The Transmission owner asset is a financial asset and is carried at the cost directly attributable to the acquisition of the WoDS offshore transmission system at the date of acquisition, plus finance income and adjusted for any amounts that have been invoiced to NGET which are deemed to be attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 32.

The Transmission owner asset includes an estimate of the costs of decommissioning the Transmission owner asset at the end of its useful economic life in 2035. At 31 March 2017, the carrying value of the Transmission owner asset was £272,723k (2016: £277,267k) and the decommissioning provision amounted to £2,698k (2016: £2,609k).

### Non-current deferred taxation

The Group has recognised a deferred taxation asset of £88k (2016: liability of £572k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the year.

In the opinion of the Directors, based on their enquiries and the forecasts available to them, it is probable that the deferred taxation asset recognised in respect of these temporary differences will be recoverable against future taxable profits that are expected to arise in the future from the Group's operations.

# Group strategic report continued

For the year ended 31 March 2017

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## Net debt

Net debt is defined as all borrowings plus any interest accruals, the carrying value of all financial derivative contracts that are marked to market (UK Retail Price Index (RPI) related swaps) less cash and deposits.

There were no debt or equity raising activities during the year ended 31 March 2017. During the year ended 31 March 2016 the Group raised £297,846k from the issuance of £251,377k 3.446% fixed rate secured Bonds due August 2034 ("senior debt") that are listed on the Irish Stock Exchange and other debt that is unsecured ("other borrowing") of £46,469k, which together with equity contributions amounting to £469k, was used to finance the acquisition of the Transmission owner asset and the initial working capital requirements of the Group.

At 31 March 2017 net debt stood at £271,019k (2016: £270,312k) and included £3,432k of liabilities (2016: £2,606k assets) relating to the carrying value of financial derivatives that were marked to market at that date.

A discussion of the capital structure and the use of financial derivatives is provided in the following pages.

## Current funding structure

The Group is funded by a combination of senior debt, other borrowing, and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator, and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000. The senior debt is supported by the European Investment Bank ("EIB") who have issued a Project Bonds Credit Enhancement ("PBCE") letter of credit in support of the senior debt. The PBCE letter of credit allows the Group to make certain payments in respect of the senior debt and hedging agreements in certain specified circumstances.

All senior debt is serviced on a six-monthly basis and is expected to amortise over the life of the project through to August 2034. The total principal carrying value of the senior debt outstanding at 31 March 2017 net of unamortised issue costs amounted to £238,500k (2016: £247,219k).

The senior debt carries a fixed rate coupon of 3.446% and requires servicing semi-annually on 30 June and 31 December in each year in accordance with the conditions specified in the Bond Trust Deed dated 20 August 2015 and the Prospectus issued in respect of the senior debt.

The other borrowing is unsecured and is held by the Company's and the Group's immediate and ultimate parent undertaking, TopCo. The other borrowing was issued by TopCo on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2017, the total principal carrying value of the other borrowing outstanding amounted to £43,067k (2016: £44,731k).

Called-up share capital and share premium at 31 March 2017 amounted to £469k (2016: £469k).

# Group strategic report continued

For the year ended 31 March 2017

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## Going concern, liquidity, and treasury management

The Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Group and the Company are going concerns, and have adequate resources in the foreseeable future to meet their on-going obligations, including the servicing of debt holders, as those obligations fall due.

The Directors note that total Group shareholders' equity at 31 March 2017 is negative (2016: positive) but this position arises as a consequence of the application of certain technical accounting rules associated with hedge accounting which requires the mark-to-market of derivative financial instruments which has resulted in the recognition of a negative cash flow reserve. The existence of a negative cash flow reserve implies derivative net cash outflows will arise in future periods (based on the conditions prevailing at the balance sheet date). However, when these cash flows are considered together with the expected cash flows to be derived from the underlying position being hedged, then the net cash flow is as expected by the Board and is factored into the financial plans of the Group. Further information regarding the Group's "Hedging arrangements" is discussed later in this Group strategic report. Consequently, they have formed the opinion that it is reasonable to adopt the going concern basis in preparing the financial statements of the Group and the Company. The other evidence considered to arrive at these conclusions is based on a number of factors which are summarised below.

The expected cash in-flows that are likely to accrue to the Group over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under "Regulated revenue and incentives". In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is very low.

The Group enjoys certain protections afforded under the Licence granted to WoDS. In particular, provided that WoDS can demonstrate that it has applied good industry practice in the management of the Company and its assets, then in the event that an unforeseen incident results in WoDS suffering a loss in excess of £1,000k (in so far as it relates to its activities under the Licence) it can apply to the Authority for an income adjusting event. In these circumstances WoDS can recover any loss it has suffered.

In the event that the Group suffers a loss of transmission system availability due to an exceptional event, then the Group can apply to the Authority to have the loss of availability ignored for the purposes of determining the Group's reported system incentive performance. In the event of a successful claim, then the Group's performance credits determined in accordance with the incentive arrangements would be unaffected by any outage that was caused by an exceptional event.

The Group has also put in place prudent insurance arrangements in relation to property damage and third-party liability, such that it can make claims in the event that an insurable event takes place and thereby continue in business.

The licence protections together with the insurance arrangements put in place reduce uncertainties and address certain risks regarding potential loss of income and/or loss/destruction of assets that arise from remote and/or catastrophic events.

# Group strategic report continued

For the year ended 31 March 2017

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The Group has also entered into certain hedging arrangements, through the use of RPI swaps, which are explained in more detail below under “Hedging arrangements” below, but these arrangements have the effect of converting a high proportion of the variable cash flows which are subject to RPI arising from the Group’s transmission services activities into a known and rising series of cash flows over the life of the project. This reduces the uncertainty as to the predictability of the likely cash inflows that are expected to occur over the life of the project.

The highly predictable cash inflows (after RPI swaps), as described above, are then available to service the contractual net cash outflows associated with the senior debt that can be forecast with certainty, as the interest and principal repayments are known at the outset of the project.

Other contractual arrangements with third parties have been entered into that have a pricing mechanism that features linkages to RPI or other indices, which has the effect of reducing the uncertainty as to the quantum and frequency of cash outflows arising. As a consequence, it is the opinion of the Directors that the costs and related cash flows associated with these arrangements are more likely than not to vary in a similar manner with the principal cash inflows generated by the Group in relation to its transmission services that are not subject to the RPI swaps arrangements.

At 31 March 2017, the Group had access to a working capital reserve of £5,000k (2016: £5,000k) that it could access in the event that it is required to pay for any insurance deductible or to satisfy any reactive maintenance expenditure attributable to outages or repairs that could not be met in the ordinary course of business. The use of the working capital reserve is restricted to the Group’s principal subsidiary, WoDS. In addition, in the event that WoDS had insufficient funds to meet the contractual senior debt service and hedging payments, WoDS can draw down under the PBCE letter of credit, with a view to meeting these obligations. The maximum amount that can be accessed under this facility amounts to 15% of WoDS and hence the Group’s outstanding nominal principal amount of the senior debt outstanding.

Finally, under the terms of the other borrowing agreement, absent certain matters of default, the loan notes do not have to be redeemed until 2035. Therefore, there is no requirement for the Group to service this debt in cash earlier than this date, although it is expected that it will do so.

## Credit rating

It is a condition of the regulatory ring-fence around WoDS that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. WoDS has maintained an investment grade credit rating in respect of its senior debt consistent with its obligations under the licence.

During the rating agency’s assessment of WoDS’s credit rating, amongst other matters, the rating agency will and has considered: the cash flows expected to arise over the term of the project; the regulatory environment within which WoDS operates; the nature of the principal contractual arrangements in place; the insurance arrangements; and the credit risk of all material counterparties in arriving at their assessment of the appropriate credit rating.

It is the Directors assessment, that having regards to the principal risks and uncertainties regarding cash flows, the creditworthiness of counterparties; the regulatory environment, the insurance arrangements and other matters that are discussed in this Group strategic report, that there are reasonable grounds to believe that the rating agency will continue to confirm WoDS’s, and therefore the Group’s, senior debt investment grade status in the foreseeable future based on the information available to the Directors at the date of this annual report.

# Group strategic report continued

For the year ended 31 March 2017

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## On-going funding requirements

The Group does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding. Loan servicing and other obligations of the Group are expected to be met by the cash inflows generated by the Group. Consequently, based on the current capacity of the existing transmission system operated by the Group there is minimal refinancing risk.

To the extent that a requirement for significant expenditure is required in the future as a result of additional capital works being required to provide incremental capacity, there is a mechanism in WoDS's transmission licence to allow WoDS to increase its charges in respect of such expenditure. The Directors expect that additional funding would be made available based on the increased cash inflows that would be expected to arise from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

## Surplus funds

The Group is restricted under the lending agreements as to the nature of the investments it may hold. Typically, such investments are held in term deposits with UK banks which have a rating for its long-term unsecured and non-credit enhanced debt obligations of A- or higher by S&P or Fitch or A3 or higher by Moody's or an equivalent long-term rating from another Rating Agency.

At 31 March 2017, the Group had £16,915k (2016: £22,111k) of cash balances of which £12,758k (2016: £15,018k) were held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. The remaining cash and cash equivalents are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

Interest that the Group has earned on surplus funds is insignificant in the context of the other cash flows generated by the Group.

# Group strategic report continued

For the year ended 31 March 2017

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## Hedging arrangements

### General

It is the policy of the Board that the Group will only enter into derivative financial instruments for the purpose of hedging an economic risk. No derivative financial instruments will be entered into unless there is an underlying economic position to be hedged. No speculative positions are entered into.

### RPI swaps

The Group has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 75%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows with the final payment date expected on 24 August 2034. The period through to 24 August 2034 closely matches the remaining period over which the Group enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the vast majority of cash flows from the project are expected to be generated. As previously described (see “Regulated revenue and incentives”), under the terms of the Licence, regulatory and other contractual agreements, the Group is permitted to charge its principal customer, NGET, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the increase in RPI over the previous 12-month period measured from September to September.

The use of derivative arrangements (“RPI swaps”) has the effect of exchanging the vast majority of variable cash inflows derived from the Group’s transmission services (impacted by changes in actual RPI) in exchange for a known and predetermined stream of rising cash flows over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Group's risk management objective and strategy for undertaking the hedge. The vast majority of the Group’s cash outflows relate to borrowings that carry a fixed so that both the resultant principal repayments and coupon payments are predetermined. The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the Group can meet its obligations under the terms of the Group’s borrowing arrangements and therefore reduce the risk of default. The Directors believe that RPI swaps have a highly effective hedging relationship with the forecast cash inflows that are considered to be highly probable, and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

The carrying value of the RPI swaps liabilities at 31 March 2017 was £3,432k (2016: assets of £2,606k). Further information relating to these derivative financial instruments is shown in note 11 to the financial statements.

