# WoDS Transmission HoldCo Limited

## Annual Report and Group Financial Statements 2018/19

Registered in England and Wales. Company number: 9308464

# Contents

## 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 2019, 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. Up to and including 31 March 2019, this service was provided to National Grid Electricity Transmission plc ("NGET") and since 1 April 2019 this service has been provided to National Grid Electricity System Operator Limited ("NGESO"). Electricity transmission system operator responsibilities for Great Britain were transferred from NGET to NGESO with effect from 1 April 2019. 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

The Office of Gas and Electricity Markets ("Ofgem"), in partnership with the predecessor of the Department for Business, Energy and Industrial Strategy, has developed a regulatory regime for electricity transmission networks connecting offshore wind farms to the onshore electricity system. A key feature of this regime is that each new tranche of transmission assets required by offshore generators will be owned and operated by offshore transmission owners ("OFTOs"). OFTOs are subject to the conditions of a transmission licence. The process of awarding a transmission licence is through a round of competitive tenders organised by Ofgem.

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.

## 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 at least consistent with 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;
- maintaining an efficient financing structure;
- controlling costs and seeking efficiency improvements.

## Future Developments

The Company's sole purpose is to hold an investment in WoDS, generate returns from that investment and reward its shareholder accordingly.

## 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 a contracting process.

## 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 through its operating subsidiary WoDS:

- 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.

## Principal regulatory, industry contracts and industry code matters

The Group enjoys benefits and 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") with NGET prior to 31 March 2019 and with NGESO from 1 April 2019. 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 as follows.

**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 the activities of WoDS and how it conducts its transmission business. In carrying out its transmission business 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 Company, WoDS or TopCo 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 (through to 31 March 2019) and NGESO (from 1 April 2019) 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 WoDS 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 WoDS 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.

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"). WoDS 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 WoDS 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.

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, WoDS is incentivised to maximise 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 electricity transmission system and a physical inspection of the assets.

The Group has reported 100% transmission availability based on the operational maximum capacity of the system, being the Transmission Entry Capacity ("TEC") of 382MW during the performance year ended 31 December 2018 compared with 99.23% for the performance year ended 31 December 2017. – see "Transmission System Availability" below.

During the performance year ended 31 December 2017, there was a short duration unplanned outage on one circuit that affected availability for around 43 hours in March 2018, for which an Exceptional Event claim was lodged with the Authority and the relay was replaced. However, following a formal root cause analysis and completion of a technical report, no hardware, software or application fault could be identified. Consequently, while the Directors believe that the mal-operation of a protective relay device could satisfy the requirements of an Exceptional Event, given the uncertain root cause and isolated nature of the event, it was concluded that the Exceptional Event claim was unlikely to be successful and the claim was withdrawn. In addition, some further planned outages were taken during the performance year ended 31 December 2017 for routine maintenance activities which also impacted reported availability for the performance year ended 31 December 2017.

During May 2019 and June 2019, the Group carried out remedial sulphur hexafluoride ($SF_6$) gas leakage warranty work which required certain outages of the transmission system to be taken to allow for this remedial work to be undertaken. The impact of this remedial work is explained in greater detail later in this Group strategic report- see "The Group's operational performance". However, the outages that were required to be taken to carry out these remedial works have the potential to impact the Group's reported transmission availability for the performance year ending 31 December 2019.

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 WoDS transmission system with NGET's transmission system. The Group has met its requirements to transmit electricity in accordance with the parameters agreed with NGET (NGESO from 1 April 2019) during the year under review and through to the date of this report.

## 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** |
|---|---|---|
| **Financial KPIs** | | |
| Operating profit plus interest income | Profit before costs of financing and taxation: £14,493k (2017/18: £13,394k) | To increase⁺. |
| Cash available for debt service | Net cash inflows from operating activities plus cash inflows from investing activities: £20,611k (2017/18: £19,178k) | To increase⁺. |
| **Non-Financial KPIs** | | |
| Maximise transmission availability | Making the transmission system available to transmit electricity over the performance year to 31 December 2018: 100% (31 December 2017: 99.23%) | 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;<br>2) Zero reportable environmental incidents;<br>3) Compliance with transferred obligations under the Marine Management Organisation ("MMO") Licence;<br>4) Zero unauthorised access incidents in accordance with Electricity Safety, Quality and Continuity Regulations ("ESQCR"). | 1) Zero LTIs;<br>2) Zero reportable environmental incidents;<br>3) Compliance with MMO Licence;<br>4) Zero unauthorised access incidents in accordance with ESQR.<br><br>All of the above HS&E objectives have been met for the year. |

⁺ After making appropriate adjustments where events give rise to unusual patterns of income, expenditure and/or one-off events.

## 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 WoDS 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 WoDS 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 WoDS has developed its network outage plan and this has been submitted to, and approved by, the Great Britain electricity system operator.

Following completion of the agreed works as required under the Cable Burial Agreement (the "CBA") and the Barrow Crossing Agreement (the "BCA") with Orsted West of Duddon Sands (UK) Limited and ScottishPower Renewables (WODS) Limited ("the Vendors" of the West of Duddon Sands offshore electricity transmission assets), seabed surveys of the BCA Area were undertaken during spring 2017 and autumn 2017. These surveys were carried out in accordance with the terms of the BCA to determine the amount to be paid to WoDS by the Vendors as a one-off settlement to pay for any potential future remedial activities in the BCA area. During the year ended 31 March 2019, WoDS received a final settlement from the Vendors in relation to this matter amounting to £1,315k net of directly attributable costs.

Routine monitoring activities that were carried out during the year ended 31 March 2017 identified $SF_6$ leaks on certain 400kV switchgear located in the onshore substation, and work was carried out by the manufacturer on this switchgear which did not fully resolve the $SF_6$ leaks. Following a root cause analysis that was completed by NGET, who supplied and installed the switchgear, and their supplier (Siemens) in November 2018, it was concluded that the $SF_6$ gas leaks were found to be defects caused by poor handling of equipment prior to installation and the inadequate application of a paint protection system during installation. This in turn led to a degradation of the integrity of the $SF_6$ gas containment system. Consequently, NGET were instructed to remedy the leaks under warranty.

During May and June 2019 outages of the WoDS transmission system were required to be taken to allow for the remedial $SF_6$ warranty work to be carried out by NGET and their supplier at their expense. Outages relating to this activity resulted in approximately 21 days of unavailability for each of WoDS two transmission circuits. WoDS has commenced an Exceptional Event claim with the Authority seeking their approval to exclude the outages that were required to carry out the $SF_6$ remedial work from the calculation of WoDS reported availability incentive performance for the performance year ending 31 December 2019. The Exceptional Event claim has been submitted to the Authority on the basis that WoDS could not have reasonably known of, nor acted to prevent, the circumstances that led to $SF_6$ gas leakages either prior to asset transfer or until the manifestation of the $SF_6$ gas leaks following asset transfer.

Protective painting will continue in the coming weeks beyond the date of this report, but this activity will not affect the availability of the WoDS transmission system.

