

WoDS Transmission plc

Regulatory accounts 2015/16

Contents

Page

2	A description of these regulatory accounts
3	Strategic report
24	Directors' report
26	Corporate governance statement
31	Statement of Directors' responsibilities
32	Independent auditors' report to Gas and Electricity Markets Authority and WoDS Transmission plc

Regulatory financial statements under IFRS

36	Accounting policies
46	Income statement
47	Statement of comprehensive income
48	Balance sheet
49	Statement of changes in equity
50	Cash flow statement
51	Notes to the regulatory financial statements

Glossary

A description of these regulatory accounts

For the year ended 31 March 2016

WoDS Transmission plc ("the Company" and "the licensee") is a holder of an Offshore Electricity Transmission Licence ("the Licence") granted under the Electricity Act 1989. The licence was awarded to the Company on 19 August 2015 by The Gas and Electricity Markets Authority ("the Authority"). Under standard condition E2 of this licence, we are required to prepare and publish annual regulatory accounts setting out the financial position and performance of the regulatory business covered by the licence.

Scope of the regulatory accounts

These regulatory accounts are prepared in respect of the licensee's regulatory transmission business. The Company only has one activity – that being the operation of its regulated transmission business; consequently, the regulatory financial statements contained herein reflect the same scope as that reported in the Company's statutory accounts for the year ended 31 March 2016 as prepared in accordance with section 396 of the Companies Act 2006. In addition, the Directors' Report, Strategic Report and Corporate governance statement included within these regulatory accounts also reflect the same activities as reported in the Company's annual report and financial statements 2015/2016.

Content of the regulatory accounts

In accordance with the licence these regulatory accounts comprise:

- A Strategic Report commencing on page 3;
- a Directors' Report commencing on page 24;
- a Corporate governance statement commencing on page 26;
- a Statement of Directors' responsibilities for preparing regulatory accounts on page 31;
- the Independent auditors' report on the regulatory accounts commencing on page 32;
- regulatory financial statements commencing on page 36;
- a statement showing transactions between the Company and its ultimate controller and other related disclosures. The information required by this statement is shown in note 16 to the regulatory financial statements "related party transactions" on pages 59 and 60.

Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounting statements does not constitute statutory accounts within the meaning of section 396 of the Companies Act 2006. Statutory accounts for the Company for the year ended 31 March 2016, to which the financial information relates, will be delivered to the registrar of Companies.

The auditors have made a report under Section 495 of the Companies Act 2006 on those statutory accounts which was unqualified and did not contain a statement under Section 498(2) or (3) of the Act. The auditors' opinion on the Company's statutory accounts is addressed to, and for the benefit of, the members of the Company and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it 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. In giving their opinion, they do not accept or assume responsibility for any other purposes or to any other persons to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

The regulatory accounts of the Company can be obtained from the website of the Company at <http://www.wodstransmission.com>.

Strategic report

For the year ended 31 March 2016

Introduction

This Strategic Report explains the operations of the Company and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2016, 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 Company's principal activity is to provide an electricity transmission service to National Grid Electricity Transmission plc ("NGET") - the electricity transmission system operator for Great Britain. The Company owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore electricity transmission system owned by NGET.

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.

The Company was incorporated on 13 November 2014 and holds the Licence awarded by the Authority which came into force on 20 August 2015, when the Company commenced trading. This Licence, amongst other matters, permits and requires the Company to maintain and operate the WoDS offshore electricity transmission assets for as long as that Licence remains in force. On 25 August 2015 the Company acquired from DONG Energy West of Duddon Sands (UK) Limited and ScottishPower Renewables (WODS) Limited ("the Vendors") the offshore electricity transmission system that exports the output of the WoDS wind farm owned by the Vendors to NGET's onshore transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Company 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"). The Company 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. The Company 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.

Strategic report continued

For the year ended 31 March 2016

The Company's offshore electricity transmission system

The Company transmits the electrical power of the WoDS wind farm from the offshore connection point of the Company's electrical assets with the electrical assets owned by the windfarm to the onshore connection point of the Company'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 WoDS 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 the Company and connects into the 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 the Company. 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 the Company'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 Company's long term business objectives

The Company is a special purpose vehicle formed to hold the Licence. Its non-financial objectives are, therefore, consistent with the objectives of the Licence. The Company 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 Company's financial objective is to provide financial returns to shareholders consistent with, or in excess of, the business plan that supported its tender offer for the West of Duddon Sands offshore transmission system. The Company will achieve this objective by:

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

Strategic report continued

For the year ended 31 March 2016

Future Developments

The Company's sole purpose is to hold and operate its offshore electricity transmission system and comply with the transmission licence which it has been awarded; and generate returns based on these objectives; no changes to these objectives are likely in the future.

The Company's operating model

The Company's operating model is to outsource all operational and maintenance ("O&M") activities and management. O&M activities are outsourced to Dong Energy West of Duddon Sands (UK) limited and ScottishPower Renewables (WODS) Limited, and management services are outsourced to Frontier Power Limited ("FPL") through a Management Services Agreement ("MSA"). In addition, other accounting 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 Company meets its Licence obligations and complies with good industry practice. The Company mitigates the performance risk of its outsourced service providers through contract.

The Company's approach to managing the business

The Company'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 Company:

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Company'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.

Strategic report continued

For the year ended 31 March 2016

Principal regulatory, industry contracts and industry code matters

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

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

Licence obligations

Under the terms of the Licence the Company is required to carry out its licenced activities and have in place governance arrangements that ensure (amongst other obligations) that the Company 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 Company's activities and how it conducts its transmission activities. In carrying out its transmission activities it must do so in a manner that does not confer upon it an unfair commercial advantage, in particular, in relation to any activity that does not relate to the operation of the offshore transmission business.

A failure by the Company 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 the Company determines how much the Company may charge for the OFTO services that it provides to NGET in any relevant charging year in accordance with a regulatory formula. The charging year is from 1 April to 31 March. The Licence also provides the Company with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Company's transmission system in any given calendar year versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of the Company's electricity transmission system (as determined by the Company'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 Company's "base revenue". For the avoidance of doubt, the Company's transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

Strategic report continued

For the year ended 31 March 2016

As previously noted, the Licence contains mechanisms to incentivise the Company 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 Company 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 Company's charges and hence its revenue in future periods. The Licence provides for adjustments to "base revenue" where the OTO's system availability performance is different from the target system availability. If transmission system availability in any given calendar year is in excess of the target availability level, then credits are "earned" and if availability is less than target then penalties accrue. These availability credits and penalties are measured in megawatt hours ("MWhrs"). The Company is then permitted or required under the Licence, as the case may be, to change its prices to convert the availability credits earned or penalties accrued into a financial adjustment to "base revenue". The maximum availability credit which the Company 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 Company 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.

Strategic report continued

For the year ended 31 March 2016

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 Company 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 Company 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 Company's onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the Company is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required.

Transmission system capability (capacity)

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

There is a risk that the assets acquired by the Company on 25 August 2015, do not operate in the manner expected, resulting in unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs. The Company has minimised this risk by carrying out appropriate due diligence on the assets prior to their acquisition, which included a consideration of the design of the transmission system and a physical inspection of the assets.

The Company has provided 100% transmission capacity based on the operational maximum capacity of the system, also known as the Transmission Entry Capacity ("TEC") of 382MW – see "Transmission System Availability" below.

The Company 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 Company'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 Company's transmission system with NGET's transmission system. During the period under review, and up to the date of this Report, the Company has been fully compliant with the STC requirements in respect of reactive power and voltage control.