# Group strategic report continued

For the year ended 31 March 2017

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## Lending covenants and other restrictions

The Group is subject to certain covenants and conditions under lending agreements with the senior debt holders. The Group entered into the lending agreements to allow it to fund the acquisition of the Transmission owner asset. Under these lending agreements, a Security Trustee and Bond Trustee have been appointed to represent the interests of the senior debt holders and to exercise certain rights under the lending documents. In addition, a Technical Adviser and an Insurance Adviser have also been appointed under the terms of the lending agreements. The covenants and conditions of the lending agreements include (but are not limited to) the following:

- 1) the Group is required to operate on the basis of forecasts included within a computer model prepared for the purpose of monitoring the performance of the project and to ensure compliance with certain financial ratios and certain covenants that the Group has made under the lending agreements. The forecast is refreshed on an annual basis or on a more frequent basis under certain specified conditions;
- 2) the Group is required to produce and publish a report for senior debt investors semi-annually, describing the performance of the project to date, which should provide a business and regulatory update and set out the Group's compliance with certain lending ratios required under the lending agreements. In addition, the Group should publish semi-annual management accounts and yearly audited financial statements;
- 3) the lending agreements specify the bank accounts that the Group is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose;
- 4) the Group is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover and loan life cover;
- 5) the Group is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically, this results in the Group investing in term deposits with maturities not exceeding six months;
- 6) the Group is required to maintain adequate insurances at all times;
- 7) the Group is required to meet all the conditions contained within the lending agreements before any servicing of the other borrowing debt holders can take place or any distributions can be made to shareholders.

If the Group materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, then the Group is in default of the lending agreements.

In these circumstances, the amounts due under the lending agreements are immediately due and payable or are repayable on demand.

Since entering into the lending agreements, the Group has materially complied with all of the lending covenants and conditions and has continued to do so through to the date of this report.

# Group strategic report continued

For the year ended 31 March 2017

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## Accounting policies

The financial statements present the results of the Group using the accounting policies outlined in the financial statements and are in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. IFRS permits certain choices and the following material choices have been made as follows:

### Presentation of financial statements

The Group uses the nature of expense method for the presentation of its income statement and presents its balance sheet showing net assets and total equity.

In the income statement, the Group presents a sub-total of operating profit, being the total of operating income, finance income and operating costs. Finance income represents the income derived from the operation of the Group's Transmission owner asset and is included within operating profit to reflect the fact that this is one of the principal revenue generating activities of the Group, and relates to the Group's principal operating activity as a provider of electricity transmission availability services.

### Financial Instruments

The Group has elected to apply hedge accounting to its standalone derivative financial instruments.

### Critical accounting policies

The application of accounting principles requires the Directors of the Company to make estimates, judgements, and assumptions that are likely to affect the reported amounts of assets, liabilities, revenue, and expenses, and the disclosure of contingent assets and liabilities in the financial statements. Better information, or the impact of an actual outcome, may give rise to a change as compared with any estimates used, and consequently the actual results may differ significantly from those estimates. The impact of revised estimates, or the impact of actual outcomes, will be reflected in the period when the better information or actual outcome is known.

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 32.

### Approved on behalf of the Board



M Edwards

Director

26 July 2017



# Directors' report

For the year ended 31 March 2017

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In accordance with the requirements of the Companies Act 2006 the following sections describe the matters that are required for inclusion in the Directors' report and were approved by the Board. Further details of matters required to be included in the Directors' report are incorporated by reference into this report, as detailed below.

## Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Matthew Edwards<sup>1</sup>

Celine Maronne

Adrian Peacock

Joe Philipsz<sup>2</sup>

Javier Falero<sup>3</sup>

Alistair Ray<sup>4</sup>

<sup>1</sup> Appointed 23<sup>rd</sup> February 2017

<sup>2</sup> Appointed 27<sup>th</sup> October 2016

<sup>3</sup> Resigned 31<sup>st</sup> August 2016

<sup>4</sup> Resigned 27<sup>th</sup> October 2016

## Principal activities and business review

A full description of the Group's principal activities, business, and principal risks, and uncertainties is contained in the Group strategic report on pages 2 to 23, which is incorporated by reference into this report.

## Material interests in shares

WoDS Transmission HoldCo Limited ("HoldCo") is a wholly owned subsidiary undertaking of WoDS Transmission TopCo Limited ("TopCo" - incorporated and registered in Jersey) its immediate parent undertaking and the ultimate parent undertaking of the WoDS Transmission TopCo Limited group of companies. HoldCo holds 100% of the ordinary share capital of WoDS Transmission plc.

There were no share issues during the year ended 31 March 2017. During the year ended 31 March 2016, the Company issued 99,999 of £1 ordinary shares for consideration of £469k to TopCo, its immediate parent undertaking.

## Returns to parent undertaking

During the year ended 31 March 2017 the Company repaid £1,822k (2016: £1,738k) of principal and paid £3,494k (2016: £1,375k) of interest to TopCo in relation to the unsecured 8.31% Loan Notes 2035 that were issued to HoldCo during the year ended 31 March 2016. The principal outstanding on these unsecured loans amounted to £43,067k at 31 March 2017 (2016: £44,731k).

No dividends were paid during the year (2016: £nil) and the Directors are not proposing a final dividend (2016: £nil).

# Directors' report continued

For the year ended 31 March 2017

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## Greenhouse gas emissions

The operation of the Group's facilities requires the consumption of electricity. The Directors have calculated that approximately 286 tonnes of CO<sub>2</sub> (equivalent) have been emitted during the year (2016: 113 tonnes), this calculation being based upon an appropriate factor converting units of electricity consumed into tonnes of CO<sub>2</sub> (equivalent).

## Donations and research and development

No charitable or political donations were made during the year (2016: £nil) and expenditure on research and development activities was £nil (2016: £nil).

## Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on page 21 of the Group strategic report

## Going concern

Having made enquiries, the Directors consider that the Company and its subsidiaries have adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company. More details of the Group's funding and liquidity position are provided in the Group strategic report under the headings "Current funding structure" and "Going concern, liquidity and treasury management".

## The Group's strategy, long-term business objectives and operating model

The Group's strategy, long-term business objectives and operating model are set out in the Group strategic report and includes an explanation of how the Group will generate value over the longer term.

## Future developments

Details of future developments are contained in the Group strategic report.

## Employee involvement

The Group does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Group's Operating Model" in the Group strategic report on page 4.

## Directors' remuneration report

The Directors receive no emoluments from the Group.

## Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware, and each Director has taken all reasonable steps to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

## Approved on behalf of the Board



M Edwards

Director

26 July 2017

WoDS Transmission HoldCo Limited  
Cannon Place  
78 Cannon Street  
London, EC4N 6AF.

# Corporate governance statement

The Company does not have a premium listing of equity shares, and therefore is not subject to the UK Corporate Governance code.

Appointments to the board of the Company, and all companies within the WoDS Transmission group of companies comprising: WoDS Transmission TopCo Limited ("TopCo" - being the ultimate parent undertaking of the WoDS group of companies); the Company; and WoDS Transmission plc ("WoDS" - the sole subsidiary undertaking of the Company), is governed by a shareholders' agreement ("the Agreement") between the two shareholders of TopCo that jointly control the WoDS group of companies including the Company through a common class of ordinary shares held in TopCo. The investors that each hold 50% of the ordinary share capital of TopCo at 31 March 2017 are 3i Infrastructure plc and PPDI AssetCo Limited (which is ultimately wholly-owned by PPP Equity PIP LP, a fund managed by Dalmore Capital Limited). The Agreement requires that all boards within the WoDS group of companies comprise four directors, with two directors appointed by each shareholder. Consequent upon these arrangements between the shareholders in TopCo none of the companies within the WoDS group of companies including the Company, has a nomination committee and the performance of any of the boards within the WoDS group of companies is not evaluated.

The Agreement ensures that boards are balanced, with no one shareholder having majority representation, and allows the each of the companies within the WoDS group of companies to draw on the respective financial and operational expertise of each of its shareholders. Accordingly, the Directors have the relevant expertise and experience, drawn from their involvement in a wide range of infrastructure companies, to define and to develop the strategy of the WoDS group of companies, in particular, the strategy of WoDS, which is the only company within the WoDS group of companies that operates an offshore electricity transmission system, with the overall financial objective of generating value over the longer term. The Directors regularly review the effectiveness of the risk management and internal control framework within the WoDS group of companies and are satisfied that they are effective.

None of the Directors has declared a conflict of interest, as would be required by Section 175 of the Companies Act 2006, and the Company's Articles of Association.

Appointments to the board are made in accordance with the Agreement which does not include a policy on the diversity of board members.

## **Board meetings**

The Company is governed by a Board of four Directors, none of whom are independent. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board and are convened as required.

Details of the Directors serving throughout the year and subsequently is shown in the Directors' report which commences on page 24.

# Corporate governance statement continued

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## Audit committee

The WoDS group of companies does not have an internal audit function. The Directors have concluded that the cost of such a function would be disproportionate to the benefits derived from such a function. TopCo has established an audit committee. The purpose of the audit committee is to assist the board of TopCo and that of the Company in the effective discharge of their responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency. In so doing, the audit committee acts independently of the management of TopCo and its subsidiary undertakings, and seeks to safeguard the interests of its shareholders by:

- monitoring the integrity of financial and financial regulatory reports issued by TopCo all of its subsidiaries including the Company, with the objective of ensuring that these reports present a fair, clear, and balanced assessment of the position and prospects of the reporting entity;
- reviewing the economy, efficiency and effectiveness of the operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures for all companies within the WoDS group of companies;
- considering any significant issues and the extent to which they have been disclosed in the relevant annual report and financial statements of all companies within the WoDS group of companies, including a consideration of the critical accounting policies adopted by the Company (a discussion of which is included on pages 36 to 40).
- reviewing and approving the internal control and risk management policies applicable to the WoDS group of companies;
- maintaining an appropriate relationship with the external auditors; and
- assessing the objectivity and independence of the external auditor by considering: the nature and extent of non-audit services; a consideration of the effectiveness of the audit process including a recommendation to the Boards of the Company and that of WoDS as to the reappointment of the auditor to those companies.

A representative of the auditors is normally invited to attend meetings of the audit committee; the auditors also have unrestricted access to the audit committee.

The audit committee is satisfied as to the auditors' objectivity and independence following enquiry and discussion with the auditor and with management.