### Transmission system availability

The performance of the Group's transmission system for the performance year ended 31 December 2018 and 31 December 2017 was as tabulated below:

| MW hours | Notes | Performance Year ended 31 December 2018 | Performance Year ended 31 December 2017 |
|---|---|---|---|
| Maximum system availability (capability – MWhrs) | (a) | 3,346,320 | 3,346,320 |
| Actual system availability (MWhrs) | (b) | 3,346,320 | 3,320,562 |
| Actual system availability (%) | | 100% | 99.23% |
| Regulatory target system availability (%) | | 98% | 98% |
| **Availability credits (MWhrs)** | | | |
| Net availability credits at 1 April 2018 | | 43,690 | 63,478 |
| Net availability credits reflected in charges for 2018/19 (2017/18) | | (43,690) | (63,478) |
| Net availability credits for the performance year | | 66,885 | 43,690 |
| Net availability credits at 31 March 2019 | (c) | 66,885 | 43,690 |

a) The maximum system availability of the Group's transmission system as declared to the Great Britain electricity system operator during the performance year.

b) After taking into account any relief permitted by the Licence or otherwise approved by the Authority.

c) Net availability credits at 31 March 2019 represent "banked" availability credits through to 31 December 2018 (31 December 2017). Consequently, this excludes any potential credits that have arisen between 1 January 2019 and 31 March 2019 (1 January 2018 and 31 March 2018) as these potential availability credits are not eligible to be "banked" until 31 December 2019 (31 December 2018).

### Quality of supply

The quality of supply constraints must comply with the requirements of the STC (See "Principal regulatory, industry contracts and industry code matters - Transmission system quality of supply above"). WoDS is required 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 the Great Britain electricity system operator requiring the WoDS transmission system to be disconnected from NGET's transmission system, resulting in the loss of transmission availability and reduced incentive credits or performance penalties. WoDS closely monitors compliance with these quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the WoDS to meet these quality of supply obligations.

During the year ended 31 March 2019, the WoDS has met its obligations to transmit electricity compliant with these operational obligations. The WoDS has continued to comply with these obligations through to the date of this report.

**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 2013 were zero.

The Group is committed to reducing the environmental impact of its operations to as low as practically possible. The Group does 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 2019 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.

## 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, WoDS, as the only operating company in 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, all Directors of the Company are male.

## The Group's financial performance

### Summary

The financial performance of the Group's operations for the year ended 31 March 2019, and its financial position as at 31 March 2019, 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.

| | 2019<br>£k | 2018<br>£k |
|---|---|---|
| Operating profit | **14,420** | 13,353 |
| Other finance income | **73** | 41 |
| Operating profit plus other finance income | **14,493** | 13,394 |
| Finance costs | **(12,497)** | (12,213) |
| Profit before taxation | **1,996** | 1,181 |
| Taxation | **(500)** | (309) |
| Profit after taxation | **1,496** | 872 |
| | | |
| Net cash inflow from operating activities and investing activities | **20,611** | 19,178 |
| Net cash flows used in financing activities | **(18,405)** | (17,795) |

### 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 up to 31 March 2019 and NGESO from 1 April 2019.

Finance income for the year amounted to £11,810k (2018: £12,070k), and represents the finance income that would have been generated from an efficient standalone transmission owner. Finance income for the year ended 31 March 2019 has fallen as compared as compared with 2018 as a result of the reduction in the carrying value of the Transmission owner asset. 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 33.

Operating income for the year amounted to £4,881k (2018: £4,768k), and represents the operating income that would be generated by an efficient provider of operating services to the Great Britain electricity system operator. 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. Operating income has been recorded in accordance with the principal accounting policies adopted by the Company.

### Operating costs

Operating costs for the year amounted to £2,271k (2018: £3,485k). The most significant cost included within these costs relates to the operations, maintenance and management of WoDS as the only operating subsidiary in the Group and amounted to £2,064k (2018: £3,149k). This cost covers operations and maintenance fees, insurance fees, management service fees, and non-domestic rates associated with the transmission network. The decrease in operating costs for the year as compared with 2018, primarily reflects the recognition of a settlement net of directly attributable costs amounting to £1,315k received from the Vendors of the offshore electricity transmission system relating to the Barrow Crossing Agreement - see "The Group's operational performance" earlier in this Group strategic report.

### Operating profit

Operating profit being the residual of operating income, finance income and operating costs amounted to £14,420k (2018: £13,353k). The increase in operating profit for the year as compared with 2018, reflecting the changes discussed above.

### Other finance income

Other finance income of £73k (2018: £41k) relates solely to interest earned on bank deposits.

### Finance costs

Finance costs amounted to £12,497k (2018: £12,213k). The vast majority of the finance costs relates to the interest cost of servicing the senior debt bondholders £7,942k (2018: £8,201k) and holders of the other borrowing £3,728k (2018: £3,641k). Interest expense and other financial costs principally arise from the cost of debt used to finance the initial acquisition of the Transmission owner asset. Finance costs also include a £455k net charge (2018: £nil) that arose as a result of certain hedge ineffectiveness for accounting purposes, which primarily explains the overall increase in finance costs for the year as compared with 2018.

### Taxation

The net taxation charge on profit before taxation for the year is £500k (2018: £309k) and relates solely to deferred taxation. There was no current taxation arising in the year (2018: £nil) as the Group has no taxable profit (2018: no taxable profit). The taxation charge for the year has been computed at 19% (2018: 19%) and adjusted to 17% (2018: 17%) following a remeasurement of deferred taxation balances at the balance sheet date.

A taxation credit of £386k (2018: £73k charge) has been recognised in other comprehensive (loss)/ income relating to pre-taxation losses (2018: gains) arising on marking the Group's cash flow hedges to market at the balance sheet date. The taxation credit (2018: charge) relates solely to deferred taxation. This taxation credit (2018: charge) has been computed at 19% (2018: 19%) and adjusted to 17% (2018: 17%) following a remeasurement of deferred taxation balances at the balance sheet date.

### Profit after taxation

Profit for the year after taxation amounted to £1,496k (2018: £872k). The increase in profit after taxation for the year as compared with 2018, reflects the impact of the changes on operating profit, finance costs and taxation which are discussed above.

### Cash flows

Net cash flows from operations amounted to £20,538k (2018: £19,137k) primarily reflecting the amounts invoiced and received from NGET in relation to the provision of transmission services for the year ended 31 March 2019 net of cash outflows relating to operating activities incurred during the year. Cash inflows from NGET are higher for the year ended 31 March 2019 as compared with the comparative year, primarily as a result of higher availability incentive performance payments.

Net cash flows generated from investing activities amounted to £73k (2018: £41k).

Cash available for debt servicing defined as net cash flows from operations plus net cash flows generated from investing activities being interest income received of £73k (2018: £41k) amounted to £20,611k (2018: £19,178k).

Payments to service the senior bondholders during the year amounted to £15,913k (2018: £15,422k) and payments to service the other borrowing during the year amounted to £2,492k (2018: £2,373k).

No income taxation or dividends were paid in the year (2018: £nil).

## Balance sheet and consideration of financial management

### Balance sheet

The Group's balance sheet at 31 March 2019 is summarised as follows:

| | Assets £'000 | Liabilities £'000 | Net assets/ (liabilities) £'000 |
|---|---|---|---|
| Non-current Transmission owner asset | 253,613 | - | 253,613 |
| Non-current deferred taxation | - | (408) | (408) |
| Current assets and liabilities+ | 7,544 | (962) | 6,582 |
| Non-current decommissioning provision | - | (2,946) | (2,946) |
| Total before net debt | 261,157 | (4,316) | 256,841 |
| Net debt | 20,504 | (278,035) | (257,531) |
| **Totals at 31 March 2019** | **281,661** | **(282,351)** | **(690)** |
| Totals at 31 March 2018 | 285,607 | (285,906) | (299) |

+ Excluding those current assets and liabilities included within net debt.