Strategic report continued

For the year ended 31 March 2016

Key performance indicators ("KPIs")

The Company has identified the following KPIs as being instrumental to the management of the transmission business. Such KPIs include financial and non-financial KPIs; the KPIs reported cover the operational period (there are no prior year comparatives against which to report):

	Definition	Objective
Financial KPIs		
Operating profit plus interest income	Profit before costs of financing and taxation: £7,896k (2014/15: £nil)	To increase ⁺ .
Cash available for debt service ⁺⁺	Net cash inflows from operating activities plus cash inflows from investing activities ⁺⁺ : £11,336k (2014/15: £nil)	To increase ⁺ .
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year (a part period) to 31 December 2015: 100% (31 December 2014: N/A).	To exceed the Licence target availability 98%.
Ensure that the quality of electricity at the export connection point is compliant with Security and Quality of Supply Standard (SQSS) and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	To be compliant for voltage control, harmonics and reactive power, which has been achieved since the commencement of operations.
HS&E	1) Zero lost time accidents ("LTIs") for employees and contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under the Marine Management Organisation ("MMO") Licence; 4) Zero unauthorised access incidents in accordance with Electricity Safety, Quality and Continuity Regulations ("ESQCR").	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence; 4) Zero unauthorised access incidents in accordance with ESQR. All of the above objectives have been met since the commencement of operations.

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

⁺⁺ After adjustment for the initial acquisition cost of the OFTO assets.

Strategic report continued

For the year ended 31 March 2016

The Company's operational performance

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

In support of these objectives the Company 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.

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

The Vendors are progressing agreed work that they were and are required to carry out following the Company's acquisition of the West of Duddon Sands offshore electricity transmission assets pursuant to certain agreements with those Vendors. Progress on minor snagging work is being monitored by the Company and signed off by the Company on completion of same with one remaining item currently in progress being the disconnection of redundant metering equipment, with close out expected later this Summer. Additional work is also being carried out by DONG Energy West of Duddon Sands (UK) Limited and ScottishPower Renewables (WODS) Limited in their capacity as the Vendors and outsource O&M provider to address certain instances of seabed scour, at their expense. This seabed scour programme is currently underway and is scheduled to be completed during the Autumn of 2016.

Transmission system availability

The performance of the Company's transmission system for the performance year (part period) ended 31 December 2015 was as tabulated below:

MW hours	Note	Performance Year ended 31 December 2015 ¹
Maximum system availability (capability – MWhrs)	(a)	1,182,672
Actual system availability (MWhrs)	(b)	1,182,672
Actual system availability (%)	(b)	100%
Regulatory target system availability (%)		98%
Availability credits (MWhrs)		
Net availability credits at 1 April 2015		-
Net availability credits for the performance year ¹		25,943
Net availability credits at 31 March 2016	(c)	25,943

¹ The performance year was a part period from asset transfer date 25 August to 31 December 2015.

- a) The maximum system availability of the Company's transmission system as declared to NGET during the performance period.
- b) Excludes unplanned outages where Exceptional Event Relief for the outage has been applied for from Ofgem.
- c) Net availability credits at 31 March 2016 represent "banked" availability credits through to 31 December 2015. Consequently, this excludes any potential credits that have arisen between 1 January 2016 and 31 March 2016 as these potential availability credits are not eligible to be "banked" until 31 December 2016.

Strategic report continued

For the year ended 31 March 2016

Quality of supply

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

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

Health, safety, and environmental performance

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

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

The Company is committed to reducing the environmental impact of its operations to as low as practically possible. The Company will do so by reducing the effect its activities have on the environment by: respecting the environmental status and biodiversity of the area where the Company’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 the period under review 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 Company.

Strategic report continued

For the year ended 31 March 2016

Stakeholder relationships

The potentially hazardous nature of Company's operations and the environmentally sensitive nature of the locations where its assets are located require the Company to engage and communicate with a wide audience of stakeholders and to establish good relationships with them. As well as industry participants and local and national government bodies this audience includes: Port Authorities; the emergency services; the maritime community; environmental agencies and organisations; landowners and the general public. Accordingly, the Company 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 Company have been discussed and referenced in this Strategic Report, alongside a discussion of the operational and financial performance of the Company.

Other

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

Strategic report continued

For the year ended 31 March 2016

The Company's financial performance

Summary

The financial performance of the Company's operations for the year ended 31 March 2016, and its financial position as at 31 March 2016, 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 Company reports its results in accordance with International Financial Reporting Standards ("IFRS"); the currency used in reporting these regulatory financial statements is GBP. The Company was not operational in the previous period (13 November 2014 to 31 March 2015 – the "2015 period") consequently all prior year comparatives are £nil in relation to the following table:

	2016 £k
Operating profit	7,865
Other finance income	31
Operating profit plus other finance income	7,896
Finance costs	(7,758)
Profit before taxation	138
Taxation	(103)
Profit after taxation	35
Net cash inflow from operating activities and investing activities ¹	11,337
Cash inflows to finance acquisition of the Transmission owner asset and initial working capital requirements	298,315
Cash outflows relating to acquisition of Transmission owner asset	(277,033)
Net cash flows used in financing activities ²	10,508

¹ Excluding acquisition of Transmission owner asset.

² Excluding all proceeds from funding activities.

Operating and finance income

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

Finance income for the year amounted to £7,362k (2015 period: £nil), and represents the finance income that would have been generated from an efficient standalone "transmission owner". The finance income generated relates to the period of operations of the Company from the date the Transmission owner asset was acquired on 25 August 2015 through to 31 March 2016. The finance income has been recorded in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company is shown in the accounting policies section of the regulatory financial statements commencing on page 36.

Strategic report continued

For the year ended 31 March 2016

Operating income for the year amounted to £2,725k (2015 period: £nil), and represents the operating income that would be generated by an efficient provider of operating services to NGET, our principal customer. Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner. The operating income generated relates to the period of operations of the Company from the date the Transmission owner asset was acquired on 25 August 2015 through to 31 March 2016. The 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 £2,222k (2015 period: £nil). The most significant cost included within these costs (all equivalent 2015 period comparatives - £nil) relates to the operations, maintenance and management of the OFTO and amounted to £2,057k. This cost covers operations and maintenance fees, insurance fees, management service fees, and non-domestic rates associated with the transmission network.

Operating profit

Operating profit being the residual of operating income, finance income and operating costs amounted to £7,865k (2015 period: £nil). All operating profit was earned in the period 25 August 2015 through to 31 March 2016.

Other finance income

Other finance income of £31k (2015 period: £nil) relates solely to interest earned on bank deposits.

Finance costs

Finance costs amounted to £7,758k (2015 period: £nil). The vast majority of the finance costs relates to the interest cost of servicing senior debt holders £5,207k (2015 period: £nil) and holders of subordinated debt £2,302k (2015 period: £nil). Interest expense and other financial costs principally arise from the cost of debt used to finance the acquisition of the Transmission owner asset – described below under “Cash flows”.

Taxation

The net taxation charge on profit before taxation for the year is £103k (2015 period: £nil) and relates solely to deferred taxation. There was no current taxation arising in the year (2015 period: £nil) as the Company incurred taxable losses (2015 period: £nil). The taxation charge for the year has been computed at 20% and adjusted to 18% following a remeasurement of deferred taxation balances at 31 March 2016 (2015: n/a).

A taxation charge of £469k (2015 period: £nil) has been recognised in other comprehensive income relating to pre-taxation gains arising on marking the Company's cash flow hedges to market at the balance sheet date. The taxation charge relates solely to deferred taxation (2015 period: £nil). This taxation credit has been computed at 20% and adjusted to 18% following a remeasurement of deferred taxation balances at 31 March 2016 (2015: n/a).