## Approved on behalf of the Board



M Edwards

Director

26 July 2017

WoDS Transmission HoldCo Limited

# Statement of Directors' responsibilities

For the year ended 31 March 2017

The Directors are responsible for preparing the Group strategic report, the Directors' report, and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared these financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 the Company, and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively;
- 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 Board of Directors is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, that disclose with reasonable accuracy at any time the financial position of the Company and the Group, and which allow them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Section 418 of the Companies Act 2006, Directors' report shall include a statement, in the case of each Director in office at the date the Directors' report is approved, that:

- (a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Directors' responsibility statement

Each of the Directors of the Company confirms that, to the best of his knowledge:

- the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy together with a description of the principal risks and uncertainties it face;
- the financial statements which have been prepared in accordance with International Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

## Approved on behalf of the Board



M Edwards

Director

26 July 2017

# Independent auditors' report to the members of WoDS Transmission HoldCo Limited continued

For the year ended 31 March 2017

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## Report on the financial statements

### Our opinion

In our opinion:

- WoDS Transmission HoldCo Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2017 and of the group's profit and the group's and the company's cash flows 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 company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report and Group Financial Statements 2016/17 (the "Annual Report"), comprise:

- the Company and Consolidated balance sheets as at 31 March 2017;
- the Consolidated income statement and statement of comprehensive income for the year then ended;
- the Company and Consolidated statements of changes in equity for the year then ended;
- the Consolidated cash flow statements for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

# **Independent auditors' report to the members of WoDS Transmission HoldCo Limited continued**

For the year ended 31 March 2017

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## **Other matters on which we are required to report by exception**

### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

# Independent auditors' report to the members of WoDS Transmission HoldCo Limited continued

For the year ended 31 March 2017

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In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Mark Hoskyns Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
26 July 2017



## A. Basis of consolidation and preparation of consolidated financial statements under IFRS

These consolidated financial statements include the financial statements of the Company and its subsidiary undertaking made up to 31 March 2017 and have been prepared on a going concern basis and in accordance with EU endorsed International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRS IC) and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. They are prepared on the basis of all IFRS accounting standards that have been endorsed by the EU and any related interpretations issued by the IFRS IC that are mandatory for the year ended 31 March 2017. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The preparation of financial statements requires 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

## B. Transmission availability arrangements

The Group owns and operates an electricity transmission network which electrically connects an off-shore wind farm generator to the onshore electricity transmission operator (NGET). The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available ("transmission availability charges") to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12 an interpretation issued by the IFRS Interpretations Committee. Consequently, the accounting for charges made by the Group for transmission network availability is consistent with that interpretation.

The major characteristics that result in the application of IFRIC 12 include the following:

- the regulatory arrangements determine the price charged by the Group for its transmission availability services; and
- the regulator has granted a licence to operate the transmission system with an embedded revenue incentive mechanism for an exclusive period of around 20 years and retains the rights to grant a transmission licence to a future operator.

A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12. The Transmission owner asset includes: the cost of acquiring the Transmission network asset from the constructor of the network; those costs incurred that are directly attributable to the acquisition of the transmission network; and the estimated cost of decommissioning the transmission network at the end of its estimated useful life. The Transmission Owner asset has been classified as a financial asset and is accounted for as described below – see C – Financial Instruments.

# Accounting policies continued

For the year ended 31 March 2017

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## B. Transmission availability arrangements continued

In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways:

- as an adjustment to the carrying value of the Transmission owner asset – see C. Financial Instruments below;
- as finance income - see G. Operating and finance income below; and
- as operating income - see G. Operating and finance income below.

Transmission availability payments are recognised at the time the transmission service is provided.

The value of amounts invoiced for transmission availability services in any one year is determined by a regulatory agreement that allows the transmission system operator to invoice an amount primarily relating to the expected availability of the transmission system during that year, together with the recovery of certain costs. Where the level of availability of the transmission system or the costs that are permitted to be recovered is different to that expected this might result in an adjustment to charges in a subsequent accounting period. Such potential adjustments to future charges are not recognised in the financial statements as assets or liabilities, until such time as prices are changed to reflect these adjustments, and consequently there is no impact on the income statement until such time as prices are changed.

## C. Financial instruments

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

Trade and loan receivables, including time deposits and demand deposits, are initially recognised at fair value 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. Indications that the trade or loan receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

The Transmission owner asset is classified as a financial instrument and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as referenced above – see B. Transmission availability arrangements. Finance income relating to the Transmission owner asset is recognised in the income statement as a separate line item – “Finance income”, see G. Operating and finance income below.

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

# Accounting policies continued

For the year ended 31 March 2017

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## C. Financial instruments continued

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. Gains and losses arising from the changes in fair value are included in the income statement in the period they arise unless there is a hedge relationship in place – see D. Hedge accounting below.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts.

There are no embedded derivatives in host contracts that are not considered to be closely related; consequently, no embedded derivatives are separately accounted for as derivative financial instruments.

## D. Hedge accounting

The Group has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Group has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Group's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

## E. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its 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. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time, value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired. Impairments are recognised in the income statement and, where material, are disclosed separately.

# Accounting policies continued

For the year ended 31 March 2017

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## F. Income taxation

Income taxation comprises current and deferred taxation. Income taxation is recognised where a taxation asset or liability arises that is permitted to be recognised under generally accepted accounting principles. All identifiable taxation assets or liabilities are recognised in the income statement except to the extent that the taxation arising relates to other items recognised directly in equity, in which case such taxation assets or liabilities are recognised in equity.

### Current taxation

Current taxation assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of taxation are those that are enacted, or substantively enacted, by the balance sheet date.

### Deferred taxation

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

Deferred taxation liabilities are generally recognised on all taxable temporary differences, and deferred taxation assets are recognised to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation 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 balance sheet date.

Unrecognised deferred taxation assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred taxation asset to be recovered.

## G. Operating and finance income

### General

As indicated above, see B. Transmission availability arrangements, amounts invoiced in respect of transmission availability charges, net of value added tax, are attributed to operating income, finance income or as an adjustment to the carrying value of the Transmission owner asset in the manner described below. Finance and operating income reflect the principal revenue generating activity of the Group, that being revenue associated with the provision of transmission availability services and consequently, are presented as separate line items within the income statement before other costs and net interest costs.

### Operating income

An estimate has been made as to the appropriate revenue that should be attributable to a standalone operator with responsibility for operations, maintenance, and insurance.

Operating income represents the income derived from the provision of operating services, principally to NGET. Such services include those activities that result in the efficient and safe operation of the Group's transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring the transmission assets on behalf of a standalone transmission owner.

# Accounting policies continued

For the year ended 31 March 2017

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## G. Operating and finance income continued

### Finance income

Finance income arising from the provision of transmission availability services represents the return that an efficient standalone “transmission owner” would expect to generate from the holding of the Transmission owner asset and an estimate has been made as to the appropriate return that such an owner would generate having regard to the risks associated with those arrangements. The return that is generated on this asset is allocated to each period using the effective interest rate method.

## H. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash, and subject to an insignificant change in value.

## I. Decommissioning costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission network associated with the safe decommissioning of that network. Provision for these costs is based on future estimated expenditures, discounted to present values. Changes in the provision arising from revised estimates or discount rates, or changes in the expected timing of expenditures, are recognised in the income statement. The unwinding of the discount and changes arising from revisions to the discount rate are included within the income statement as a component of the net interest charge. Changes in estimates arising from revised cost assessments are included within operating costs.

## J. Critical accounting judgements, key assumptions and sources of estimation uncertainty

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

Assumptions and estimates are reviewed on an on-going basis and any revisions to them are recognised in the period the revision occurs. The following is a summary of the critical accounting policies adopted by the Group together with information about the key judgements, estimations and assumptions that have been applied.

### i) Transmission availability arrangements – income and related asset recognition

The Directors after due enquiry have identified that the characteristics of the regulatory, legal and contractual arrangements that give rise to transmission availability charges are consistent with the principles contained within IFRIC 12. Consequently, the accounting for charges made by the Group for transmission network availability is consistent with that interpretation.

# Accounting policies continued

For the year ended 31 March 2017

## J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

### i) Transmission availability arrangements – income and related asset recognition continued

As a consequence of this decision, the following outcomes follow:

- a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12; and
- b. In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset.

An alternative accounting analysis could result in a significantly different accounting outcome which would affect the amounts and classification of asset and liabilities in the balance sheet and alter the income recognition and presentation of amounts included within the income statement.

The Group has determined that the Transmission owner asset will be recovered over a period of approximately 20 years from the date the Transmission owner asset was acquired (25 August 2015) being the principal period over which the Group is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

### ii) Operating and finance income

#### *Operating income*

Operating income represents the income derived from the provision of operating services, principally to NGET. Such services include those activities that result in the efficient and safe operation of those assets and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner. Estimates and judgements have been made by management to estimate the appropriate amount of revenue that would be attributable to this income classification as if this service were provided by an independent standalone operator with responsibility for operations, maintenance and insurance. To the extent that an alternative judgement or estimate was made as to the reasonable level of revenue attributable to such an operator, then in the case of the Group, the level of income attributed to finance income (see below) would be amended.

#### *Finance income*

Finance income arising from the provision of transmission availability services represents an estimate of the return that an efficient standalone and independent “transmission owner” would expect to generate from the holding of the Transmission owner asset. Estimates and judgements have been exercised by management to determine an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements. The return that is generated on this asset is allocated to each period using the effective interest rate method. To the extent that an alternative judgement or estimate was made as to the reasonable level of return attributable to such a transmission asset owner, then in the case of the Group, the level of income attributed to operating income (see above) would be amended.

# Accounting policies continued

For the year ended 31 March 2017

## J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

### iii) Hedge accounting and consideration of the fair value of derivative financial instruments

The Group uses derivative financial instruments to hedge certain economic exposures in relation to movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Group fair values its derivative financial instruments and records the fair value of those instruments on its balance sheet.

Movements in the fair values of the Group's derivative financial instruments may be accounted for using hedge accounting where the requirements of hedge accounting are met under IFRS as adopted by the EU including the creation of compliant documentation and meeting the effectiveness testing requirements. If a hedge does not meet the criteria for hedge accounting, which may include a consideration of whether there has been a substantial modification to the terms of the hedge, or where there is some degree of ineffectiveness identified in respect of the hedging relationship, then the change in fair value in relation to these items will be recorded in the income statement. If a hedging relationship is judged to be discontinued for hedge accounting, then any amounts previously deferred in other comprehensive income must immediately be recognised in the income statement. Otherwise, in respect of the Group's derivative financial instruments, these changes in fair value are recognised in other comprehensive income.

The Group's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the income statement.

As referred to above, the Group carries its derivative financial instruments in its balance sheet at fair value. No market prices are available for these instruments and consequently the fair values are derived using a financial model from a third party based on counterparty information that is independent of the Group, but use observable market data in respect of RPI as an input to valuing those derivative financial instruments. Where observable market data is not available, as in the case of valuing the Transmission owner asset, unobservable market data is used which requires the exercise of management judgement.