### Transmission owner asset and decommissioning provision

The Transmission owner asset is classified as a contract asset and 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 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 33.

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 2019 the carrying value of the Transmission owner asset was £260,934k (2018: £267,115k) and the decommissioning provision amounted to £2,946k (2018: £2,821k).

**Non-current deferred taxation**

The Group has recognised a deferred taxation liability of £408k (2018: £294k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the year.

**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.

At 31 March 2019 net debt stood at £257,531k (2018: £263,498k) and included £5,727k (2018: £2,999k) of liabilities 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 through to 24 August 2034. The total principal carrying value of the senior debt outstanding at 31 March 2019 net of unamortised issue costs amounted to £223,931k (2018: £231,589k).

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 2019 the total principal carrying value of the other borrowing outstanding amounted to £45,520k (2018: £44,309k).

Called-up share capital and share premium at 31 March 2019 amounted to £469k (2018: £469k).

**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 2019 is negative (2018: negative) 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 "Principal regulatory, industry contracts and industry code matters -Regulated revenue and incentives". Up to and including 31 March 2019, all of the cash inflows generated by the Group through the electricity transmission services provided by WoDS were derived from NGET in its capacity as the then Great Britain electricity system operator. With effect from 1 April 2019, all such services have been provided by the Group to NGESO who now has the Great Britain electricity system operator responsibilities and it has continued to settle all invoices to the date of this report in accordance with its obligations under the STC. Similar to WoDS and NGET, NGESO is also regulated by the Authority. The Directors consider the likelihood of a future default by NGESO to be 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 that 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 may be able to recover any loss it has suffered.

In the event that the WoDS suffers a loss of transmission system availability due to an exceptional event, then WoDS can apply to the Authority to have the loss of availability ignored for the purposes of determining reported system incentive performance. In the event of a successful claim, then 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.

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 substantially all of the expected life of the WoDS transmission business or project. This reduces the uncertainty as to the predictability of the likely cash in-flows 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 2019, the Group through WoDS had access to a working capital reserve of £5,340k (2018: £5,149k) 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 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 the 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 the investment grade status of the WoDS and therefore the Group's senior debt in the foreseeable future based on the information available to the Directors at the date of this annual report.

**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 transmission licence issued to WoDS that allows 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 2019, the Group had £20,504k (2018: £18,298k) of cash balances of which £14,190k (2018: £13,374k) 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.

**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 the Great Britain electricity system operator 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 the period over which the vast majority of future cash flows from the project are expected to be generated.

As previously described (see "Principal regulatory, industry contracts and industry code matters - 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 (up to 31 March 2019) and NGESO (from 1 April 2019), 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 2019 was £5,727k (2018: £2,999k). Further information relating to these derivative financial instruments is shown in note 12 to the financial statements.

### 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 by WoDS. 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 provide and where appropriate publish semi-annual management accounts, yearly audited consolidated financial statements and yearly regulatory accounts for WoDS Transmission plc on a designated website;
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.

## 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 33.

**Approved on behalf of the Board**

M Edwards

Matthew Edwards
Director
22 July 2019

# Directors' report

**For the year ended 31 March 2019**

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:

Nick Axam
John Cavill[1]
Matthew Edwards
Adrian Peacock
Celine Maronne[2]
[1] Appointed 27 September 2018
[2] Resigned 27 September 2018

**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 21, which is incorporated by reference into this report.

**Company status**

WoDS Transmission HoldCo Limited is a company limited by shares. The Company is incorporated in the United Kingdom and registered in England and Wales.

**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.

**Returns to parent undertaking**

During the year ended 31 March 2019 the Company paid £2,492k (2018: £2,373k) of interest to TopCo in relation to the unsecured 8.31% Loan Notes 2035 that were issued by the Company to TopCo. The principal outstanding on these unsecured loans amounted to £45,520k at 31 March 2019 (2018: £44,309k).

No dividends were paid during the year (2018: £nil). The Directors are not proposing a final dividend (2018: £nil).

### Greenhouse gas emissions

The operation of the Group's facilities requires the consumption of electricity and may result in the emission of greenhouse gases. The Directors have calculated that approximately 334 tonnes of $CO_2$ (equivalent) have been emitted during the year (2018: 1,193 tonnes), this calculation being based upon an appropriate factor converting units of electricity consumed or greenhouse gases emitted into tonnes of $CO_2$ (equivalent).

### Donations and research and development

No charitable or political donations were made during the year (2018: £nil) and expenditure on research and development activities was £nil (2018: £nil).

### Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on pages 18 and 19 of the Group strategic report and in note 12 to the financial statements.

### Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary 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 (Group) 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.

MD Edwards

**Approved on behalf of the Board**

Matthew Edwards
Director
22 July 2019
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 2019 are 3i Infrastructure plc and PPDI AssetCo 2 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 and management 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 22.

# Corporate governance statement continued

**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, which typically convenes twice per year. The members of the committee are the same as the members of all boards in the WoDS group of companies including that of the Company. 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 Group (a discussion of which is included on pages 39 to 42).
- 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 auditors 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 auditors 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 Committee is satisfied as to the auditors' objectivity and independence following enquiry and discussion with the auditors and with management.

**Approved on behalf of the Board**

Matthew Edwards
Director
22 July 2019

# Statement of Directors' responsibilities

**For the year ended 31 March 2019**

The Directors are responsible for preparing the annual report and Group financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared these Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing 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 IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group or Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiary and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 auditors are unaware; and

(b) they have taken all the steps that they ought to have taken as a Director in order 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**

Matthew Edwards
Director
22 July 2019

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

**For the year ended 31 March 2019**

## Report on the audit of the financial statements

### 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 2019 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the annual report and Group financial statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2019; the Consolidated income statement and statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and Company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We have provided no non-audit services to the Group or the Company in the period from 1 April 2018 to 31 March 2019.

### Our audit approach
*Overview*

| | |
|---|---|
| Materiality | • Overall Group and Company materiality: £100k (2018: £59k), based on 5% of profit before tax. |
| Audit scope | • The Group financial statements comprise two components, each of which was subject to full scope audits all conducted by the group engagement team.<br>• We tailored the scope of our audit taking into account the significant balances within the Group, the accounting processes and controls, and the industry in which the Group operates.<br>• We obtained an understanding of internal controls in place and then performed substantive testing where required over the significant balances. |
| Key audit matters | • Valuation of derivatives (Group). |

**Our audit approach (continued)**

*The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

*Capability of the audit in detecting irregularities, including fraud*

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of conditions of the Group's Offshore Electricity Transmission Licence granted by the Gas and Electricity Markets Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the group engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understanding of management's controls designed to prevent and detect irregularities;
- Review of Board minutes;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular analysing detailed journal listings to determine if there have been any unusual journal postings or significant transactions out with the ordinary course of business.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

*Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

**Our audit approach (continued)**

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| *Valuation of derivatives*<br>*(see note 12 of the financial statements)*<br>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.<br><br>We focused on this area as valuation of derivatives requires the use of judgement by the Directors and the involvement of valuation experts. Derivative valuation requires judgements because, for some instruments, quoted prices are not readily available. As such, management use models to estimate their fair value. The key judgements for derivative valuation is whether an appropriate valuation methodology and input assumptions have been used. | Our audit work in respect of the valuation of derivative assets and liabilities included understanding and assessing the models and methodology used for the derivative investments, using our valuation specialists. This included recalculating the valuations using independent models and sourcing our own input data from recognised independent market data and investigating any differences found that were greater than predefined thresholds.<br><br>We determined that the assumptions used, and the resultant valuations of the derivatives, were within ranges that we consider to be acceptable. |

*How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

*Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

| | ***Group financial statements*** | ***Company financial statements*** |
|---|---|---|
| ***Overall materiality*** | £100k (2018: £59k). | £100k (2018: £59k). |
| ***How we determined it*** | 5% of profit before tax. | See below |
| ***Rationale for benchmark applied*** | We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. | We believe the materiality applied is appropriate as all other measures would result in a materiality higher than the Group, therefore we have limited the Company materiality. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5k (2018: £2.5k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

For the year ended 31 March 2019

## Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Group strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Group strategic report and Directors' report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Group strategic report and Directors' report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Group strategic report and Directors' report.