Strategic report continued

For the year ended 31 March 2016

Profit after taxation

Profit for the year after taxation amounted to £35k (2015 period: £nil).

Cash flows

Net cash flows from operations amounted to £11,306k (2015 period: £nil) reflecting the amounts invoiced and received from NGET in relation to the provision of transmission services from 25 August 2015 through to 31 March 2016 net of cash outflows relating to operating activities incurred during that period of operation.

Net cash flows used in investing activities amounted to £277,002k (2015 period: £nil) and includes £277,033k associated with the acquisition of the Transmission owner asset.

Cash available for debt servicing defined as net cash flows from operations less net cash flows used in investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) and including interest income received of £31k (2015 period: £nil) amounted to £11,337k (2015 period: £nil). Net cash inflows from financing activities amounted to £287,807k (2015 period: £nil) which comprised cash inflows of: £251,377k (2015 period: £nil) from senior debt holders; £46,469k (2015 period: £nil) from holders of subordinated debt; and £469k (2015 period: £nil) by way of equity share capital. These cash inflows were used to finance the acquisition of the Transmission owner asset and to finance the initial working capital requirements of the Company.

Payments to service senior debt holders during the year amounted to £7,395k (2015 period: £nil). Payments to subordinated debt holders during the year amounted to £3,113k (2015 period: £nil).

No income taxation or dividends were paid in the year (2015 period: £nil).

Balance sheet and consideration of financial management

Going concern

Having made enquiries, the Directors consider that the Company has 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 regulatory financial statements of the Company. More details of the Company's funding and liquidity position are provided under the headings "Current funding structure" and "Going concern, Liquidity and treasury management" on the following pages.

Strategic report continued

For the year ended 31 March 2016

Balance sheet

The Company's balance sheet at 31 March 2016 is summarised as follows:

	Assets	Liabilities	Net assets/ (liabilities)
	£'000	£'000	£'000
Non-current Transmission owner asset	272,869	-	272,869
Current assets and liabilities*	4,902	(1,637)	3,265
Non-current liabilities	-	(572)	(572)
Non-current decommissioning provision	-	(2,609)	(2,609)
Total before net debt	277,771	(4,818)	272,953
Net debt	24,717	(295,029)	(270,312)
Totals at 31 March 2016	<u>302,488</u>	<u>(299,847)</u>	<u>2,641</u>
Totals at 31 March 2015	-	-	-

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

Transmission owner asset and decommissioning provision

The Transmission owner asset is a financial asset and is carried at the cost directly attributable to the acquisition of the WoDS offshore transmission system at the date of acquisition, plus finance income and adjusted for any amounts that have been invoiced to NGET which are deemed to be attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company that give rise to this balance is shown in the accounting policies section of the regulatory financial statements commencing on page 36.

The Transmission owner asset was acquired on 25 August 2015 from DONG Energy West of Duddon Sands (UK) Limited and ScottishPower Renewables (WODS) Limited. The total cost of acquiring this asset amounted to £279,575k which includes an estimate of the costs of decommissioning the Transmission owner asset at the end of its economic useful life in 2035. The estimated cost of decommissioning included in the initial acquisition cost amounted to £2,542k, and represents the discounted value of the estimated costs expected to be paid out to decommission the Transmission owner asset when it is expected to be decommissioned in 2035. At 31 March 2016 the carrying value of the decommissioning provision amounted to £2,609k.

Non-current deferred taxation

The Company has recognised a deferred taxation liability of £572k (2015: £nil) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the year, including taxable losses (2015 period: £nil).

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

Strategic report continued

For the year ended 31 March 2016

Net debt

Net debt is defined as all borrowings (senior and subordinated debt) 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.

During the year the Company raised £297,846k (2015 period: £nil) from the issuance of £251,377k 3.446% fixed rate secured Bonds due August 2034 ("senior debt") that are listed on the Irish Stock Exchange and other debt that is subordinate to the senior debt ("subordinated debt") of £46,469k, which together with equity contributions amounting to £469k (2015 period: £0k), was used to finance the acquisition of the Transmission owner asset and the initial working capital requirements of the Company. At 31 March 2016 net debt stood at £270,312k (2015: £nil) and included £2,606k (2015: £nil) 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 Company is funded by a combination of senior debt, subordinated debt, 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 Company to make certain payments in respect of the senior debt and hedging agreements in certain specified circumstances.

All senior debt is serviced on a six monthly basis and is expected to amortise over the life of the project through to August 2034. The total principal carrying value of the senior debt outstanding at 31 March 2016 net of unamortised issue costs amounted to £247,219k (2015: £nil).

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, with the first servicing having taken place on 31 December 2015 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 subordinated loan ranks behind the senior debt and is held by the Company's immediate parent undertaking, WoDS Transmission HoldCo Limited ("WoDSH" or "HoldCo"). The subordinated loan was issued by WoDSH on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2016 the total principal carrying value of the subordinated loan outstanding amounted to £44,731k (2015: £nil).

Ordinary equity share capital of £469k (2015: £0) was issued during the year and at 31 March 2016 amounted to £469k (2015: £0k).

Strategic report continued

For the year ended 31 March 2016

Going concern, liquidity, and treasury management

As indicated previously, the Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Company is a going concern, and has adequate resources in the foreseeable future to meet its on-going obligations, including the servicing of debt holders, as those obligations fall due. This conclusion is based on a number of factors which are summarised below.

The expected cash in-flows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under "Regulated revenue and incentives". In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is very low. As at 31 March 2016 there were no sums outstanding from NGET and from 31 March 2016 to the date of this report all amounts due from NGET had been received on time.

The Company enjoys certain protections afforded under the Licence granted to the Company. In particular, provided that the Company can demonstrate that it has applied good industry practice in the management of the Company and its assets, then in the event that an unforeseen incident results in the Company 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 the Company can recover any loss it has suffered.

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

The Company 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 Company 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 Company's transmission services activities into a known and rising series of cash flows over the life of the project. This reduces the uncertainty as to the predictability of the likely cash 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.

Strategic report continued

For the year ended 31 March 2016

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 Company in relation to its transmission services that are not subject to the RPI swaps arrangements.

At 31 March 2016, the Company had access to a working capital reserve of £5,000k (2015: £nil) 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 Company had insufficient funds to meet the contractual senior debt service and hedging payments, the Company 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 subordinated loan agreement, absent certain matters of default, the loan notes do not have to be redeemed until 2035. Therefore, there is no requirement for the Company 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 the Company that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. On 24 August 2015, Moody's investor services confirmed that the senior debt which was issued was investment grade with stable outlook. The rating agency will carry out regular and periodic reviews of the rating.

During the rating agency's assessment of the Company'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 the Company 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 Strategic report, that there are reasonable grounds to believe that the rating agency will continue to confirm that the Company's senior debt investment grade status in the foreseeable future based on the information available to the Directors at the date of this annual report.

On-going funding requirements

The Company 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 Company are expected to be met by the cash inflows generated by the Company. Consequently, based on the current capacity of the existing transmission system operated by the Company there is minimal refinancing risk.

Strategic report continued

For the year ended 31 March 2016

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 the Company's transmission licence to allow the Company 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 Company 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 2016, the Company had £22,111k (2015: £nil) of cash balances of which £15,018k (2015: £nil) 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 Company has earned on surplus funds is insignificant in the context of the other cash flows generated by the Company these amounts are insignificant.