# Accounting policies continued

For the year ended 31 March 2017

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## J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

### iv) Income taxation

#### *Current taxation*

The taxation charge or credit arising on profit before taxation and in respect of gains or losses recognised through other comprehensive income reflect the tax rates in effect or substantially enacted at the balance sheet date as appropriate. The determination of appropriate provisions for taxation requires the Directors to take into account anticipated decisions of HM Revenue and Customs which inevitably requires the Directors to use judgements as to the appropriate estimate of taxation provisions.

#### *Deferred taxation*

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

Judgements are required to be made as to the calculation and identification of temporary differences and in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgement requires the Directors to consider forecast information over a long-time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

### v) Impairment of assets

The carrying value of those assets recorded in the Group's balance sheet at amortised cost could be materially reduced if the value of those assets were assessed to have been impaired. Impairment reviews are performed in the event that circumstances change which might indicate that an asset has been impaired. In principle, such impairment reviews consider the fair value and or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the balance sheet. Any reduction in value arising from such a review would be recorded in the income statement.

Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.



# Accounting policies continued

For the year ended 31 March 2017

## J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

### vi) Decommissioning Provision

Provisions are made for certain liabilities where the timing and amount of the liability is uncertain. The Group's only provision relates to the estimated costs of decommissioning the Group's offshore transmission system at the end of its expected economic life – being 20 years. These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The plan for decommissioning these assets has not yet been approved by the Secretary of State for Business, Energy and Industrial Strategy but the preliminary assessment of the decommissioning plan includes many assumptions.

The estimates and judgements used in determining the carrying value of this provision include, but are not limited to, the following:

- the estimated economic useful life of the transmission system is assumed to be 20 years being the period the Group has exclusive rights to operate under the Licence and collect revenue which is expected to generate the vast majority of cash flows relating to the ownership of the system;
- estimates of costs relating to the appropriate and safe removal, disposal, recycling and making safe of the transmission system having regard to market prices and access to the appropriate level of technology; and
- discount rate appropriate to the 20-year life of the assets being decommissioned. The Group has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to the decommissioning provision every five years, reflective of the long-term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

The estimates are based on management estimates with the use of technical consultants and are subject to periodic revision. The initial estimated discounted cost of decommissioning the offshore transmission system is included within the carrying value of the Transmission owner asset. All subsequent changes to estimates in relation to estimated gross cost of decommissioning or the appropriate discount rate are reflected in the income statement.

## K. Accounting developments

### i) Accounting standards as applied to these financial statements

In preparing these financial statements the Group has complied with IFRS, International Accounting Standards (IAS) and Interpretations applicable either for accounting periods starting by 1 April 2016 or ending by 31 March 2017 and have been endorsed by the EU. No new accounting standards, amendments to standards or interpretations that have been issued and endorsed by the EU and are applicable to these financial statements for the first time have had any significant effect on the measurement of assets and/or liabilities or any of the disclosures included herein.

# Accounting policies continued

For the year ended 31 March 2017

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## K. Accounting developments continued

### ii) New accounting standards, amendments to standards and interpretations issued but not effective in these financial statements

New accounting standards, amendments to standards and interpretations which have been issued but which are not effective and the likely impact is outlined as follows:

- Amendments to IAS 7 'Statement of Cash Flows' is applicable to the Group's financial statements commencing 1 April 2017, but it not yet endorsed by the EU. The amendments to IAS 7 require additional disclosures to be provided to enable users to evaluate the impact of these amendments but the implementation of this standard is unlikely to result in any material disclosure changes in the financial statements;
- Amendments to IAS 12 'Income Taxes' is applicable to the Group's financial statements commencing 1 April 2017, but is not yet endorsed by the EU. These amendments clarify the requirements for recognising deferred tax assets on unrealised losses and the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The Company is evaluating the impact of these amendments but it is not expected that the amendments to IAS 12 will give rise to any measurement changes, however it may result in some different or additional disclosures being provided;
- Amendments to IFRS 12 'Share Based Payments'- the Group does not make any share based payments and as a consequence the standard and any amendments do not impact the Company's financial statements;
- IFRS 9, 'Financial instruments' – classification and measurement' is effective from the financial year commencing 1 April 2018. The Group does not believe that the adoption of IFRS 9 will lead to any material measurement changes as compared with the policies currently adopted by the Group. However, it is expected that IFRS 9 will require additional and different disclosures to those currently provided by the Group; and
- IFRS 14 'Regulatory deferral accounts' - not relevant to the Group;
- Amendments to: IAS 27 'Separate financial statements'; IFRS 10 'Consolidated financial statements'; and IAS 28 'Associates and joint ventures' The Group does not expect that the implementation of these amendments will have any significant effect on the Financial Statements;
- IFRS 15 'Revenue from contracts with customers'. This is applicable to the Group's financial statements commencing 1 April 2018, but is not yet endorsed by the EU. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Group is evaluating the impact of this standard on the financial statements;

# Accounting policies continued

For the year ended 31 March 2017

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**ii) New accounting standards, amendments to standards and interpretations issued but not effective in these financial statements continued**

- IFRS 16 'Leases' is expected to be applicable to the Company's financial statements commencing 1 April 2019, but is not yet endorsed by the EU. The Company is evaluating the impact of this new accounting standard; however, this new accounting standard is expected to have an impact on the measurement and disclosure of lease liabilities and related right-of-use assets within the balance sheet presented by the Company. In addition, there is likely to be an impact on income statement geography and the timing and recognition of lease related expenses; and
- Various amendments to IFRS standards arising from the annual improvement projects that are not expected to have any significant impact on the Group's financial statements.

# Consolidated income statement

For the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Operating income	2	4,672	2,725
Finance income	2	12,291	7,362
<b>Total income</b>		<b>16,963</b>	<b>10,087</b>
 Operating costs	 3	 (3,372)	 (2,222)
 <b>Operating profit</b>		 <b>13,591</b>	 <b>7,865</b>
Other finance income	4	5	31
Finance costs	4	(12,390)	(7,758)
<b>Net interest expense</b>	4	<b>(12,385)</b>	<b>(7,727)</b>
 <b>Profit before taxation</b>		 <b>1,206</b>	 <b>138</b>
Income taxation charge	5	(392)	(103)
<b>Profit attributable to equity shareholders</b>		<b>814</b>	<b>35</b>

The notes on pages 50 to 68 form part of these financial statements.

The results reported above relate to continuing operations.

# Consolidated statement of comprehensive income

For the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Profit attributable to equity shareholders		814	35
Other comprehensive (loss) / income			
<u>Items that may be subsequently reclassified to Profit and Loss:</u>			
Net (losses) / gains taken to equity in respect of cash flow hedges	11	(6,038)	2,606
Deferred taxation on cash flow hedges	5	1,052	(469)
Total comprehensive (loss) / income for the year attributable to equity shareholders		<u>(4,172)</u>	<u>2,172</u>

# Company balance sheet

As at 31 March 2017

Company number: 9308464

	Notes	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Investments in subsidiary undertaking	18	<u>43,536</u>	<u>45,200</u>
<b>Total non-current assets</b>		<b>43,536</b>	<b>45,200</b>
<b>Current assets</b>			
Amounts receivable from subsidiary undertaking		<u>882</u>	<u>927</u>
<b>Total current assets</b>		<b>882</b>	<b>927</b>
<b>Total assets</b>		<b>44,418</b>	<b>46,127</b>
<b>Current liabilities</b>			
Trade and other payables	10	<u>(882)</u>	<u>(927)</u>
<b>Total current liabilities</b>		<b>(882)</b>	<b>(927)</b>
<b>Non-current liabilities</b>			
Borrowings	9	<u>(43,067)</u>	<u>(44,731)</u>
<b>Total non-current liabilities</b>		<b>(43,067)</b>	<b>(44,731)</b>
<b>Total liabilities</b>		<b>(43,949)</b>	<b>(45,658)</b>
<b>Net assets</b>		<b>469</b>	<b>469</b>
<b>Equity</b>			
Called up share capital	13	<b>100</b>	<b>100</b>
Share premium	13	<b>369</b>	<b>369</b>
Profit for the year attributable to equity shareholders and retained earnings	14	<u>-</u>	<u>-</u>
<b>Total shareholders' equity</b>		<b>469</b>	<b>469</b>

The financial statements set out on pages 32 to 68 were approved by the Board of Directors on 26 July 2017 and were signed on its behalf by:



M Edwards  
Director

# Consolidated balance sheet

As at 31 March 2017

Company number: 9308464

	Notes	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Transmission owner asset	6	267,039	272,869
Deferred taxation asset	7	88	-
Derivative financial assets	11	-	2,606
<b>Total non-current assets</b>		<b>267,127</b>	<b>275,475</b>
<b>Current assets</b>			
Prepayments		446	493
Other receivable		88	11
Transmission owner asset	6	5,684	4,398
Cash and cash equivalents	8	16,915	22,111
<b>Total current assets</b>		<b>23,133</b>	<b>27,013</b>
<b>Total assets</b>		<b>290,260</b>	<b>302,488</b>
<b>Current liabilities</b>			
Borrowings	9	(6,992)	(8,827)
Trade and other payables	10	(4,094)	(4,716)
<b>Total current liabilities</b>		<b>(11,086)</b>	<b>(13,543)</b>
<b>Non-current liabilities</b>			
Borrowings	9	(274,575)	(283,123)
Derivative financial liabilities	11	(3,432)	-
Deferred taxation liability	7	-	(572)
Decommissioning provision	12	(2,698)	(2,609)
<b>Total non-current liabilities</b>		<b>(280,705)</b>	<b>(286,304)</b>
<b>Total liabilities</b>		<b>(291,791)</b>	<b>(299,847)</b>
<b>Net (liabilities) /assets</b>		<b>(1,531)</b>	<b>2,641</b>
<b>Equity</b>			
Called up share capital	13	100	100
Share premium	13	369	369
Retained earnings	14	849	35
Cash flow hedge reserve	14	(2,849)	2,137
<b>Total shareholders' equity</b>		<b>(1,531)</b>	<b>2,641</b>

The financial statements set out on pages 32 to 68 were approved by the Board of Directors on 26 July 2017 and were signed on its behalf by:



M Edwards  
Director

# Consolidated statement of changes in equity

For the year ended 31 March 2017

	Called up share capital and share premium £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2015	-	-	-	-
Issue of ordinary shares	469	-	-	469
Recognised income and expense in the year	-	2,137	35	2,172
At 31 March 2016	469	2,137	35	2,641
Recognised income and expense in the year	-	(4,986)	814	(4,172)
At 31 March 2017	469	(2,849)	849	(1,531)

The cash flow hedge reserve recognises the effective portion of cash flow hedges whilst any ineffectiveness is taken to the income statement.