### Responsibilities for the financial statements and the audit

*Responsibilities of the Directors for the financial statements*

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

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

*Auditors' responsibilities for the audit of the financial statements*

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

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

*Use of this report*

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.

## Other required reporting

### Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

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

For the year ended 31 March 2019

## Other required reporting (continued)

### Appointment

Following the recommendation of the audit committee, we were appointed by the Directors on 22 April 2015 to audit the financial statements for the year ended 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2015 to 31 March 2019.

Mark Hoskyns Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
22 July 2019

# Accounting Policies

**For the year ended 31 March 2019**

## A. Basis of consolidation and preparation of consolidated financial statements under International Financial Reporting Standards (IFRS)

These consolidated financial statements include the results, assets and liabilities of the Company and its subsidiary undertaking made up to 31 March 2019 and have been prepared on a going concern basis and in accordance with EU endorsed IFRS, interpretations issued by the IFRS Interpretations Committee (IFRS IC) and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements reflect the elimination of all intercompany transactions and balances within the Group and reflect consistent accounting policies updated, where necessary, to ensure that the accounting policies adopted reflect 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 2019. 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 "Service Concession Arrangements" 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 and IFRS 15 "Revenue from Contracts with Customers". 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 contract asset and financial asset and is accounted for as described below – see C – Financial Instruments.

## 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 F. Operating and finance income below; and
- as operating income - see F. 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

***Applicable from 1 April 2018***

Financial assets are measured at amortised cost or at fair value through profit and loss.

Trade receivables are classified at amortised cost as they are held within a business model to collect contracted cash flows. Such receivables are initially recognised at their transaction price, being the expected amount of any consideration receivable. Trade receivables continue to be measured at their transaction price less any expected credit losses using the simplified approach for determine such losses as permitted by IFRS 9 "Financial Instruments".

Loan receivables, including time deposits and demand deposits, are initially recognised at fair value, which would normally be the transaction price and subsequently measured at amortised cost, less any expected credit losses.

The Transmission owner asset is classified as a contract asset and a financial instrument and is carried at amortised cost using the effective interest rate method less any expected credit losses and 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 F. Operating and finance income below.

Expected credit losses are considered at each reporting date. Where the credit risk has not significantly changed since the initial recognition of an asset or class of assets, then expected credit losses are calculated at an amount equal to the 12-month expected credit losses on that asset or class of assets. For assets where the credit risk has significantly changed since initial recognition, a credit loss allowance is calculated by assessing the lifetime credit risk. Any loss allowance calculated in relation to expected credit losses is recognised in the income statement.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

## C. Financial instruments continued

***Applicable from 1 April 2018 - continued***

Borrowings 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.

Derivative financial instruments are measured at fair value through profit and loss 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.

***Applicable up to 31 March 2018***

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 F. Operating and finance income below.

## C. Financial instruments continued

***Applicable up to 31 March 2018***

Borrowings 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. 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

As permitted by IFRS 9, the Group continues to apply the hedge accounting requirements of International Accounting Standard 39.

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") including any change in the fair value of those hedges that result from a change in the credit risk of these 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. 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.

## F. 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.

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**

Operating income represents the income derived from the provision of operating services, principally to the Great Britain electricity system operator. 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.

## F. 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.

## G. 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 six months that are readily convertible to known amounts of cash, and subject to an insignificant change in value.

## H. 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.

## I. 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 and IFRS 15 where appropriate. Consequently, the accounting for charges made by the Group for transmission network availability is consistent with IFRIC 12 and IFRS 15.

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 IFRS 15; 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 the Great Britain electricity system operator. 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.

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

***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.

**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. Similarly, when the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. 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.

## I. 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) Expected credit losses

The carrying value of those financial assets recorded in the Group's balance sheet at amortised cost, including the Transmission owner asset, could be materially reduced if the value of those financial assets were assessed to have been impaired. Potential expected credit losses arise as a result of all possible default events over the expected life of a financial instrument. At each reporting date, the Company performs an assessment as to whether the credit risk on a financial instrument has increased and depending upon the outcome of that assessment then the Company will make an appropriate allowance for expected credit losses in accordance with the requirements of IFRS 9. This assessment involves considering reasonable and supportable information that is available to allow appropriate judgements to be formed but still involves the significant use of assumptions.

Any reduction in value arising from such a review would be recorded in the income statement.

## I. 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.

## J. Accounting developments

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

In preparing these financial statements the Group and Company has complied with IFRS, International Accounting Standards (IAS) and Interpretations applicable either for accounting periods starting by 1 April 2018 or ending by 31 March 2019 and have been endorsed by the EU. Note 1 to these financial statements summarises the impact on these financial statements of implementing IFRS 9. The implementation of any 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, including IFRS 15, have not had any significant effect on the measurement of assets and/or liabilities or any of the disclosures included herein.

## J. Accounting developments continued

**ii) New accounting standards, amendments to standards and interpretations issued that may be relevant to the Company or Group's activities but are not effective in these financial statements**

The Group has identified IFRS 16 'Leases' as an accounting standard that is not effective in these financial statements, but which could impact the financial statements in the future, and further information regarding this standard is given below.

**IFRS 16 'Leases'**

IFRS 16 is to be applicable to the Group and Company's financial statements commencing 1 April 2019. The Group is evaluating the impact of this new accounting standard and it 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 Group. In addition, there is likely to be an impact on the Group's income statement geography and the timing and recognition of lease related expenses. There is expected to be no impact on the Company's individual financial statements of adopting this accounting standard. The evaluation of the impact of IFRS 16 on the Group financial statements is not yet complete and so quantification of the impact is not available.

**Other standards, amendments to standards and interpretations**

There are no other new accounting standards, amendments to standards or interpretations that have been issued but that are not effective in these Group and Company financial statements that are likely to have any significant impact on the measurement of assets and/or liabilities or any of the disclosures included herein.