Hedging arrangements

General

It is the policy of the Board that the Company 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 Company has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 75%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows. This arrangement meets the definition of a derivative financial instrument. The Company entered into these derivative arrangements on 20 August 2015 with a start date of 31 March 2016 and with the final payment date expected on 24 August 2034. This period closely matches the period over which the Company enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the vast majority of cash flows from the project are expected to be generated. As previously described (see "Regulated revenue and incentives"), under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its sole customer, NGET, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the increase in RPI over the previous 12-month period measured from September to September.

Strategic report continued

For the year ended 31 March 2016

The use of derivative arrangements ("RPI swaps") has the effect of exchanging the vast majority of variable cash inflows derived from the Company'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 Company's risk management objective and strategy for undertaking the hedge. The vast majority of the Company'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 Company can meet its obligations under the terms of the Company'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 asset at 31 March 2016 was £2,606k (2015: n/a). A corresponding entry has been recorded in other comprehensive income.

Lending covenants and other restrictions

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

- 1) the Company 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 Company 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 Company 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 Company's compliance with certain lending ratios required under the lending agreements. In addition, the Company should publish semi-annual management accounts and yearly audited financial statements;
- 3) the lending agreements specify the bank accounts that the Company 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 Company is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover and loan life cover;
- 5) the Company 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 Company investing in term deposits with maturities not exceeding six months;

Strategic report continued

For the year ended 31 March 2016

- 6) the Company is required to maintain adequate insurances at all times;
- 7) the Company is required to meet all the conditions contained within the lending agreements before any servicing of the subordinated debt holders can take place or any distributions can be made to shareholders.

If the Company materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, then the Company 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 Company 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 regulatory financial statements present the results of the Company using the accounting policies outlined in the regulatory 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 Company 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 Company 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 Company'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 Company, and relates to the Company's principal operating activity as a provider of electricity transmission availability services.

Financial Instruments

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

Strategic report continued

For the year ended 31 March 2016

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 regulatory financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the regulatory financial statements commences on page 36.

Approved on behalf of the Board



A Peacock Director
28 July 2016

Directors' report

For the year ended 31 March 2016

The information in this Directors' Report does not comprise a Directors' report within the meaning of the Companies Act 2006; the following sections describe the matters that are required by the Licence 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 serving throughout the year and subsequently (unless otherwise indicated) were:

Javier Falero¹

Celine Maronne²

Adrian Peacock³

Alistair Ray³

Michele Armanini⁴

Mark Dooley⁵

Graham Farley⁶

Humza Malik⁷

Rowan Te Kloot⁵

¹ appointed 27 April 2015

² appointed 7 December 2015

³ appointed 23 September 2015

⁴ resigned on 27 April 2015

⁵ resigned 24 August 2015

⁶ resigned 7 December 2015

⁷ appointed 24 August 2015, resigned 23 September 2015

Directors' and Officers' liability insurance cover is arranged.

Principal activities and business review

A full description of the Company's principal activities, business, and principal risks, and uncertainties is contained in the Strategic Report on pages 3 to 23, which is incorporated by reference into this report.

Material interests in shares

WoDS Transmission plc is a wholly owned subsidiary undertaking of WoDS Transmission HoldCo Limited ("HoldCo"), which itself is a wholly owned subsidiary undertaking of WoDS Transmission TopCo Limited ("TopCo").

The Company issued 99,999 (2015 period: 1) of £1 ordinary shares during the year ended 31 March 2016 to its parent undertaking for £469k (2015 period: £0k).

Returns to parent undertaking

On 24 August 2015, the Company received £46,469k from the issuance of unsecured 8.31% Loan Notes 2035 to its immediate parent undertaking. During the year ended 31 March 2016 the Company paid £1,738k (2015 period: £nil) of principal and £1,375k (2015 period: £nil) of interest to HoldCo in relation to these loan notes and the principal outstanding on these loans amounted to £44,731k at 31 March 2016 (2015: n/a).

No dividends were paid during the year (2015: £nil) and the Directors are not proposing a final dividend (2015: £nil).

Directors' report continued

For the year ended 31 March 2016

Greenhouse gas emissions

The operation of the Company's facilities requires the consumption of electricity. The Directors have calculated that approximately 113 tonnes of CO₂ (equivalent) have been emitted during the year (2015: n/a), this calculation being based upon an appropriate factor converting units of electricity consumed into tonnes of CO₂ (equivalent).

Donations and research and development

No charitable or political donations were made during the year (2015 period: £nil) and expenditure on research and development activities was £nil (2015 period: £nil).

Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on pages 20 to 21 in the Strategic Report

Going concern

Having made enquiries, the Directors consider that the Company has 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 regulatory financial statements of the Company. More details of the Company's funding and liquidity position are provided in the Strategic Report under the headings "Current funding structure" and "Going concern, liquidity and treasury management".

The Company's strategy, long term business objectives and operating model

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

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

The Company does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Company's Operating Model" in the Strategic Report on page 5.

Directors' remuneration report

The Directors receive no emoluments from the Company, consequently there is no link to the service standards of the Company.

Audit information

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

Approved on behalf of the Board



A Peacock Director

28 July 2016

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

Corporate governance statement

The Company is required to include within its regulatory accounts a corporate governance statement which describes how the principles of good corporate governance have been applied and which has the same content as the statement company with a premium listing of equity shares is required to prepare.

Appointments to the board of the Company, and all companies within the WoDS Transmission group of companies ("the Group"), comprising: WoDS Transmission TopCo Limited ("TopCo" - being the ultimate parent undertaking); WoDS Transmission HoldCo Limited ("HoldCo" - the immediate parent undertaking); and the Company is governed by a shareholders' agreement ("the Agreement") between the two shareholders of TopCo that jointly control the Group and 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 2016 are 3i Infrastructure plc and PPDI AssetCo Limited (which is ultimately wholly-owned by PPP Equity PIP LP, a fund managed by Dalmore Capital Limited). The Agreement requires that all boards within the Group comprise four directors, with two directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, the Group, including the Company, does not have a nomination committee and the performance of the Group boards is not evaluated.

The Agreement ensures that boards are balanced, with no one shareholder having majority representation, and allows the Group 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 Company so as to meet its objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the Group's risk management and internal control framework 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 shareholders' 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, but usually not less than four times per annum. The Company Board is responsible for monitoring the effectiveness of the day to day operation and management of the Company's regulated transmission business.

The Company's operating model is to outsource all O&M activities and management services to independent third party suppliers. FPL provides the Company with management and other services, through a Management Services Agreement ("MSA") with the Company. The Company has acceded to the MSA. Additional technical support and accounting & administration support is provided to the Company from Infrastructure Managers Limited, a specialist in providing financial and other support services to special purpose vehicles. FPL holds regular management meetings which review the operational and financial performance of the Company and risk issues. FPL submits a monthly management report to the Directors of the Company.

Corporate governance statement continued

Directors and their attendance at Company board meetings

The Directors of the Company during the year are as shown below. Board meetings were held on 9 occasions during the year under review. Attendance by the Directors at Board meetings, expressed as a number of meetings attended out of a number eligible to attend are shown below.

Javier Falero ¹	8 of 8
Celine Maronne ²	1 of 1
Adrian Peacock ³	2 of 2
Alistair Ray ³	0 of 2
Michele Armanini ⁴	1 of 1
Mark Dooley ⁵	2 of 6
Graham Farley ⁶	5 of 7
Humza Malik ⁷	1 of 1
Rowan Te Kloot ⁵	4 of 6

¹appointed 27 April 2015

²appointed 7 December 2015

³appointed 23 September 2015

⁴resigned on 27 April 2015

⁵resigned 24 August 2015

⁶resigned 7 December 2015

⁷appointed 24 August 2015, resigned 23 September 2015

Compliance Committee

The Company has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role, without executive functions, with powers of information, assessment, and presentations to the Board. Robert Tivey is the Company's Compliance Officer. Mr Tivey is not engaged in the management or operation of the Company's licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee, Audit Committee, and the Board at least once annually.