# Company statement of changes in equity

For the year ended 31 March 2017

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	Called up share capital and share premium £'000	Total equity £'000
At 1 April 2015	-	-
Issue of ordinary shares during the year ended 31 March 2016	469	469
At 31 March 2016 and 31 March 2017	469	469

The Company is prohibited from declaring a dividend or other distribution unless the Company and its subsidiary undertaking, as appropriate, are compliant in all material respects with certain borrowing obligations.

# Consolidated cash flow statement

For the year ended 31 March 2017

		2017	2016
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Profit attributable to equity shareholders for the year		814	35
Adjustments for:			
Net interest charges		12,385	7,727
Taxation charge		392	103
Non-cash movement relating to finance income		4,544	2,308
Changes in working capital		(508)	1,133
		<b>16,813</b>	<b>11,271</b>
<b>Net cash flow from operating activities</b>		<b>17,627</b>	<b>11,306</b>
<b>Cash flows from / (used in) investing activities</b>			
Acquisition of Transmission owner asset		-	(277,033)
Interest received		5	31
<b>Net cash flows from / (used in) investing activities</b>		<b>5</b>	<b>(277,002)</b>
<b>Cash flows (used in) / from financing activities</b>			
Proceeds from bond issue (senior debt) received <sup>+</sup>	15	-	251,377
Proceeds from other borrowing	15	-	46,469
Proceeds of share issues		-	469
Repayment of bonds (senior debt)	15	(8,978)	(4,340)
Repayment of other borrowing	15	(1,822)	(1,738)
Interest paid		(12,028)	(4,430)
<b>Net cash flow (used in) / from financing activities</b>		<b>(22,828)</b>	<b>287,807</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(5,196)</b>	<b>22,111</b>
Cash and cash equivalents at the start of the year		22,111	-
<b>Cash and cash equivalents at the end of the year</b>	15	<b>16,915</b>	<b>22,111</b>

<sup>+</sup> Net of issue costs amounting to £nil (2016: £3,472k)

The Company has not presented a cash flow statement as it has had no cash flows in either the current year or previous year.

# Notes to the financial statements

For the year ended 31 March 2017

## 1. Operating segment

The Board of Directors is the Company's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment for the Group – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities<sup>1</sup>). The Group and segmental results, balance sheet and relevant cash flows can be seen in the consolidated income statement, the consolidated balance sheet and consolidated cash flow statement on page 43, 46 and 49 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 50 to 68.

The electricity transmission operation of the Group comprises the transmission of electricity from a wind farm located off coast of Walney Island in the East Irish Sea, and then connecting directly into the NGET onshore transmission system at an electricity substation in Heysham, Lancashire.

All of the Group's sales and operations take place in the UK.

All of the assets and liabilities of the Group arise from the activities of the segment.

<sup>1</sup> After adjustment for the initial cash acquisition cost of the Transmission owner asset of £nil (2016: £277,033k).

## 2. Operating and finance income

Operating income of £4,672k (2016: £2,725k) and finance income of £12,291k (2016: £7,362k) relate in their entirety to the Group's activity as a provider of electricity transmission services to the Group's principal customer – NGET. The vast majority of the Group's income is derived from NGET.

## 3. Operating costs

Operating costs are analysed below:

	2017	2016
	£'000	£'000
Operations, maintenance and management <sup>1</sup>	3,173	2,057
Auditors' remuneration	19	16
Other	180	149
<b>Total</b>	<b>3,372</b>	<b>2,222</b>
<u>Auditors' remuneration comprises:</u>		
Audit services	12	9
Other services supplied pursuant to legislation <sup>2</sup>	7	7
<b>Total</b>	<b>19</b>	<b>16</b>

<sup>1</sup> This represents costs associated with the provision of operating, maintenance and management provided to the Company by independent third parties together with other operational costs including insurance costs, and non-domestic rates related to the transmission network.

<sup>2</sup> These represent fees payable for services in relation to engagements which are required to be carried out by the auditor. In particular, this includes fees for audit reports on regulatory returns.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 4. Net interest expense

Net interest expense is as expense is as tabulated below:

	2017	2016
	£'000	£'000
<b>Interest income</b>		
Interest on bank deposits	<u>5</u>	<u>31</u>
<b>Interest expense and other financial costs</b>		
Interest on secured bonds (senior debt)	(8,435)	(5,207)
Interest on other borrowing	(3,607)	(2,302)
Other financial costs	<u>(348)</u>	<u>(249)</u>
	<u>(12,390)</u>	<u>(7,758)</u>
<b>Net interest expense</b>	<u>(12,385)</u>	<u>(7,727)</u>

## 5. Income taxation charge

### a) Taxation on items included in the income statement

The net taxation charge for the year is £392k (2016: £103k), and the composition of that charge is described below.

The taxation charge on current year profits arising in the year represents deferred taxation, and has been computed at 20% (2016: 20%). There is no current taxation included in the income statement (2016: none).

The taxation charge for the year differs from the main rate of corporation tax in the UK of 20% (2016: 20%) for the reasons outlined below:

	2017	2016
	£'000	£'000
Profit before taxation	<u>1,206</u>	<u>138</u>
Taxation at 20% (2016: 20%) on profit before taxation	241	28
<b>Effects of:</b>		
- expenses not deductible for tax purposes	179	87
- change in tax rates on deferred tax <sup>1</sup>	<u>(28)</u>	<u>(12)</u>
<b>Taxation charge for the year</b>	<u>392</u>	<u>103</u>

<sup>1</sup> Reflecting a corporation tax rate of 17% (2016: 18%), being the rate of corporation tax expected to apply when all temporary differences are expected to reverse.

### b) Taxation on items included in other comprehensive income

The net taxation credit on items included in other comprehensive income for the year is £1,052k (2016: charge of £469k) and comprises a credit on items arising in the current year computed at 20% (2016: 20%) of £1,208k (2016: charge of £521k) and a charge of £156k (2016: credit of £52k) arising from a change in corporation taxation rates. There is no current taxation included in other comprehensive income.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 5. Income taxation charge continued

### c) Rates of taxation - current and future years

In the Finance Act 2016, the rate of corporation tax was reduced to 17% from 1 April 2020. This change was enacted on 15 September 2016 and as such, deferred tax at the balance sheet date has been recognised at the rate of 17% on the basis that all temporary differences are expected to reverse after 1 April 2020.

## 6. Transmission owner asset

The movement in the carrying value of the Group's Transmission owner asset is shown in the table below:

	2017 £'000	2016 £'000
At 1 April 2016	277,267	-
Additions	-	279,575
Adjustment to the carrying value*	(4,544)	(2,308)
At 31 March 2017	<u>272,723</u>	<u>277,267</u>
Comprising:		
Amounts falling due within one year	5,684	4,398
Amounts falling due after more than one year	<u>267,039</u>	<u>272,869</u>
	<u>272,723</u>	<u>277,267</u>

\* Arising from the application of the effective interest rate method and reflected through finance income in the income statement.

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2017 was £294,362k (2016: £299,338k). The basis for estimating the fair value of the Transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate of 4.54% (2016: 4.54%) per annum.

## 7. Deferred taxation asset / (liability)

The net deferred taxation asset /(liability) recognised in the balance sheet arises as follows:

	Fair value losses on derivatives £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 April 2015	-	-	-	-
Movements	(469)	(1,753)	1,650	(572)
At 31 March 2016	(469)	(1,753)	1,650	(572)
Movements in respect of prior periods	-	1,650	(1,650)	-
Current year movements	1,052	(392)	-	660
At 31 March 2017	<u>583</u>	<u>(495)</u>	<u>-</u>	<u>88</u>

Other deferred taxation assets relate primarily to temporary differences arising from current taxation losses.

No portion of the deferred tax balance is likely to be recovered or settled in the 12 months following the balance sheet date

# Notes to the financial statements continued

For the year ended 31 March 2017

## 8. Cash and cash equivalents

Group cash and cash equivalents comprise short term deposits of £16,915k (2016: £22,111k). Short-term deposits are made for various periods of between one day and 6 months, depending on the timing of cash requirements, and earn interest at the respective short-term deposit rates.

Group cash and cash equivalents include amounts of £12,758k (2016: £15,018k) that the Group can only use for specific purposes and in compliance with the lending agreements. The remaining cash and cash equivalents are held for general corporate purposes provided that use is compliant with the lending arrangements.

The estimated fair value of all cash and cash equivalents approximates to their carrying value.

## 9. Borrowings

The following table analyses borrowings:

	Company		Group	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>Current</b>				
Secured bonds – fixed rate	-	-	6,992	8,827
<b>Non-current</b>				
Secured bonds – fixed rate	-	-	231,508	238,392
Other borrowing – fixed rate	43,067	44,731	43,067	44,731
	<u>43,067</u>	<u>44,731</u>	<u>274,575</u>	<u>283,123</u>
<b>Total borrowings</b>	<u>43,067</u>	<u>44,731</u>	<u>281,567</u>	<u>291,950</u>
<b>Total borrowings are repayable as follows:</b>				
In one year or less	-	-	6,992	8,827
In more than one year, but not more than two years	-	-	7,645	7,101
In more than two years, but not more than three years	-	-	8,519	7,754
In more than three years, but not more than four years	-	-	9,466	8,628
In more than four years, but not more than five years	-	-	10,404	9,575
In more than five years other than by instalments	43,067	44,731	238,541	250,065
	<u>43,067</u>	<u>44,731</u>	<u>281,567</u>	<u>291,950</u>

The secured bonds carry an interest rate of 3.446% per annum. The secured bonds amortise over the period through to 24 August 2034.

The secured bonds, being the senior debt, are secured over all of the assets of the Company and this of WoDS Transmission plc (the Company's subsidiary undertaking) via fixed and floating charges.

Other borrowing relates to amounts owed to WoDS Transmission TopCo Limited ("TopCo"). This other borrowing is unsecured, carries a fixed coupon of 8.31% per annum, and is contractually repayable on 25 August 2035.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 17.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 9. Borrowings continued

As at 31 March 2017 the Group had access to a PBCE letter of credit issued by the European Investment Bank amounting to £36,230k (2016: £37,576k) which guarantees certain payments to be made in respect of the secured bonds and the Group's hedging arrangements all of which was undrawn (2016: undrawn).

There have been no instances of default or other breaches of the terms of the loan agreements during the year in respect of all loans outstanding at 31 March 2017 (2016: no defaults or breaches).

## 10. Trade and other payables

Trade and other payables are as tabulated below.

	Company		Group	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade payables	-	-	301	825
Other taxes	-	-	538	471
Accrued expenses	882	927	3,255	3,420
	<u>882</u>	<u>927</u>	<u>4,094</u>	<u>4,716</u>

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value. All trade and other payables are recorded at amortised cost, and are all expected to be settled within 12 months of the balance sheet date.