# Consolidated income statement

**For the year ended 31 March 2019**

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Operating income | 3 | **4,881** | 4,768 |
| Finance income | 3 | **11,810** | 12,070 |
| **Total income** | | **16,691** | 16,838 |
| **Operating costs** | 4 | **(2,271)** | (3,485) |
| **Operating profit** | | **14,420** | 13,353 |
| Other finance income | 5 | **73** | 41 |
| Finance costs | 5 | **(12,497)** | (12,213) |
| **Net interest expense** | 5 | **(12,424)** | (12,172) |
| **Profit before taxation** | | **1,996** | 1,181 |
| Income taxation charge | 6 | **(500)** | (309) |
| **Profit attributable to equity shareholders** | | **1,496** | 872 |

The notes on pages 51 to 69 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 2019**

| | Notes | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| **Profit attributable to equity shareholders** | | **1,496** | 872 |
| **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 | 12 | **(2,273)** | 433 |
| Deferred taxation on cash flow hedges | 6 | **386** | (73) |
| **Total other comprehensive (loss) / income** | | **(1,887)** | 360 |
| **Total comprehensive (loss) / income for the year attributable to equity shareholders** | | **(391)** | 1,232 |

# Company balance sheet

**As at 31 March 2019**

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiary undertaking | 19 | **45,989** | 44,778 |
| Total non-current assets | | **45,989** | 44,778 |
| **Current assets** | | | |
| Amounts receivable from subsidiary undertaking | | **933** | 908 |
| Total current assets | | **933** | 908 |
| **Total assets** | | **46,922** | 45,686 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(933)** | (908) |
| Total current liabilities | | **(933)** | (908) |
| **Non-current liabilities** | | | |
| Borrowings | 10 | **(45,520)** | (44,309) |
| Total non-current liabilities | | **(45,520)** | (44,309) |
| **Total liabilities** | | **(46,453)** | (45,217) |
| **Net assets** | | **469** | 469 |
| **Equity** | | | |
| Called up share capital | 14 | **100** | 100 |
| Share premium | 14 | **369** | 369 |
| Profit attributable to equity shareholders for the year and retained earnings | 15 | **-** | - |
| **Total shareholders' equity** | | **469** | 469 |

Company number: 9308464

The financial statements set out on pages 33 to 69 were approved by the Board of Directors on 22 July 2018 and were signed on its behalf by:

M J Edwards

Matthew Edwards
Director

# Consolidated balance sheet

As at 31 March 2019

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Transmission owner asset | 7 | **253,613** | 260,935 |
| Total non-current assets | | **253,613** | 260,935 |
| **Current assets** | | | |
| Prepayments | | **223** | 178 |
| Other receivable | | **-** | 16 |
| Transmission owner asset | 7 | **7,321** | 6,180 |
| Cash and cash equivalents | 9 | **20,504** | 18,298 |
| Total current assets | | **28,048** | 24,672 |
| **Total assets** | | **281,661** | 285,607 |
| **Current liabilities** | | | |
| Borrowings | 10 | **(8,514)** | (7,658) |
| Trade and other payables | 11 | **(3,819)** | (3,894) |
| Total current liabilities | | **(12,333)** | (11,552) |
| **Non-current liabilities** | | | |
| Borrowings | 10 | **(260,937)** | (268,240) |
| Derivative financial liabilities | 12 | **(5,727)** | (2,999) |
| Deferred taxation liability | 8 | **(408)** | (294) |
| Decommissioning provision | 13 | **(2,946)** | (2,821) |
| Total non-current liabilities | | **(270,018)** | (274,354) |
| **Total liabilities** | | **(282,351)** | (285,906) |
| **Net liabilities** | | **(690)** | (299) |
| **Equity** | | | |
| Called up share capital | 14 | **100** | 100 |
| Share premium | 14 | **369** | 369 |
| Retained earnings | 15 | **3,217** | 1,721 |
| Cash flow hedge reserve | 15 | **(4,376)** | (2,489) |
| **Total shareholders' equity** | | **(690)** | (299) |

Company number: 9308464

The financial statements set out on pages 33 to 69 were approved by the Board of Directors on 22 July 2019 and were signed on its behalf by:

M Edwards

Matthew Edwards
Director

# Consolidated statement of changes in equity

**For the year ended 31 March 2019**

| | Called up share capital and share premium £'000 | Cash flow hedge reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| At 1 April 2017 | 469 | (2,849) | 849 | (1,531) |
| Total comprehensive income for the year | - | 360 | 872 | 1,232 |
| At 31 March 2018 | 469 | (2,489) | 1,721 | (299) |
| Total comprehensive loss for the year | - | (1,887) | 1,496 | (391) |
| **At 31 March 2019** | **469** | **(4,376)** | **3,217** | **(690)** |

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 2019**

| | Called up share capital and share premium £'000 | Total equity £'000 |
|---|---|---|
| **At 1 April 2017, 31 March 2018 and 31 March 2019** | **469** | **469** |

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain borrowing obligations.

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

# Consolidated cash flow statement

**For the year ended 31 March 2019**

| | Note | 2019 | 2018 |
|---|---|---|---|
| | Note | **£'000** | **£'000** |
| Cash flows from operating activities | | | |
| Profit attributable to equity shareholders for the year | | **1,496** | 872 |
| Adjustments for: | | | |
| Net interest charges | | **12,424** | 12,172 |
| Taxation charge | | **500** | 309 |
| Non-cash movement relating to finance income | | **6,181** | 5,608 |
| Changes in working capital | | **(63)** | 176 |
| | | **19,042** | 18,265 |
| **Net cash flows from operating activities** | | **20,538** | 19,137 |
| Cash flows from investing activities | | | |
| Interest received | | **73** | 41 |
| **Cash flows from investing activities** | | **73** | 41 |
| Cash flows used in financing activities | | | |
| Partial repayment of bonds (senior debt) | 16 | **(7,905)** | (7,160) |
| Interest paid | | **(10,500)** | (10,635) |
| **Net cash flows used in financing activities** | | **(18,405)** | (17,795) |
| **Net increase in cash and cash equivalents** | | **2,206** | 1,383 |
| Cash and cash equivalents at the start of the year | | **18,298** | 16,915 |
| **Cash and cash equivalents at the end of the year** | 16 | **20,504** | 18,298 |

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

## 1. Impact of adoption of new accounting standard IFRS 9 - Financial instruments

IFRS 9 has replaced the provisions of International Accounting Standard 39 (IAS 39) that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 April 2018 has resulted in certain changes in accounting policies and the classification of certain financial assets and financial liabilities; however, no adjustments were required to the amounts recognised in the financial statements in previous periods.

*Classification and measurement*

On 1 April 2018, the Group and Company classified its financial instruments into the appropriate IFRS 9 categories. As a consequence, all of the Group's derivative financial instruments are now classified at fair value through profit and loss under IFRS 9. All of these derivative financial instruments were previously designated as cash flow hedges under IAS 39 at 31 March 2018 and continue to qualify for hedge accounting under IFRS 9 at 1 April 2018 and are therefore treated as continuing hedges. In addition, the Group continues to apply the apply the hedge accounting requirements of IAS 39 as permitted by IFRS 9. The Company does not have any derivative financial instruments.

The Transmission owner asset continues to be accounted at amortised cost under IFRIC 12 – see "Accounting policies - B. Transmission availability arrangements" and "Note 7. Transmission owner asset" below.

To the extent that the Group or Company recognises any trade receivables – these financial assets are classified and measured at amortised cost, as they are held within a business model to collect contracted cash flows, which is the same treatment as adopted prior to 1 April 2018. Similarly, cash and cash equivalents continue to be classified as amortised cost financial assets as they were under IAS 39 as the contractual cash flows only reflect payments of principal and interest on the principal amount outstanding.

There are no changes to the measurement and classification of any other financial liabilities under IFRS 9 as compared with IAS 39 for the Group or the Company.

*Impairment of financial assets*

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model being the transmission owner asset which is also classified as a contract asset under IFRS 15 and any trade receivables that may be outstanding. To the extent the Company has any trade receivables, this too would be subject to IFRS 9's new expected credit loss model.

The Group has assessed the credit risk in relation to the transmission owner asset and believes it to be extremely low as the probability of default is insignificant; therefore the provision for expected credit losses is £nil.

Typically, the value of any trade receivables outstanding at any one time is immaterial to the activities of the Group and typically the Company does not have any trade receivables outstanding.