The principal role of the Compliance Officer is to provide relevant advice and information to Directors of the Company, the compliance committee and consultants and other third parties providing services to the Company. The Compliance Officer is required to facilitate compliance with the Licence as regards the prohibition of cross subsidies; restriction of activities, and financial ring fencing; the conduct of the transmission business and restriction on the use of certain information. In addition, the Compliance Officer is required to monitor the effectiveness of the practices, procedures and systems adopted by the Company in accordance with the compliance statement required by amended standard condition E12 - C2 of the Licence (Separation and Independence of the Transmission Business).

Corporate governance statement continued

Members of the Compliance Committee through the year and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the year under review were as follows:

Javier Falero ¹	1 of 1
Celine Maronne ²	0 of 0
Adrian Peacock ³	1 of 1
Alistair Ray ³	0 of 1
Michele Armanini ⁴	0 of 0
Mark Dooley ⁵	0 of 0
Graham Farley ⁶	0 of 1
Humza Malik ⁷	0 of 0
Rowan Te Kloot ⁵	0 of 0

¹appointed 27 April 2015

²appointed 7 December 2015

³appointed 23 September 2015

⁴resigned on 27 April 2015

⁵resigned 24 August 2015

⁶resigned 7 December 2015

⁷appointed 24 August 2015, resigned 23 September 2015

Compliance statement

The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from www.wodstransmission.com) that addresses how the Company has addressed its Licence obligations.

Health, safety and environment advisory committee

The Board recognises that the nature of the Company's business requires an exceptional focus on health, safety and the environment. Accordingly, the Board has a Health, Safety and Environmental Advisory Committee which considers health, safety and environment matters relating to the activities of the Company. The committee is responsible for:

- ensuring that the Company's health and safety policy statement, and environmental policy statement, are being adhered to;
- setting of health, safety and environmental targets for the Company;
- monitoring health, safety and environmental performance of the Company against planned targets;
- encouraging greater awareness throughout the Company of the importance of health, safety and the environment, and higher achievement in health, safety, and environmental performance; and
- providing a link between the Board, the management services company and the Company's O&M providers that have the day to day responsibility for the management of health, safety and environment.

Corporate governance statement continued

Members of the Health, Safety and Environment Supervisory Committee and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the year under review were as follows:

Javier Falero ¹	1 of 1
Celine Maronne ²	0 of 0
Adrian Peacock ³	1 of 1
Alistair Ray ³	0 of 1
Michele Armanini ⁴	0 of 0
Mark Dooley ⁵	0 of 0
Graham Farley ⁶	0 of 1
Humza Malik ⁷	0 of 0
Rowan Te Kloot ⁵	0 of 0

¹appointed 27 April 2015

²appointed 7 December 2015

³appointed 23 September 2015

⁴resigned on 27 April 2015

⁵resigned 24 August 2015

⁶resigned 7 December 2015

⁷appointed 24 August 2015, resigned 23 September 2015

Corporate governance statement continued

Audit committee

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

- monitoring the integrity of financial and financial regulatory reports issued by TopCo all of its subsidiaries including the Company, with the objective of ensuring that these reports present a fair, clear, and balanced assessment of the position and prospects of the reporting entity;
- reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;
- considering any significant issues and the extent to which they have been disclosed in the relevant annual report and regulatory financial statements of all Companies in the Group, including a consideration of the critical accounting policies adopted by the Company (a discussion of which is included on pages 40 to 44).
- reviewing and approving the internal control and risk management policies applicable to the Group;
- maintaining an appropriate relationship with the external auditors; and
- assessing the objectivity and independence of the external auditor by considering: the nature and extent of non-audit services; a consideration of the effectiveness of the audit process including a recommendation to the Boards of the Company and that of HoldCo as to the reappointment of the auditor to those companies.

A representative of the auditor is normally invited to attend meetings of the Committee; the auditor also has unrestricted access to the Audit Committee.

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

Approved on behalf of the Board



A Peacock Director
28 July 2016

Statement of Directors' responsibilities

For the year ended 31 March 2016

The Directors of the Company are required by standard condition E2 of the Licence to prepare regulatory accounts for each financial year which comply with the requirements set out in that condition. The Directors believe that, based on enquiry and the information available to them, that they have complied with these requirements. The content of the regulatory accounts is described under "A description of these regulatory accounts" on page 2.

The Directors consider that, in preparing the regulatory financial statements included in the regulatory accounts, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting and financial reporting standards have been followed.

The Directors have responsibility for preparing the regulatory financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business. Therefore, these regulatory financial statements have been prepared on the going concern basis.

The Directors have responsibility for ensuring that the Company keep accounting records in such form that revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, the transmission business of the licensee are distinct from any other activity of the Company.

The Directors have responsibility for ensuring that the regulatory financial statements fairly present the financial position, financial performance and cash flows of, or reasonably attributable to, the transmission business.

The Directors have responsibility to ensure that, so far as reasonably practicable, the regulatory financial statements included in the regulatory accounts have the same form and content as the equivalent statutory accounts of the Company and that they comply in all material respects with all relevant accounting standards and financial reporting standards currently in force which have been issued or adopted by the International Accounting Standards Board and endorsed by the European Union.

The Directors have responsibility to ensure that the regulatory financial statements include an income statement, a statement of changes in equity and, if appropriate, a statement of comprehensive income, a balance sheet and a cash flow statement, including notes thereto. The Directors also have responsibility to ensure that the regulatory financial statements include a statement of accounting policies adopted, a corporate governance statement, a Directors' report and a Strategic Report.

The Directors have responsibility to ensure that the regulatory financial statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to the ultimate controller (or that of its subsidiaries other than the Company) of the Company, or that have been determined by allocation or apportionment to the transmission business or between any other business of the licensee or affiliate or related undertaking together with a description of the basis of apportionment or allocation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and to detect fraud and irregularities.

The Directors, having prepared the regulatory financial statements, have requested the auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Approved on behalf of the Board


A Peacock Director
28 July 2016

Independent auditors' report to Gas and Electricity Markets Authority (the Authority, referred to as the "Regulator") and WoDS Transmission plc
For the year ended 31 March 2016

Report on the Regulatory Accounts

Our opinion

In our opinion the Regulatory Accounts, defined below:

- fairly present, in accordance with Standard Condition E2 of the Company's Regulatory Licence and the accounting policies set out on pages 36 to 45, the state of the Company's affairs at 31 March 2016 and its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with Standard Condition E2 of the Regulatory Licence and the accounting policies.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The regulatory financial statements (the "Regulatory Accounts"), which are prepared by WoDS Transmission plc, comprise:

- the balance sheet as at 31 March 2016;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the accounting policies and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the Accounting Policies.

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

What an audit of Regulatory Accounts involves

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

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Regulatory Accounts.