Included in accrued expenses for the Group and Company are amounts owed to TopCo in respect of interest on the other borrowing – see note 17.

## 11. Derivative financial assets / (liabilities)

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates, RPI or other indices. The use of derivative financial instruments is described below.

### RPI swaps

The Group has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 75%) of variable cash inflows arising from the operation of the Group's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments.

The Company's use and strategy relating to RPI swaps is described in more detail in the "Group strategic report - Hedging Arrangements".

The Directors believe that the hedging relationship is highly effective and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap derivatives meet the definition of a cash flow hedge and have formally designated them as such.

### Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments comprising RPI swaps are carried at market value. The carrying value of the RPI swaps at 31 March 2017 amounted to liabilities of £3,432k (2016: assets of £2,606k). Of the total movements during the year in the fair value of these derivative financial instruments a charge of £6,038k (2016: a credit of £2,606k) has been reflected through other comprehensive income and recorded in the cash flow hedge reserve.

The Company does not have any derivative financial instruments.

Further details regarding financial instruments and their related risks are given in note 17.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 12. Decommissioning provision

The Company does not have any provisions (2016: £nil).

The movement in the Group decommissioning provision is analysed below.

	2017	2016
	£'000	£'000
At 1 April	2,609	-
Additions	-	2,542
Unwinding of discount	89	67
At 31 March	<u>2,698</u>	<u>2,609</u>

The decommissioning provision is all non-current (2016: non-current).

The decommissioning provision of £2,698k at 31 March 2017 (2016: £2,609k) represents the net present value of the estimated expenditure expected to be incurred at the end of the economic life of the project to decommission the West of Duddon Sands transmission assets. The gross expenditure expected to be incurred on decommissioning amounts to £6,065k (2016: £6,134k), and is expected to be incurred in 2035.

The discount rate chosen is a pre-taxation 'risk free' rate with a maturity similar to that of the decommissioning liability. This reflects the best estimate of the time value of money risks specific to the liability, as the estimated gross decommissioning costs appropriately reflect the risks associated with that liability.

The decommissioning provision arises from the Group's obligations under S105 of the Energy Act 2004 and the contractual obligations relating to the lease of the West of Duddon Sands sea bed granted by the Crown Estate Commissioners on 20 August 2015. The decommissioning plan has yet to be approved by the Secretary of State for Business, Energy and Industrial Strategy, as required under S106 of the Energy Act 2004, as the Group is considering responses to a consultation on a draft version of the decommissioning plan.

The decommissioning provision is a financial instrument under IFRS, and the fair value of the obligation equates to its carrying value, as the carrying value represents the net present value of the future expenditure expected to be incurred as described above.



# Notes to the financial statements continued

For the year ended 31 March 2017

## 13. Called up share capital and share premium

Company and Group share capital and share premium is analysed below.

	No. (thousands)	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 April 2015	-	-	-
Issue of shares during the year ended 31 March 2016	100	100	369
At 31 March 2016 and 31 March 2017	100	100	369

The Company has one class of Ordinary Share with a nominal value of £1 each which carries no right to fixed income.

During the year ended 31 March 2016, the Company issued 99,999 ordinary shares of £1 each, and the proceeds of share issues amounted £469k. There were no share issues during the year ended 31 March 2017.

The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

## 14. Reserves

The Company has no reserves and consequently there is no movement in reserves during the year ended 31 March 2017 (2016: none).

The Group's reserves are analysed below.

	Retained earnings £'000	Cash flow hedge £'000	Total £'000
At 1 April 2015	-	-	-
Profit attributable to equity shareholders	35	-	35
Gains on cash flow hedges taken to equity	-	2,606	2,606
Deferred taxation on cash flow hedges	-	(469)	(469)
At 31 March 2016	35	2,137	2,172
Profit attributable to equity shareholders	814	-	814
Losses on cash flow hedges taken to equity	-	(6,038)	(6,038)
Deferred taxation on cash flow hedges	-	1,052	1,052
At 31 March 2017	849	(2,849)	(2,000)

All reserves with the exception of the cash flow hedge reserve are distributable.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 15. Cash flow statement

### a) Reconciliation of Group net cash flow to movement in Group net debt

The reconciliation of Group net cash flow to movement in Group net debt is as analysed below:

	2017	2016
	£'000	£'000
Movement in cash and cash equivalents	(5,196)	22,111
Net decrease / (increase) in borrowings	10,800	(291,768)
<b>Change in net debt resulting from cash flows</b>	<b>5,604</b>	<b>(269,657)</b>
Non-cash net interest expense included in net debt	(273)	(3,261)
Change in fair values of derivatives	(6,038)	2,606
<b>Movement in net debt in the year</b>	<b>(707)</b>	<b>(270,312)</b>
Net debt at start of year	(270,312)	-
<b>Net debt at end of year</b>	<b>(271,019)</b>	<b>(270,312)</b>

At 31 March 2017, the Company had net cash of £nil (2016: £nil).

### b) Analysis of changes in Group net debt

	Cash and cash equivalents	Borrowings	Derivatives	Interest accruals	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2015	-	-	-	-	-
Cash flow	22,111	(291,768)	-	-	(269,657)
Change in fair values	-	-	2,606	-	2,606
Non-cash net interest	-	(182)	-	(3,079)	(3,261)
At 31 March 2016	22,111	(291,950)	2,606	(3,079)	(270,312)
Cash flow	(5,196)	10,800	-	-	5,604
Change in fair values	-	-	(6,038)	-	(6,038)
Non-cash net interest	-	(417)	-	144	(273)
At 31 March 2017	<b>16,915</b>	<b>(281,567)</b>	<b>(3,432)</b>	<b>(2,935)</b>	<b>(271,019)</b>

# Notes to the financial statements continued

For the year ended 31 March 2017

## 16. Related party transactions

The following information relates to material transactions with related parties during the year. These transactions were carried out in the normal course of business and at terms equivalent to those that prevail in arm's length transactions. There were no other transactions carried out directly with other companies within the WoDS group of companies, except as disclosed below.

	<b>Group</b>	
	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Expenditure:</b>		
Interest <sup>1</sup>	3,607	2,302
Services received <sup>2</sup>	-	3,851
	<b>3,607</b>	<b>6,153</b>
<b>Balances outstanding at 31 March:</b>		
Borrowings payable <sup>1</sup> (principal)	43,067	44,731
Interest accrual <sup>1</sup>	882	927
	<b>43,949</b>	<b>45,658</b>
	<b>Company</b>	
	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Finance income</b>		
Interest <sup>3</sup>	3,607	2,302
	<b>3,607</b>	<b>2,302</b>
<b>Expenditure:</b>		
Interest <sup>1</sup>	3,607	2,302
	<b>3,607</b>	<b>2,302</b>
<b>Balances outstanding at 31 March:</b>		
<b>Assets</b>		
Investment in subsidiary undertaking – ordinary shares	469	469
Investment in subsidiary undertaking – loan	43,067	44,731
Interest receivable from subsidiary undertaking	882	927
	<b>44,418</b>	<b>46,127</b>
<b>Liabilities</b>		
Borrowings payable <sup>1</sup> (principal)	43,067	44,731
Interest accrual <sup>1</sup>	882	927
	<b>43,949</b>	<b>45,658</b>

<sup>1</sup> Relates to funding related transactions and balances with the ultimate and immediate parent undertaking (TopCo). The borrowings payable and the interest accrual outstanding are included within "Borrowings" and "Trade and other payables" in the balance sheet – see notes 9 and 10 respectively.

<sup>2</sup> Services received relate to transactions with: Macquarie Capital (Europe) Limited amounting to £nil (2016: £2,861k); Macquarie Corporate Holdings Pty Limited amounting to £nil (2016: £605k); and 3i Infrastructure plc amounting to £nil (2016: £385k). All these services were directly attributed to the Group.

<sup>3</sup> Relates to interest received and receivable on the debt investment in the Company's wholly owned subsidiary undertaking (WoDS).

# Notes to the financial statements continued

For the year ended 31 March 2017

## 16. Related party transactions continued

A summary of funding transactions with the immediate and ultimate parent undertaking (TopCo) is shown below:

Group and Company	2017 £'000	2016 £'000
<b>Borrowing from immediate parent undertaking (principal)</b>		
At 1 April	44,731	-
Advances	-	46,469
Repayments	(1,822)	(1,738)
Capitalised interest	158	-
<b>At 31 March</b>	<b>43,067</b>	<b>44,731</b>

Borrowing from the immediate parent undertaking (TopCo) were negotiated on normal commercial terms and are repayable in accordance with the terms of the unsecured 8.31% loan notes 2035 ("the notes"). Repayments of principal and interest payments of £5,316k (2016: £3,113k) were made during the year. Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 25 August 2035.

Macquarie Capital (Europe) Limited and Macquarie Corporate Holdings Pty Limited were related parties of the Group and Company during the year ended 31 March 2016 for the period 1 April 2015 to 23 September 2015. Macquarie Corporate Holdings Pty Limited held 50% of the equity in the Company's ultimate parent undertaking (TopCo) to 23 September 2015. With effect from 23 September 2015, Macquarie Capital (Europe) Limited and Macquarie Corporate Holdings Pty Limited were no longer related parties of the Company or the Group.

The services provided to the Group by Macquarie Capital (Europe) Limited during the year ended 31 March 2016 were under normal commercial terms and related to financial advisory service.

The amounts paid to Macquarie Corporate Holdings Pty Limited during the year ended 31 March 2016 were a reimbursement of their transaction costs associated with the acquisition of the WoDS offshore transmission system.

The amounts paid to 3i Infrastructure plc during the year ended 31 March 2016 were a reimbursement of their transaction costs associated with the acquisition of the WoDS offshore transmission system.

Movements in the Company's investments in its subsidiary undertaking, WoDS, is shown in note 18.

No amounts have been provided at 31 March 2017 (2016: £nil), and no expense was recognised during the year (2016: £nil) in respect of bad or doubtful debts for any related party transactions.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk

### a) Fair value disclosures

The following is an analysis of the Group and Company's financial instruments at the balance sheet date comparing the carrying value included in the balance sheet with the fair value of those instruments at that date. None of the Company's or Group's financial instruments have quoted prices. Consequently, the following techniques have been used to determine fair values as follows:

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset – based on the net present value of net discounted cash flows;
- Investment in subsidiary – based on the net present value of discounted cash flows;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the net present value of discounted cash flows in respect of the 3.446% fixed rate secured bonds loans due August 2034 and in respect of the unsecured 8.31% loan notes due August 2035;
- Derivative financial instruments – based on the net present value of discounted cash flows;
- Financial instrument receivables and payables - approximates to the carrying value because of the short maturity of these instruments;
- Decommissioning provision – approximates to carrying value.