The Company has also considered credit risk in relation to intercompany asset balances and believes it to be extremely low as the probability of default is insignificant; therefore the provision for expected credit losses is £nil.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, but no impairment loss has been identified for the Group or Company.

Consequently, the IFRS 9 impact on retained earnings of the Group and Company at 1 April 2018 was £nil and therefore no restatement was required

## 2. Operating segment

The Board of Directors is the Group'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 plus net cash flows from investing activities). 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 44, 47 and 50 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 51 to 69.

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.

## 3. Operating and finance income

Operating income of £4,881k (2018: £4,768k) and finance income of £11,810k (2018: £12,070k) 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. Finance income is calculated using the effective interest rate method – consistent with the Company's accounting policy – see "Accounting policies - F. Operating and finance income".

With effect from 1 April 2019, the Group provides its electricity transmission services to NGESO.

## 4. Operating costs

Operating costs are analysed below:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Operations, maintenance and management[1] | **2,064** | 3,149 |
| Auditors' remuneration | **19** | 19 |
| Other | **188** | 317 |
| **Total** | **2,271** | 3,485 |

| | | |
|---|---|---|
| Auditors' remuneration comprises: | | |
| Audit services | **12** | 12 |
| Other services supplied pursuant to legislation[2] | **7** | 7 |
| Total | **19** | 19 |

[1] 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. Included within operations, maintenance and management costs is a net credit of £1,315k (2018: £nil) relating to a settlement for potential future remedial works to be undertaken by the Group – see Group strategic report – the Group's operational performance".

[2] These represent fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular, this includes fees for audit reports on regulatory returns.

## 5. Net interest expense

Net interest expense is as expense is as tabulated below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Interest income** | | |
| Interest on bank deposits | **73** | 41 |
| **Interest expense and other financial costs** | | |
| Interest on secured bonds (senior debt) | **(7,942)** | (8,201) |
| Interest on other borrowing | **(3,728)** | (3,641) |
| Other financial costs[1] | **(827)** | (371) |
| | **(12,497)** | (12,213) |
| **Net interest expense** | **(12,424)** | (12,172) |

[1] Includes a £455k charge (2018: £nil) as a result of certain hedge ineffectiveness.

## 6. Income taxation charge

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

The net taxation charge for the year is £500k (2018: £309k), 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 19% (2018: 19%). There is no current taxation included in the income statement (2018: £nil).

The taxation charge for the year differs from (2018: differs from) the main rate of corporation tax in the UK of 19% (2018: 19%) for the reasons outlined below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Profit before taxation | **1,996** | 1,181 |
| Taxation at 19% (2018: 19%) on profit before taxation | **379** | 224 |
| **Effects of:** | | |
| - expenses not deductible for tax purposes | **179** | 170 |
| - adjustment from previous periods | **-** | (43) |
| - change in tax rates on deferred tax[1] | **(58)** | (42) |
| **Taxation charge for the year** | **500** | 309 |

[1] Reflecting a corporation tax rate of 17% (2018: 17%), 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 (loss)/ income

The net taxation credit on items included in other comprehensive (loss)/income for the year is £386k (2018: £73k charge) and comprises a credit on items arising in the current year computed at 19% (2018: 19%) of £432k (2018: £82k charge) and a charge of £46k (2018: £9k credit) arising from a change in corporation taxation rates. There is no current taxation (2018: £nil) included in other comprehensive (loss)/income.

## 6. Income taxation charge continued

### c) Rates of taxation - future years

Future tax charges, and therefore the Company's future effective tax rate, could be impacted by changes in legislation or the interpretation of existing legislation by the Company and or the relevant tax authorities.

## 7. Transmission owner asset

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

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| At 1 April 2018 | 267,115 | 272,723 |
| Adjustment to the carrying value[+] | (6,181) | (5,608) |
| At 31 March 2019 | **260,934** | 267,115 |
| | | |
| Comprising: | | |
| Amounts falling due within one year | 7,321 | 6,180 |
| Amounts falling due after more than one year | 253,613 | 260,935 |
| | **260,934** | 267,115 |

[+] Arising from the application of the effective interest rate method and reflected through finance income in the income statement.

The Transmission owner asset is a contract asset and is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2019 was £277,196k (2018: £288,685k). 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% (2018: 4.54%) per annum.

## 8. Deferred taxation (liability) / asset

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

| | Fair value losses on derivatives<br>£'000 | Accelerated capital allowances<br>£'000 | Total<br>£'000 |
|---|---|---|---|
| At 1 April 2017 | 583 | (495) | 88 |
| Movements | (73) | (309) | (382) |
| At 31 March 2018 | 510 | (804) | (294) |
| Current year movements | 464 | (578) | (114) |
| **At 31 March 2019** | **974** | **(1,382)** | **(408)** |

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

The carrying value of all deferred taxation balances have been computed at 17% - being the rate of corporation tax that is expected to apply when the temporary differences reverse and reflects the latest enacted legislation in force at the balance sheet date.

## 9. Cash and cash equivalents

Group cash and cash equivalents comprise short term deposits of £20,504k (2018: £18,298k). 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. All cash and equivalents are carried at amortised cost.

Group cash and cash equivalents include amounts of £14,190k (2018: £13,374k) 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.

## 10. Borrowings

The following table analyses borrowings:

| | Company | | Group | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| **Current** | | | | |
| Secured bonds – fixed rate | - | - | **8,514** | 7,658 |
| **Non-current** | | | | |
| Secured bonds – fixed rate | - | - | **215,417** | 223,931 |
| Other borrowing – fixed rate | **45,520** | 44,309 | **45,520** | 44,309 |
| | **45,520** | 44,309 | **260,937** | 268,240 |
| **Total borrowings** | **45,520** | 44,309 | **269,451** | 275,898 |

<u>Total borrowings are repayable as follows:</u>

| | Company 2019 | Company 2018 | Group 2019 | Group 2018 |
|---|---|---|---|---|
| In one year or less | - | - | **8,514** | 7,658 |
| In more than one year, but not more than two years | - | - | **9,487** | 8,514 |
| In more than two years, but not more than three years | - | - | **10,432** | 9,487 |
| In more than three years, but not more than four years | - | - | **10,100** | 10,432 |
| In more than four years, but not more than five years | - | - | **11,174** | 10,075 |
| In more than five years other than by instalments | **45,520** | 44,309 | **219,744** | 229,732 |
| | **45,520** | 44,309 | **269,451** | 275,898 |

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 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 18.

## 10. Borrowings continued

As at 31 March 2019 the Group had access to a PBCE letter of credit issued by the European Investment Bank amounting to £33,970k (2018: £35,156k) which guarantees certain payments to be made in respect of the secured bonds and the Group's hedging arrangements all of which was undrawn (2018: 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 2019 (2018: no defaults or breaches).

## 11. Trade and other payables

Trade and other payables are as tabulated below.

| | Company | | Group | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade payables | **-** | - | **40** | 50 |
| Other taxes | **-** | - | **536** | 530 |
| Accrued expenses | **933** | 908 | **3,243** | 3,314 |
| | **933** | 908 | **3,819** | 3,894 |

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.

## 12. Derivative financial liabilities

Derivative financial instruments are recorded in the balance sheet at market value and the carrying value of these derivative financial instruments may result in assets and/or liabilities being recognised at the balance sheet date. Derivative financial instruments derive their market value from the price of an underlying item, such as the RPI index or other indices and have been entered into for the sole purpose of hedging the underlying economic activity of the Group. All such derivative financial instruments are classified under IFRS 9 at fair value through profit and loss.