Independent auditors' report to Gas and Electricity Markets Authority (the Authority, referred to as the "Regulator") and WoDS Transmission plc

continued

For the year ended 31 March 2016

In addition, we read all the financial and non-financial information in the Regulatory Accounts (the "Annual Report") to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. However, we have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Regulatory Licence. Where the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of WoDS Transmission plc. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Opinion on other matters prescribed by the Regulatory Licence

The Company's Regulatory Licence (Standard Condition E2), requires the Regulatory Accounts, the Directors' Report, and the Strategic Report to be prepared as if the licensee was a quoted company and as if these were the licensee's statutory financial statements prepared in accordance with Part 15 of the Companies Act 2006. The Directors have therefore prepared a Directors' Report, Strategic Report, and Corporate Governance Statement accompanying the Regulatory Accounts. Under the terms of our contract we have assumed responsibility to provide those opinions that would be provided if this was the statutory annual report of a quoted company, in accordance with the Companies Act 2006.

In our opinion:

- the information given in the Directors' Report and the Strategic Report for the financial year for which the Regulatory Accounts are prepared is consistent with the Regulatory Accounts.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under Standard Condition E2 of the Company's Regulatory Licence 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;
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from operating locations not visited by us;
- the Regulatory Accounts are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under Standard Condition E2 of the Company's Regulatory Licence we are required to report to you if, in our opinion certain disclosures of Directors' remuneration specified by law have not been made.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to Gas and Electricity Markets Authority (the Authority, referred to as the "Regulator") and WoDS Transmission plc

continued

For the year ended 31 March 2016

Corporate governance statement

Under Standard Condition E2 of the Company's Regulatory Licence we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Company.

We have no exceptions to report arising from this responsibility.

Responsibilities for the Regulatory Accounts and the audit

Our responsibilities and those of the Directors and the Regulator

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with ISAs (UK and Ireland), except as stated in the 'What an audit of Regulatory Accounts involves' section above, and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition E2 of the Company's Regulatory Licence dated 19 August 2015. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed.

Other matters

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The maintenance and integrity of the WoDS Transmission plc's web site is the responsibility of the Company's Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

Legislation in the United Kingdom governing the preparation and dissemination of statutory financial statements and Regulatory Accounts may differ from legislation in other jurisdictions.

**Independent auditors' report to Gas and Electricity Markets Authority (the Authority, referred to as the "Regulator") and WoDS Transmission plc
continued**

For the year ended 31 March 2016

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we reported on 28 July 2016, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

A large, stylized handwritten signature in black ink, which appears to read 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
28 July 2016

Accounting Policies

For the year ended 31 March 2016

A. Basis of preparation of regulatory financial statements under IFRS

These regulatory financial statements have been prepared in accordance with standard condition E2 of the Licence and is consistent with IFRS as issued by the IASB and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for year ended 31 March 2016, and, where consistent with standard condition E2 of the licence, in accordance with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS. The regulatory financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The regulatory financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

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

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12 an interpretation issued by the IFRS Interpretations Committee. Consequently, the accounting for charges made by the Company 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 Company for its transmission availability services; and
- the regulator has granted a licence to operate the transmission system with an embedded revenue incentive mechanism for an exclusive period of around 20 years and retains the rights to grant a transmission licence to a future operator.

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

Accounting policies continued

For the year ended 31 March 2016

B. Transmission availability arrangements continued

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

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

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

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

C. Financial instruments

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

Trade and loan receivables, including time deposits and demand deposits, are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. Indications that the trade or loan receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment.

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

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

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

Accounting policies continued

For the year ended 31 March 2016

C. Financial instruments continued

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

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

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

D. Hedge accounting

The Company 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 Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

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

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

E. Impairment of assets

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

Accounting policies continued

For the year ended 31 March 2016

F. Income taxation

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

Current taxation

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

Deferred taxation

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

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

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

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

G. Operating and finance income

General

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

Operating income

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

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

Accounting policies continued

For the year ended 31 March 2016

G. Operating and finance income continued

Finance income

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

H. Cash and cash equivalents

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

I. Decommissioning costs

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

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

The preparation of regulatory 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 Company together with information about the key judgements, estimations and assumptions that have been applied.

i) Transmission availability arrangements – income and related asset recognition

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

Accounting policies continued

For the year ended 31 March 2016

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

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

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

- a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12; and
- b. In accordance with IFRIC 12, transmission availability charges are recognised in the regulatory 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 Company 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 Company is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

ii) Operating and finance income

Operating income

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

Finance income

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

Accounting policies continued

For the year ended 31 March 2016

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

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

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

The Company'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 Company 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 Company, but use observable market data in respect of RPI as an input to valuing those derivative financial instruments. Where observable market data is not available, as in the case of valuing the Transmission owner asset, unobservable market data is used which requires the exercise of management judgement.

Accounting policies continued

For the year ended 31 March 2016

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

iv) Income taxation

Current taxation

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

Deferred taxation

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

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

v) Impairment of assets

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

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

Accounting policies continued

For the year ended 31 March 2016

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

vi) Decommissioning Provision

Provisions are made for certain liabilities where the timing and amount of the liability is uncertain. The Company's only provision relates to the estimated costs of decommissioning the Company'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 Company 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 Company has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to the decommissioning provision every five years, reflective of the long term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

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

K. Accounting developments

i) Accounting standards as applied to these regulatory financial statements

In preparing these regulatory financial statements the Company has complied with IFRS, International Accounting Standards (IAS) and Interpretations applicable either for accounting periods starting by 1 April 2015 or ending by 31 March 2016 and have been endorsed by the EU. No new accounting standards, amendments to standards or interpretations that have been issued and endorsed by the EU and are applicable to these regulatory financial statements for the first time have had any significant effect on the measurement of assets and/or liabilities or any of the disclosures included herein.

Accounting policies continued

For the year ended 31 March 2016

K. Accounting developments continued

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

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

- Amendment to IAS 1 'Presentation of financial statements' – these amendments are not expected to have any material impact on the disclosures provided by the Company;
- Amendment to IAS 19, 'Employee benefits'. The Company has no employees;
- Amendment to IFRS 11 'Joint arrangements' on acquisition of an interest in a joint operation. The Company has no interests in any other entity;
- Amendments to IAS 16 'Property, Plant and equipment', IAS 38 'Intangible assets' and IAS 41 'Agriculture' - these amendments are not currently relevant to the Company's activities;
- IFRS 14 'Regulatory deferral accounts' - not relevant to the Company;
- Amendments to: IAS 27 'Separate financial statements'; IFRS 10 'Consolidated financial statements'; and IAS 28 'Associates and joint ventures' The Company has no interests in any other entity;
- IFRS 15 'Revenue from contracts with customers' - this standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Company is evaluating the impact of this standard on the financial statements;
- IFRS 9, 'Financial instruments' – classification and measurement' is currently expected to be effective from the financial year commencing 1 April 2018 although it has not been endorsed by the EU. The Company does not believe that the adoption of IFRS 9 will lead to any material measurement changes as compared with the policies currently adopted by the Company. However, it is expected that IFRS 9 will require additional and different disclosures to those currently provided by the Company; and
- Various amendments to IFRS standards arising from the annual improvement projects that are not expected to have any significant impact on the Company's regulatory financial statements.

Income statement

For the year ended 31 March 2016

	Note	2016 £'000	2015 period £'000
Operating income	2	2,725	-
Finance income	2	7,362	-
Total income		10,087	-
 Operating costs	3	 (2,222)	 -
 Operating profit		 7,865	 -
Other finance income	4	31	-
Finance costs	4	(7,758)	-
Net interest expense		(7,727)	-
 Profit before taxation		 138	 -
Income taxation charge	5	(103)	-
Profit attributable to equity shareholders		35	-

The notes on pages 51 to 67 form part of these financial statements.

The results reported above relate to continuing operations.