The table on the following page compares the carrying value of the Group's financial instruments with the fair value of those instruments at 31 March 2017, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### a) Fair value disclosures continued

2017					
	Group		Company		Valuation method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
<b>Assets</b>					
<b><u>Non-current</u></b>					
Transmission owner asset	267,039	288,678	-	-	Level 3
Derivative financial assets	-	-	-	-	Level 2
Investments in subsidiary	-	-	43,536	49,313	Level 3
	<u>267,039</u>	<u>288,678</u>	<u>43,536</u>	<u>49,313</u>	
<b>Liabilities</b>					
<b><u>Non-current</u></b>					
Fixed rate secured bonds due 2034	231,508	244,111	-	-	Level 2
Fixed rate unsecured loan notes due 2035	43,067	46,627	43,067	46,627	Level 2
Derivative financial liabilities	3,432	3,432	-	-	Level 2
Decommissioning provision	2,698	2,698	-	-	Level 3
	<u>280,705</u>	<u>296,868</u>	<u>43,067</u>	<u>46,627</u>	
2016					
	Group		Company		Valuation method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
<b>Assets</b>					
<b><u>Non-current</u></b>					
Transmission owner asset	272,869	294,940	-	-	Level 3
Derivative financial assets	2,606	2,606	-	-	Level 2
Investments in subsidiary	-	-	45,200	52,542	Level 3
	<u>275,475</u>	<u>297,546</u>	<u>45,200</u>	<u>52,542</u>	
<b>Liabilities</b>					
<b><u>Non-current</u></b>					
Fixed rate secured bonds due 2034	238,392	244,671	-	-	Level 2
Fixed rate unsecured loan notes due 2035	44,731	49,360	44,731	49,360	Level 2
Derivative financial liabilities	-	-	-	-	Level 2
Decommissioning provision	2,609	2,609	-	-	Level 3
	<u>285,732</u>	<u>296,640</u>	<u>44,731</u>	<u>49,360</u>	

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### a) Fair value disclosures continued

The best evidence of fair value is a quoted price in an actively traded market; where this data is available then the instrument is classified as having been determined using a level 1 valuation. In the event that the market for a financial instrument is not active, alternative valuation techniques are used. The Group does not have any financial instruments where it is eligible to apply a level 1 valuation technique.

With the exception of the Transmission owner asset, the decommissioning provision and the investment in the subsidiary, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Group's financial instruments these have been valued using models where all significant inputs are based indirectly on observable market data.

In the case of the Transmission owner asset, the decommissioning provision and the investment in the subsidiary, these have been valued using a valuation technique where significant inputs such as the assumed discount rate are based on unobservable market data. This means that these financial instruments have been classified as having been valued using a level 3 valuation and have been identified as such in the previous table.

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the year (2016: throughout the year) and there have been no reclassifications or transfers between the various valuation categories during the year (2016: none).

### b) Management of risk

The Board has overall responsibility for the Group's risk management framework. This risk framework is discussed further in the Group strategic report.

The Group's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Group by using financial instruments, including the use of derivative financial instruments – being the RPI swaps described in note 11 that are appropriate to the circumstances and economic environment within which the Group operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

#### i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Changes in market price are derived from: currency movements; interest rate changes; and changes in prices caused by factors other than those derived from currency or interest rate changes.

The Group operates in the UK and has no significant exposure to foreign currency, and therefore this has an immaterial impact on market risk. Short-term financial assets and liabilities, such as trade receivables and payables, are not subject to market risk. Interest rate risk arises from the use of following financial instruments: Transmission owner asset and cash and cash equivalents.

The Transmission owner asset is carried at amortised cost, and the carrying value is affected by the rate of interest implicit within the calculation of finance income that has a consequential effect on the carrying value of the Transmission owner asset.

The fair value of the Transmission owner financial asset is subject to price risk caused by changes in RPI and/or changes in interest rates.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### b) Management of risk continued

#### i) Market risk continued

All of the Group's borrowings have been issued at fixed rates which exposes the Group to fair value interest rate risk and, as a result, the fair value of borrowings fluctuates with changes in interest rates. All borrowings are carried at amortised cost, and therefore changes in interest rates, in respect of those borrowings, do not impact the income statement or balance sheet.

Cash and cash equivalents, where placed on interest bearing deposits, attract interest at variable rates and therefore are subject to cash flow interest rate risk as cash flows arising from these sources will fluctuate with changes in interest rates. However, the interest cash flows arising from these sources are insignificant to the Group's activities.

The cash flows arising from the Transmission owner financial asset fluctuate with positive changes in RPI. The Group has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in the "Group strategic report - Hedging arrangements".

For the reasons outlined the "Group strategic report - Hedging arrangements", the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the balance sheet. The RPI swaps are considered to be effective cash flow hedges.

#### ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk primarily arises from the Group's normal commercial operations that actually, or potentially, arises from the Group's exposure to: a) NGET in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps described in the "strategic report - Hedging arrangements"; and c) short term deposits. There are no other significant credit exposures to which the Group is exposed. The maximum exposure to credit risk at 31 March 2017 is the fair value of all financial assets held by the Group. Information relating to the fair value of all financial assets is given above – note 17 (a). None of the Group's financial assets are past due or impaired.

NGET is the Group's principal customer, and income derived from NGET represents all of the Group's income. NGET operates a low risk monopoly business within the UK, and the regulatory regime under which they operate results in a highly predictable, and stable, revenue stream. The regulatory regime is managed by The Authority and is considered by the Directors to have a well-defined regulatory framework which is classified as a predictable and a supportive regime by the major rating agencies. NGET has an obligation to maintain an investment grade credit rating, which it has currently maintained. It is also subject to a regulatory financial 'ring fence' that restricts NGET's ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges. Even in the very unlikely circumstance of NGET's insolvency, it is probable that any amounts outstanding would still be recovered. This arises because NGET is also a 'protected energy Company' under the terms of the Energy Act 2004, which allows the Secretary of State to apply for an energy administration order which would give priority to the rescue of NGET as a going concern.

Having considered the credit risks arising in respect of the exposures to NGET, the Directors consider that those risks are extremely low, given the evidence available to them.



# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### b) Management of risk continued

#### ii) Credit risk continued

In respect of the counterparties to the cash flow derivative hedges (RPI swaps) these arrangements have been entered into with banks that the Directors consider to be of good standing and having carried out an appropriate risk assessment, consider that where a derivative asset position might exist the event of default is considered extremely low. At 31 March 2017, the fair values attributable to these positions were liabilities amounting to £3,432k (2016: assets of £2,606k) and consequently there was no credit risk at 31 March 2017.

Included in the balance sheet at 31 March 2017 and 31 March 2016 are cash and cash equivalents that comprised short term deposits which were immediately accessible at that date. It is the Group's policy, and a requirement under the Group's lending agreements, that surplus cash and/or restricted cash deposits can only be invested in a limited set of high quality investments with a view to ensuring that the risk of default is extremely low and that the investments are readily accessible.

#### iii) Liquidity risk and Going Concern

Liquidity risk is the risk that the Group will have insufficient funds to meet its liabilities. The Board of Directors manages this risk.

As a result of: the regulatory environment under which the Group operates; the credit worthiness of the Group's principal customer (NGET); and the RPI swaps that have been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, all of the Group's senior debt carries a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the remaining period of the project. During the year ended 31 March 2017, senior debt-service costs amounted to £17,512k (2016: £7,395k). There is no contractual obligation on the Group to service the unsecured borrowing until 25 August 2035, although it is the Group's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Debt service cash outflows in respect of the unsecured borrowing amounted to £5,316k (2016: £3,113k).

In accordance with the conditions of the various lending agreements, the Group is required to transfer funds to certain specified bank accounts and/or hold certain amounts on deposit for specified purposes. Access to these bank accounts by the Group is subject to the agreement of the lenders and, in particular, access to amounts held on deposit held for specified purposes is restricted under the lending agreements. Examples of such specific purposes include the holding of sufficient funds in restrictive bank accounts to meet senior debt servicing requirements at the next scheduled senior debt service date and to meet forecast maintenance costs. The Group's use of these funds is restricted either to the specific purpose contemplated by the lending agreements, or until certain conditions are met or exceeded. Where these conditions are met or exceeded, then the use of any net cash generated in excess of the minimum necessary to meet the restrictive conditions is unfettered.

At 31 March 2017, the Group had access to a working capital reserve of £5,039k (2016: £5,000k) that it could access in the event that it is required to pay for any insurance deductible or to satisfy any reactive maintenance expenditure attributable to outages or repairs that could not be met in the ordinary course of business. In addition, in the event that the Group had insufficient funds to meet the contractual senior debt service or hedging payments, the Group can draw down under the PBCE letter of credit, with a view to meeting these obligations, the maximum amount that can be accessed under this facility amounts to 15% of the outstanding nominal principal amount of the senior debt outstanding.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### b) Management of risk continued

#### iii) Liquidity risk and Going Concern continued

At 31 March 2017, cash and cash equivalents included £12,758k (2016: £15,018k) that are held for specific purposes in the manner described above (including the working capital reserve) and additional amounts of cash and cash deposits amounting to £4,157k (2016: £7,093k) the disbursement of which has to comply with the terms of the lending agreements generally, but otherwise are available for general corporate purposes.

The Group prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Group. These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use. It is the Group's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

During the year, the Group has continued to meet its contractual obligations as they have fallen due. The Group has exceeded its targets to date in relation to the obligations that it has to senior debt bondholders and the forecasts continue to support that these will continue to be exceeded. All of these factors have allowed the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Group strategic report.

The contractual cash flows shown in the following table are the contractual undiscounted cash flows relating to the relevant financial instruments. Where the contractual cash flows are variable based on a price or index in the future, the contractual cash flows in the table have been determined with reference to the relevant price, interest rate or index as at the balance sheet date.

In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the following table is prepared on the assumption the holder redeems at the earliest opportunity.