All hedge accounting continues to be carried out in accordance with the hedge accounting requirements of IAS 39 as permitted by IFRS 9, and as a consequence, that part of the movement in the fair value of derivative financial instruments that is deemed to be hedge effective under IAS 39 continues to be reflected though other comprehensive (loss)/income in the cash flow hedge reserve. The Company has no derivative financial instruments and the Group's 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 Group'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.

## 12. Derivative financial liabilities continued

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 2019 amounted to liabilities of £5,727k (2018: £2,999k). Of the total movements during the year in the fair value of these derivative financial instruments a hedge ineffectiveness charge of £455k (2018: £nil) has been recorded in the income statement within "finance costs" and a charge of £2,273k (2018: £433k credit) has been reflected through other comprehensive income and recorded in the cash flow hedge reserve.

Further details regarding financial (loss)/instruments and their related risks are given in note 18.

## 13. Decommissioning provision

The Company does not have any decommissioning provisions (2018: £nil).

The movement in the Group decommissioning provision is analysed below.

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| At 1 April | 2,821 | 2,698 |
| Unwinding of discount | 125 | 123 |
| **At 31 March** | **2,946** | 2,821 |

The decommissioning provision is all non-current (2018: non-current).

The decommissioning provision of £2,946k at 31 March 2019 (2018: £2,821k) 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 £6,144k (2018: £6,127k), 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 seabed granted by the Crown Estate Commissioners on 20 August 2015. The draft 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. When the consultation is complete, this may result in a change to that plan and a change to the value of the decommissioning costs.

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.

## 14. 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 2017, 31 March 2018 and 31 March 2019** | **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.

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.

## 15. Reserves

The Company has no reserves and consequently there is no movement in reserves during the year ended 31 March 2019 (2018: none).

The Group's reserves are analysed below.

| | Retained earnings £'000 | Cash flow hedge £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2017 | 849 | (2,849) | (2,000) |
| Profit attributable to equity shareholders | 872 | - | 872 |
| Gains on cash flow hedges taken to equity | - | 433 | 433 |
| Deferred taxation on cash flow hedges | - | (73) | (73) |
| At 31 March 2018 | 1,721 | (2,489) | (768) |
| Profit attributable to equity shareholders | 1,496 | - | 1,496 |
| Losses on cash flow hedges taken to equity | - | (2,273) | (2,273) |
| Deferred taxation on cash flow hedges | - | 386 | 386 |
| **At 31 March 2019** | **3,217** | **(4,376)** | **(1,159)** |

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

## 16. 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:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Movement in cash and cash equivalents | 2,206 | 1,383 |
| Net decrease in borrowings | 7,905 | 7,160 |
| **Change in net debt resulting from cash flows** | 10,111 | 8,543 |
| Non-cash net interest expense included in net debt | (1,416) | (1,455) |
| Change in fair values of derivatives | (2,728) | 433 |
| **Movement in net debt in the year** | 5,967 | 7,521 |
| Net debt at start of year | (263,498) | (271,019) |
| **Net debt at end of year** | **(257,531)** | (263,498) |

At 31 March 2019, the Company had net cash of £nil (2018: £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 2017 | 16,915 | (281,567) | (3,432) | (2,935) | (271,019) |
| Cash flow | 1,383 | 7,160 | - | - | 8,543 |
| Change in fair values | - | - | 433 | - | 433 |
| Non-cash net interest | - | (1,491) | - | 36 | (1,455) |
| At 31 March 2018 | 18,298 | (275,898) | (2,999) | (2,899) | (263,498) |
| Cash flow | 2,206 | 7,905 | - | - | 10,111 |
| Change in fair values | - | - | (2,728) | - | (2,728) |
| Non-cash net interest | - | (1,458) | - | 42 | (1,416) |
| **At 31 March 2019** | **20,504** | **(269,451)** | **(5,727)** | **(2,857)** | **(257,531)** |

## 17. 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 Transmission TopCo Limited ("TopCo") group of companies, except as disclosed below.

| | Group | |
|---|---|---|
| | **2019** | **2018** |
| | **£'000** | **£'000** |
| **Expenditure:** | | |
| Interest[1] | **3,728** | 3,641 |
| | **3,728** | 3,641 |
| **Balances outstanding at 31 March:** | | |
| Borrowings payable[1] (principal) | **45,520** | 44,309 |
| Interest accrual[1] | **933** | 908 |
| | **46,453** | 45,217 |

| | Company | |
|---|---|---|
| | **2019** | **2018** |
| | **£'000** | **£'000** |
| **Finance income** | | |
| Interest[2] | **3,728** | 3,641 |
| | **3,728** | 3,641 |
| **Expenditure:** | | |
| Interest[1] | **3,728** | 3,641 |
| | **3,728** | 3,641 |
| **Balances outstanding at 31 March:** | | |
| **Assets** | | |
| Investment in subsidiary undertaking – ordinary shares | **469** | 469 |
| Investment in subsidiary undertaking – loan | **45,520** | 44,309 |
| Interest receivable from subsidiary undertaking | **933** | 908 |
| | **46,922** | 45,686 |
| **Liabilities** | | |
| Borrowings payable[1] (principal) | **45,520** | 44,309 |
| Interest accrual[1] | **933** | 908 |
| | **46,453** | 45,217 |

[1] 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 10 and 11 respectively.

[2] Relates to interest received and receivable on the debt investment in the Company's wholly owned subsidiary undertaking (WoDS).

## 17. Related party transactions continued

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

| **Group and Company** | **2019** | **2018** |
|---|---|---|
| | **£'000** | **£'000** |
| **Borrowing from immediate parent undertaking (principal)** | | |
| At 1 April | 44,309 | 43,067 |
| Capitalised interest | 1,211 | 1,242 |
| **At 31 March** | **45,520** | 44,309 |

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"). Interest payments of £2,492k (2018: £2,373k) were made during the year. Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 25 August 2035.

Movements in the Company's investments in its subsidiary undertaking, WoDS, is shown in note 19.

No amounts have been provided at 31 March 2019 (2018: £nil), and no expense was recognised during the year (2018: £nil) in respect of bad or doubtful debts for any related party transactions.

## 18. 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;
- 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 and Company's financial instruments with the fair value of those instruments at 31 March 2019, 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.

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

### a) Fair value disclosures continued

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Group | | Company | | Valuation method |
| | Carrying value £'000 | Fair value £'000 | Carrying value £'000 | Fair value £'000 | |
| **Assets** | | | | | |
| Non-current | | | | | |
| Transmission owner asset | **253,613** | **269,875** | **-** | **-** | Level 3 |
| Investments in subsidiary | **-** | **-** | **45,989** | **48,090** | Level 3 |
| | **253,613** | **269,875** | **45,989** | **48,090** | |
| **Liabilities** | | | | | |
| Non-current | | | | | |
| Fixed rate secured bonds due 2034 | **215,417** | **218,090** | **-** | **-** | Level 2 |
| Fixed rate unsecured loan notes due 2035 | **45,520** | **46,978** | **45,520** | **46,978** | Level 2 |
| Derivative financial liabilities | **5,727** | **5,727** | **-** | **-** | Level 2 |
| Decommissioning provision | **2,946** | **2,946** | **-** | **-** | Level 3 |
| | **269,610** | **273,741** | **45,520** | **46,978** | |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Group | | Company | | Valuation method |
| | Carrying value £'000 | Fair value £'000 | Carrying value £'000 | Fair value £'000 | |
| **Assets** | | | | | |
| Non-current | | | | | |
| Transmission owner asset | 260,935 | 282,505 | - | - | Level 3 |
| Investments in subsidiary | - | - | 44,778 | 48,145 | Level 3 |
| | 260,935 | 282,505 | 44,778 | 48,145 | |
| **Liabilities** | | | | | |
| Non-current | | | | | |
| Fixed rate secured bonds due 2034 | 223,931 | 228,986 | - | - | Level 2 |
| Fixed rate unsecured loan notes due 2035 | 44,309 | 46,329 | 44,309 | 46,329 | Level 2 |
| Derivative financial liabilities | 2,999 | 2,999 | - | - | Level 2 |
| Decommissioning provision | 2,821 | 2,821 | - | - | Level 3 |
| | 274,060 | 281,135 | 44,309 | 46,329 | |