Statement of comprehensive income

For the year ended 31 March 2016

	Note	2016 £'000	2015 period £'000
Profit attributable to equity shareholders		35	-
Other comprehensive income			
<u>Items that may be subsequently reclassified to</u>			
<u>Profit and Loss:</u>			
Net profit taken to equity in respect of cash flow hedges	11	2,606	-
Deferred taxation on cash flow hedges	5	(469)	-
Total comprehensive profit for the year attributable to equity shareholders		2,172	-

Balance sheet

As at 31 March 2016

Company number: 9309507

	Note	2016 £'000	2015 £'000
Non-current assets			
Transmission owner asset	6	272,869	-
Derivative financial assets	11	2,606	-
Total non-current assets		275,475	-
Current assets			
Prepayments		493	-
Other receivable		11	-
Transmission owner asset	6	4,398	-
Cash and cash equivalents	8	22,111	-
Total current assets		27,013	-
Total assets		302,488	-
Current liabilities			
Borrowings	9	(8,827)	-
Trade and other payables	10	(4,716)	-
Total current liabilities		(13,543)	-
Non-current liabilities			
Borrowings	9	(283,123)	-
Deferred taxation liabilities	7	(572)	-
Decommissioning provision	12	(2,609)	-
Total non-current liabilities		(286,304)	-
Total liabilities		(299,847)	-
Net assets		2,641	-
Equity			
Called up share capital	13	100	-
Share premium	13	369	-
Retained earnings	14	35	-
Cash flow hedge reserve	14	2,137	-
Total shareholders' equity		2,641	-

The regulatory financial statements set out on pages 36 to 67 were approved by the Board of Directors on 28 July 2016 and were signed on its behalf by:


A Peacock Director

Statement of changes in equity

For the year ended 31 March 2016

	Called up share capital and share premium £'000	Cash flow hedge reserve £'000	Retained earnings reserve £'000	Total equity £'000
At 13 November 2014 and 1 April 2015	-	-	-	-
Issue of ordinary shares	469	-	-	469
Recognised income and expense in the year	-	2,137	35	2,172
At 31 March 2016	469	2,137	35	2,641

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 regulatory and borrowing obligations, including a requirement to ensure it has sufficient resources and facilities to enable it to carry on its business, and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

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

Cash flow statement

For the year ended 31 March 2016

		2016	2015
	Note	£'000	period £'000
<u>Cash flows from operating activities</u>			
Profit attributable to equity shareholders		35	-
Adjustments for:			
Net interest charges		7,727	-
Taxation charge		103	-
Non-cash movement relating to finance income		2,308	-
Changes in working capital		1,133	-
		11,271	-
Net cash flow generated from operating activities		11,306	-
<u>Cash flows used in investing activities</u>			
Acquisition of Transmission owner asset		(277,033)	-
Interest received		31	-
Net cash flows used in investing activities		(277,002)	-
<u>Cash flows from financing activities</u>			
Proceeds from bond issue (senior debt) received ⁺	15	251,377	-
Proceeds of subordinated loan notes received	15	46,469	-
Proceeds of share issues		469	-
Repayment of bonds (senior debt)	15	(4,340)	-
Repayment of subordinated loans	15	(1,738)	-
Interest paid		(4,430)	-
Net cash flow generated from financing activities		287,807	-
Net increase in cash and cash equivalents		22,111	-
Cash and cash equivalents at the start of the year		-	-
Cash and cash equivalents at the end of the year	15	22,111	-

⁺ Net of issue costs amounting to £3,472k (2015 period: £nil)

Notes to the regulatory financial statements

For the year ended 31 March 2016

1. Operating segment

The Board of Directors is the Company's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities¹). The Company and segmental results, balance sheet and relevant cash flows can be seen in the income statement, the balance sheet and cash flow statement on page 46, 48 and 50 respectively. Additional notes relating to the Company and segment are shown in the notes to the regulatory financial statements on pages 51 to 67.

The electricity transmission operation of the Company 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 Company's sales and operations take place in the UK.

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

¹ After adjustment for the initial cash acquisition cost of the Transmission owner asset of £277,032k (2015 period: £nil).

2. Operating and finance income

Operating income of £2,725k (2015 period: £nil) and finance income of £7,362k (2015 period: £nil) relate in their entirety to the Company's activity as a provider of electricity transmission services to the Company's principal customer – NGET. The vast majority of the Company's income is derived from NGET.

3. Operating costs

Operating costs are analysed below:

	2016	2015
	£'000	Period £'000
Operations, maintenance and management ¹	2,057	-
Auditors' remuneration	16	-
Other	149	-
Total	2,222	-
<u>Auditors' remuneration comprises:</u>		
Audit services	9	-
Other services supplied pursuant to legislation ²	7	-
Total	16	-

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 associated with the transmission network.

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

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

4. Net interest expense

Net interest expense is as expense is as tabulated below:

	2016 £'000	2015 Period £'000
Interest income		
Interest on bank deposits	<u>31</u>	<u>-</u>
Interest expense and other financial costs		
Interest on secured bonds (senior debt)	(5,207)	-
Interest on other borrowings	(2,302)	-
Other financial costs	<u>(249)</u>	<u>-</u>
	<u>(7,758)</u>	<u>-</u>
Net interest expense	<u>(7,727)</u>	<u>-</u>

5. Income taxation charge

a) Taxation on items included in the income statement

The net taxation charge for the year is £103k, and the composition of that charge is described below. The company did not commence trading until August 2015, consequently the comparative amounts for the 2015 period are all £nil.

The taxation charge on current year profits arising in the year represents deferred taxation, and has been computed at 20% (2015 period: 21%). There is no current taxation included in the income statement (2015 period: n/a).

The taxation charge for the year differs from the main rate of corporation tax in the UK of 20% (2015 period: 21%) for the reasons outlined below:

	2016 £'000	2015 period £'000
Profit before taxation	<u>138</u>	<u>-</u>
Taxation at 20% (2015 period: 21%) on profit before taxation	28	-
Effects of:		
- expenses not deductible for tax purposes	87	-
- change in tax rates on deferred tax	<u>(12)</u>	<u>-</u>
Taxation charge for the year	<u>103</u>	<u>-</u>

b) Taxation on items included in other comprehensive income

The net taxation charge on items included in other comprehensive income for the year is £469k and comprises a charge on items arising in the current year computed at 20% of £521k and a credit of £52k arising from a change in corporation taxation rates. The taxation credit on items arising in the year represents deferred taxation. There is no current taxation included in other comprehensive income. The company did not commence trading until August 2015, consequently the comparative amounts for the 2015 period are all £nil.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

5. Income taxation charge continued

c) Rates of taxation - current and future years

In the Finance Act 2015 the rate of corporation tax was reduced to 19% from 1 April 2017 and 18% from 1 April 2020. These changes were enacted on 26 October 2015 and as such, deferred tax at the balance sheet date has been recognised at the rate of 18% on the basis that all temporary differences are expected to reverse after 1 April 2020. In the 2016 Budget, the Chancellor announced a further reduction to the main rate from 1 April 2020 to 17%. As this rate was not substantively enacted at the balance sheet date, it is not recognised in these financial statements. The effect of this change would be to reduce the net deferred tax liability recognised at 31 March 2016 by £32k.

6. Transmission owner asset

The movement in the carrying value of the transmission owner asset is shown in the table below:

	£'000
At 13 November 2014 and 1 April 2015	-
Additions	279,575
Adjustment to the carrying value*	(2,308)
At 31 March 2016	<u>277,267</u>
Comprising:	
Amounts falling due within one year	4,398
Amounts falling due after more than one year	<u>272,869</u>
	<u>277,267</u>

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

The Transmission owner asset is carried at amortised cost, and was acquired in August 2015. The estimated fair value of the Transmission owner asset at 31 March 2016 was £299,338k (2015: n/a). 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% per annum.