The numbers in the following table have been included in the Group's cash flow forecasts for the purposes of considering Liquidity Risk as noted above. The following table shows the undiscounted contractual maturities of financial assets and financial liabilities, including interest, based on the position as at 31 March 2017.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### b) Management of risk continued

#### iii) Liquidity risk and Going Concern continued

Liquidity risk	2017 Contractual Cash flows £'000	2017 0-1 years £'000	2017 1-2 years £'000	2017 2-5 years £'000	2017 >5 years £'000
<b>Non-derivative financial assets</b>					
Transmission owner asset	518,762	21,666	22,142	70,207	404,747
Cash and cash equivalents	16,915	16,915	-	-	-
	535,677	38,581	22,142	70,207	404,747
<b>Non-derivative financial liabilities</b>					
Borrowings +	(329,504)	(15,422)	(15,914)	(51,387)	(246,781)
Trade and other non-interest-bearing liabilities	(4,094)	(4,094)	-	-	-
Provision	(6,065)	-	-	-	(6,065)
	(339,663)	(19,516)	(15,914)	(51,387)	(252,846)
<b>Derivative financial instruments</b>					
RPI swaps	(8,068)	(239)	(258)	(899)	(6,672)
<b>Net total</b>	<b>187,946</b>	<b>18,826</b>	<b>5,970</b>	<b>17,921</b>	<b>145,229</b>

Liquidity risk	2016 Contractual cash flows £'000	2016 0-1 years £'000	2016 1-2 years £'000	2016 2-5 years £'000	2016 >5 years £'000
<b>Non-derivative financial assets</b>					
Transmission owner asset	540,806	20,757	21,386	68,467	430,196
Cash and cash equivalents	22,111	22,111	-	-	-
	562,917	42,868	21,386	68,467	430,196
<b>Non-derivative financial liabilities</b>					
Borrowings +	(344,869)	(17,435)	(15,361)	(49,336)	(262,737)
Trade and other non-interest-bearing liabilities	(4,716)	(4,716)	-	-	-
Provision	(6,134)	-	-	-	(6,134)
	(355,719)	(22,151)	(15,361)	(49,336)	(268,871)
<b>Derivative financial instruments</b>					
RPI swaps	7,699	192	208	737	6,562
<b>Net total</b>	<b>214,897</b>	<b>20,909</b>	<b>6,233</b>	<b>19,868</b>	<b>167,887</b>

+ Including interest payments.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 17. Information relating to financial instruments and the management of risk continued

### b) Management of risk continued

#### iv) Sensitivities

Changes in RPI affect the carrying value of those financial instruments that are recorded in the balance sheet at fair value. The only financial instruments that are carried in the balance sheet at fair value are the standalone derivative financial instruments - RPI swaps - as described in the "Group strategic report – Hedging Arrangements". As explained in the Group strategic report, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the income statement. Changes in the fair value of RPI swaps are expected to be substantially matched by changes in the fair values of the position they are hedging, due to the highly effective hedging relationships. However, the underlying position being hedged in the case of the RPI swaps relates to a substantial proportion of the cash flows emanating from the holding of the Transmission owner asset which is carried at amortised cost. Consequently, any change in the fair value of the underlying hedged position, being the Transmission owner asset, would not be recorded in the financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Group has no substantive economic impact on the Group because of the corresponding economic impact on the underlying cashflows they are hedging. Any changes in future cash flows in relation to the derivative financial instruments held by the Group, arising from future changes in RPI, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the that proportion of the underlying cash flows being hedged that emanate from the holding of the Transmission owner asset.

#### v) Capital management

The Group is funded by a combination of senior debt, other borrowing and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000.

Senior debt comprises a fixed rate borrowing arising from the issuance of fixed rate secured bonds due August 2034 that was issued in August 2015 by WoDS. The secured bonds are guaranteed by the Company and WoDS and in certain specified circumstances where the Group has insufficient funds to meet the contractual senior debt service or hedging payments, the Group can draw down under the PBCE letter of credit, with a view to meeting these obligations, with the maximum amount that can be accessed under this facility equivalent to 15% of the outstanding nominal principal amount of the senior debt outstanding. All of the senior debt and related RPI swap hedging arrangements are serviced on a six-monthly basis (June and December) and are expected to amortise through to August 2034. At 31 March 2017, the total principal carrying value of senior debt net of unamortised issue costs excluding any accrued interest amounted to £241,532k (2016: £250,509k).

Other borrowing raised from the Company's immediate and ultimate parent undertaking, TopCo, carries a fixed rate coupon (see note 16). At 31 March 2017, the total principal value of the other borrowing outstanding excluding accrued interest amounted to £43,067k (2016: £44,731k).

Called-up share capital together with the associated share premium issued during the year amounted to Enil (2016: £469k) and at 31 March 2017 amounted to £469k (2016: £469k).

The Directors consider that the capital structure of the Group meets the Group's objectives, is sufficient to allow the Group to continue its operations for the foreseeable future based on current projections, and consequently has no current requirement for additional funding.

# Notes to the financial statements continued

For the year ended 31 March 2017

## 18. Investments in subsidiary undertaking

Company	Equity £'000	Loans £'000	Total £'000
At 1 April 2015	-	-	-
Additions	469	46,469	46,938
Repayments	-	(1,738)	(1,738)
At 31 March 2016	469	44,731	45,200
Additions	-	158	158
Repayments	-	(1,822)	(1,822)
At 31 March 2017	469	43,067	43,536

The Company holds all of the issued ordinary share capital of WoDS Transmission plc ("WoDS") a company registered in England & Wales, which recorded profit attributable to equity shareholders for the year ended 31 March 2017 of £814k (2016: £35k) and has capital and reserves of £(1,531k) at 31 March 2017 (2016: £2,641k). The Company has advanced unsecured loan notes to WoDS which carries a fixed coupon of 8.31% per annum. The loan investment is contractually repayable on 25 August 2035.

### Group

The sole operating subsidiary undertaking within the Group is WoDS Transmission plc, which is 100% owned by the Company, and is registered in England & Wales; the principal business activity of this subsidiary is the transmission of electricity. The registered office of WoDS Transmission plc is: Canon Place, 78 Canon Street, London, EC4N 6AF.

## 19. Ultimate and immediate parent company

The Company's immediate and ultimate parent company is WoDS Transmission TopCo Limited; a company incorporated and registered in Jersey.

WoDS Transmission TopCo Limited is jointly owned in equal proportions by 3i Infrastructure plc and PPD AssetCo Limited (which is ultimately wholly-owned by PPP Equity PIP LP, a fund managed by Dalmore Capital Limited).

## 20. Company income statement

No income statement is presented by the Company as permitted by Section 408 of the Companies Act 2006. The profit attributable to equity shareholders for the year ended 31 March 2017 was £nil (2016: £nil).

# Glossary

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## A

### The Agreement

The Shareholders Agreement

### Annual General Meeting (AGM)

Meeting of shareholders of the Company, held on an annual basis, to consider ordinary and special business, as detailed in the Notice of AGM.

### The Authority

The Gas and Electricity Markets Authority

## B

### Board

The Board of Directors of the Company

## C

### called up share capital

Shares (common stock) that have been issued and have been fully paid for.

### carrying value

The amount at which an asset or liability is recorded in the balance sheet.

### charging year

The period of time in between 1 April in one calendar year, and 31 March, in the following calendar year.

### Cash Flow Hedges

a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

### the Company, WoDS Transmission HoldCo Limited, HoldCo, we, our, or us

The terms 'the Company', 'WoDS Transmission HoldCo Limited, HoldCo, 'we', 'our', or 'us' are used to refer to WoDS Transmission HoldCo Limited, depending on context.

### contingent liabilities

Possible obligations or potential liabilities arising from past events, for which no provision has been recorded, but for which disclosure in the financial statements is made.

## D

### deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or received in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability.

### derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates, RPI or commodity prices.

## E

### EIB

The European Investment Bank, the European Union's long-term lending institution, established by the Treaty of Rome in 1958, with the aim of furthering European integration.

### equity

In financial statements, the amount of net assets attributable to shareholders.

### EU

The European Union, consisting of 28 member European national states.

# Glossary

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## F

### financial year

For WoDS Transmission HoldCo Limited this is the accounting year ending on 31 March.

### FPL

Frontier Power Limited – supplier of management services to the Group.

## G

### Great Britain

The island of Great Britain comprised of its constituent parts, namely: Wales, England, and Scotland.

### the Group

WoDS Transmission HoldCo Limited and its subsidiary undertaking, WoDS Transmission plc.

## H

### HS&E

Health, Safety, and the Environment

### HoldCo

WoDS Transmission HoldCo Limited

## I

### IAS or IFRS

An International Accounting Standard, or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as a term to describe international generally accepted accounting principles as a whole.

### IASB

International Accounting Standards Board

### IFRIC 12

IFRIC 12 Service Concessions Arrangements

### IFRS

See IAS

### IML

Infrastructure Managers Limited – supplier of administrative and company secretarial services to the Group

## K

### KPIs

Key performance indicators

### kV

Kilovolt – an amount of electrical force equal to 1,000 volts

### kWh

Kilowatt hours – an amount of energy equivalent to delivering 1,000 watts of power for a period of one hour.

## L

### the Licence

The Offshore Electricity Licence held by WoDS Transmission plc

### LTIs

Lost time injury – an incident arising out of WoDS Transmission plc's operations which leads to an injury where the employee or contract normally has time off the following day, or shift following, the incident. It relates to one specific (acute) identifiable incident which arises as a result of WoDS Transmission plc's premise, plant, or activities, which was reported to the supervisor at the time, and was subject to appropriate investigation.

### lost time injury frequency rate

The number of lost time injuries per 100,000 hours worked, over a 12-month period.

# Glossary

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## M

### MMO

Marine Management Organisation

### MSA

Management Services Agreement with FPL

### MW

Megawatts – an amount of power equal to one million watts

### MWh

Megawatt hours – an amount of energy equivalent to delivering one million watts of power over a period of one hour

## N

### NGET

National Grid Electricity Transmission plc

the Notes (see also other borrowing)

Unsecured 8.31% Loan Notes 2035

## O

### Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority, which regulates the energy markets in the UK

### OFTO(s)

Offshore Transmission Owner(s)

### Other borrowing (See also the Notes)

Amounts borrowed by the Company from its immediate parent undertaking, TopCo which ranks behind the Senior Debt.

### O&M

Operations and Maintenance

## P

### Performance year

The year or part thereof (in the case of the commencement and termination years) over which the Company's transmission availability performance is measured – 1 January through to 31 December (or part thereof).

### PBCE

Project Bonds Credit Enhancement in relation to the issuance of a letter of credit by the EIB in favour of the senior creditors.

## R

### RPI

The UK retail price index as published by the Office for National Statistics.

### RPI Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange cash flows relating to RPI on a predetermined principal amount. The Group pays variable cash flows arising from changes in RPI on a predetermined notional amount in exchange for receipt of fixed amounts.

## S

### Senior Debt

All borrowings except those arising under the other borrowing agreement.

### STC

Transmission System Code

### SQSS

Security and Quality of Supply Standard



# Glossary

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## T

### TEC

Transmission Entry Capacity

### TOCA

Transmission Owner Construction Agreement

### TopCo

WoDS Transmission TopCo Limited

## U

### UK

The United Kingdom of Great Britain and Northern Ireland, comprising: Wales, England, Scotland, and Northern Ireland

## W

### WODS

WoDS Transmission plc

### The WoDS group of companies

WoDS Transmission TopCo Limited and its subsidiary undertakings, WoDS Transmission HoldCo Limited and WoDS Transmission plc.