## 18. 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 and decommissioning provision, 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 and decommissioning provision, 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 (2018: throughout the year) and there have been no reclassifications or transfers between the various valuation categories during the year (2018: none).The implementation of IFRS 9 with effect from 1 April 2018 has not impacted on any of the valuation categories shown in the table above.

### 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 12 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.

<u>i) Market risk</u>

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 classified as a contract asset and 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 asset is subject to price risk caused by changes in RPI and/or changes in interest rates.

## 18. 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 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 (NGESO from 1 April 2019) in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps; 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 2019 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 18 (a). None of the Group's financial assets are past due or impaired.

Through to 31 March 2019, NGET was the Group's principal customer, and income derived from NGET represents all of the Group's income. With effect from 1 April 2019, some of the functions previously carried out by NGET have been transferred to a fellow subsidiary undertaking (NGESO) within the National Grid group of companies, in particular, NGESO is now responsible for settling the Group's transmission services invoices. Both NGET and NGESO operates low risk regulated businesses 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. Both NGET and NGESO are subject to a regulatory financial 'ring fencing' that restricts their 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 an NGET or NGESO insolvency, it is probable that any amounts outstanding would still be recovered. This arises because both NGET and NGESO are both 'protected energy companies' 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 or NGESO as a going concern.

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

### b) Management of risk continued

ii) Credit risk continued

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

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 2019, the fair values attributable to these positions were liabilities amounting to £5,727k (2018: £2,999k) and consequently there was no credit risk at the balance sheet date.

Included in the balance sheet at 31 March 2019 and 31 March 2018 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 through to 31 March 2019 and NGESO from 1 April 2019); 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 2019, senior debt-service costs amounted to £15,913k (2018: £15,422k). 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 £2,492k (2018: £2,373k).

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.

## 18. 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 2019, the Group had access to a working capital reserve of £5,340k (2018: £5,149k) 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.

At 31 March 2019, cash and cash equivalents included £14,190k (2018: £13,374k) 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 £6,314k (2018: £4,924k) 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 table on the following page 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 table on the following page is prepared on the assumption the holder redeems at the earliest opportunity.

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

### b) Management of risk continued

iii) Liquidity risk and Going Concern continued

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 2019.

| Liquidity risk | 2019 Contractual Cash flows £'000 | 2019 0-1 years £'000 | 2019 1-2 years £'000 | 2019 2-5 years £'000 | 2019 >5 years £'000 |
|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | |
| Transmission owner asset | 476,884 | 23,035 | 23,466 | 74,319 | 356,064 |
| Cash and cash equivalents | 20,504 | 20,504 | - | - | - |
| | 497,388 | 43,539 | 23,466 | 74,319 | 356,064 |
| **Non-derivative financial liabilities** | | | | | |
| Borrowings + | (255,500) | (16,857) | (17,497) | (55,717) | (165,429) |
| Trade and other non-interest-bearing liabilities | (3,817) | (3,817) | - | - | - |
| Decommissioning provision | (6,144) | - | - | - | (6,144) |
| | (265,461) | (20,674) | (17,497) | (55,717) | (171,573) |
| **Derivative financial instruments** | | | | | |
| RPI swaps | (9,478) | (451) | (484) | (1,671) | (6,872) |
| **Net total** | **222,449** | **22,414** | **5,485** | **16,931** | **177,619** |

| Liquidity risk | 2018 Contractual cash flows £'000 | 2018 0-1 years £'000 | 2018 1-2 years £'000 | 2018 2-5 years £'000 | 2018 >5 years £'000 |
|---|---|---|---|---|---|
| **Non-derivative financial assets** | | | | | |
| Transmission owner asset | 498,394 | 22,085 | 22,799 | 72,277 | 381,233 |
| Cash and cash equivalents | 18,298 | 18,298 | - | - | - |
| | 516,692 | 40,383 | 22,799 | 72,277 | 381,233 |
| **Non-derivative financial liabilities** | | | | | |
| Borrowings + | (273,019) | (17,520) | (16,857) | (54,112) | (184,530) |
| Trade and other non-interest-bearing liabilities | (3,894) | (3,894) | - | - | - |
| Decommissioning provision | (6,127) | - | - | - | (6,127) |
| | (283,040) | (21,414) | (16,857) | (54,112) | (190,657) |
| **Derivative financial instruments** | | | | | |
| RPI swaps | (5,183) | (220) | (236) | (816) | (3,911) |
| **Net total** | 228,469 | 18,749 | 5,706 | 17,349 | 186,665 |

+ Including interest payments.

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

### b) Management of risk continued

iii) Liquidity risk and Going Concern 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.

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 were 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 24 August 2034. At 31 March 2019, the total principal carrying value of senior debt net of unamortised issue costs excluding any accrued interest amounted to £223,931k (2018: £231,589k).

Other borrowing raised from the Company's immediate and ultimate parent undertaking, TopCo, carries a fixed rate coupon (see note 17). At 31 March 2019, the total principal value of the other borrowing outstanding excluding accrued interest amounted to £45,520k (2018: £44,309k).

No share capital was issued during the year (2018: £nil). At 31 March 2019 share capital and associated share premium amounted to £469k (2018: £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.

## 19. Investments in subsidiary undertaking

| Company | Equity £'000 | Loans £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2017 | 469 | 43,067 | 43,536 |
| Additions | - | 1,242 | 1,242 |
| At 31 March 2018 | 469 | 44,309 | 44,778 |
| Additions | - | 1,211 | 1,211 |
| **At 31 March 2019** | **469** | **45,520** | **45,989** |

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 2019 of £1,496k (2018: £872k) and has capital and reserves of £(690k) at 31 March 2019 (2018: £(299k)). 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.

## 20. 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 HoldCo Limited is the largest and smallest group which consolidates the financial statements of WoDS Transmission plc.

WoDS Transmission TopCo Limited is jointly owned in equal proportions by 3i Infrastructure plc and PPDI AssetCo 2 Limited (which is ultimately wholly owned by PPP Equity PIP LP, a fund managed by Dalmore Capital Limited).

## 21. 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 2019 was £nil (2018: £nil).

# Glossary

## 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

## 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

## M

*MMO*

Marine Management Organisation

*MSA*

Management Services Agreement with FPL

*MW*

Megawatts – an amount of power equal to one million watts

*MWhrs*

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

## T

*TEC*

Transmission Entry Capacity

*TOCA*

Transmission Owner Construction Agreement

*TopCo*

WoDS Transmission TopCo Limited
*See WoDST*

# Glossary

## U

*UK*

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

## W

*WODS*

WoDS Transmission plc

*WoDST (or "TopCo")*

WoDS Transmission TopCo Limited