7. Deferred taxation liability

The net deferred taxation liability recognised in the balance sheet arises as follows:

	Fair value losses on derivatives £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
At 13 November 2014 and 1 April 2015	-	-	-	-
Current year movements	469	1,753	(1,650)	572
At 31 March 2016	<u>469</u>	<u>1,753</u>	<u>(1,650)</u>	<u>572</u>

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

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

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

8. Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £22,111k (2015: £nil). 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.

Cash and cash equivalents include amounts of £15,018k (2015: £nil) that the Company can only use for specific purposes and with the consent of the Company's lenders. The remaining cash and cash equivalents are held for general corporate purposes provided that use is compliant with the lending arrangements.

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

9. Borrowings

The following table analyses borrowings:

	2016 £'000	2015 £'000
Current		
Secured bonds – fixed rate	8,827	-
Non-current		
Secured bonds – fixed rate	238,392	-
Other borrowing – fixed rate	44,731	-
	283,123	-
Total borrowings	291,950	-
<u>Total borrowings are repayable as follows:</u>		
In one year or less	8,827	-
In more than one year, but not more than two years	7,101	-
In more than two years, but not more than three years	7,754	-
In more than three years, but not more than four years	8,628	-
In more than four years, but not more than five years	9,575	-
In more than five years other than by instalments	250,065	-
	291,950	-

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 the HoldCo via fixed and floating charges.

Other borrowing relates to amounts owed to HoldCo. This other borrowing is unsecured, carries a fixed coupon of 8.31% per annum, and is contractually repayable on 25 August 2035.

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

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

9. Borrowings continued

As at 31 March 2016 the Company had access to a PBCE letter of credit issued by the European Investment Bank amounting to £37,576k (2015: n/a) which guarantees certain payments to be made in respect of the secured bonds and the Company's hedging arrangements all of which was undrawn (2015: n/a).

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 2016 (2015 period: n/a).

10. Trade and other payables

Trade and other payables are as tabulated below.

	2016 £'000	2015 £'000
Trade payables	825	-
Other taxes	471	-
Accrued expenses	3,420	-
	<u>4,716</u>	<u>-</u>

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

11. Derivative financial instruments

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

RPI swaps

The Company 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 Company's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 20 August 2015 with a forward start date for the calculation of the relevant rates commencing on 31 March 2016 and ending on 24 August 2034.

Under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its primary customer, NGET, an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April by an amount computed by reference to the average movement in RPI over the previous 12-month period measured from September to September. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges. The vast majority of the Company's non-discretionary cash outflows relate to the servicing of senior debt borrowings that carry a fixed coupon so that both the principal repayments and coupon payments are predetermined. The primary purpose of these hedges is to generate highly certain cash inflows so that the Company can meet its obligations under the terms of these borrowing arrangements.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

11. Derivative financial instruments continued

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

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments comprising RPI swaps are carried at market value. The carrying value of the RPI swaps at 31 March 2016 was an asset of £2,606k (2015: n/a). Of the total movements during the year in the fair value of these derivative financial instruments a credit of £2,606k (2015 period: n/a) has been reflected through other comprehensive income and recorded in the cash flow hedge reserve.

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

12. Provision

The movement in the provision is analysed below.

	Decommissioning £'000
At 13 November 2014 and 1 April 2015	-
Additions	2,542
Unwinding of discount	67
At 31 March 2016	2,609

The decommissioning provision is all non-current (2015: n/a).

The decommissioning provision of £2,609k at 31 March 2016 (2015: £nil) 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 £6,134k, and is expected to be incurred in 2035.

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

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

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

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

13. Called up share capital and share premium

Share capital and share premium is as analysed below.

	No. (thousands)	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 13 November 2014 and 1 April 2015	-	-	-
Issue of shares during year	100	100	369
At 31 March 2016	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.

At the date of incorporation on 13 November 2014, the Company issued one ordinary share of £1.

During the year ended 31 March 2016, the Company issued 99,999 ordinary shares of £1 each, and the proceeds of share issues amounted £469k.

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

14. Reserves

The Company's reserves are analysed below.

	Retained earnings £'000	Cash flow hedge £'000	Total £'000
At 13 November 2014 and 1 April 2015	-	-	-
Profit attributable to equity shareholders	35	-	35
Profits on cash flow hedges taken to equity	-	2,606	2,606
Deferred taxation on cash flow hedges	-	(469)	(469)
At 31 March 2016	35	2,137	2,172

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

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

15. Cash flow statement

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

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

	2016	2015 period
	£'000	£'000
Movement in cash and cash equivalents	22,111	-
Net increase in borrowings ⁺	(291,768)	-
Change in net debt resulting from cash flows	(269,657)	-
Non-cash net interest expense included in net debt	(3,261)	-
Change in fair values of derivatives	2,606	-
Movement in net debt in the year	(270,312)	-
Net debt at start of year	-	-
Net debt at end of year	(270,312)	-

⁺ Arising from the proceeds of loans net of repayments.

(b) Analysis of changes in net debt

	Cash and cash equivalents	Borrowings	Derivatives	Interest accruals	Total
	£'000	£'000	£'000	£'000	£'000
At 13 November 2014 and 1 April 2015	-	-	-	-	-
Cash flow	22,111	(291,768)	-	-	(269,657)
Change in fair values	-	-	2,606	-	2,606
Non-cash net interest	-	(182)	-	(3,079)	(3,261)
At 31 March 2016	22,111	(291,950)	2,606	(3,079)	(270,312)

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

16. Related party transactions

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

	Parent undertakings		Other		Total	
	2016	2015	2016	2015	2016	2015
	£'000	period £'000	£'000	period £'000	£'000	period £'000
Expenditure:						
Interest ¹	2,302	-	-	-	2,302	-
Services received ²	-	-	3,851	-	3,851	-
	<u>2,302</u>	<u>-</u>	<u>3,851</u>	<u>-</u>	<u>6,153</u>	<u>-</u>
Balances outstanding at 31 March:						
Borrowings payable ¹ (principal)	44,731	-	-	-	44,731	-
Interest accrual ¹	927	-	-	-	927	-
	<u>45,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,658</u>	<u>-</u>

¹ Relates to funding related transactions and balances with immediate parent undertaking (WoDSH); all interest has been directly attributed to the Company.

² Services received from "Other" relate to transactions with Macquarie Capital (Europe) Limited amounting to £2,861k (2015 period: £nil), Macquarie Corporate Holdings Pty Limited amounting to £605k (2015 period: £nil) and 3i Infrastructure plc amounting to £385k (2015 period: £nil) that were directly attributed to the Company.

A summary of funding transactions with the immediate parent undertaking is shown below:

	2016 £'000
Borrowings from immediate parent undertaking (principal)	
At 13 November 2014 and 1 April 2015	-
Advances	46,469
Repayments	(1,738)
At 31 March 2016	<u>44,731</u>

Borrowings from the immediate parent undertaking (HoldCo) were negotiated on normal commercial terms and are repayable in accordance with the terms of the unsecured 8.31% loan notes 2035 ("the notes"). Repayments of principal and interest payments of £3,113k (2015 period: n/a) were made during the year. Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 25 August 2035.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

16. Related party transactions continued

Macquarie Capital (Europe) Limited and Macquarie Corporate Holdings Pty Limited were related parties of the Company during the year ended 31 March 2016 for the period 1 April 2015 to 23 September 2015. Macquarie Corporate Holdings Pty Limited held 50% of the equity in Company's ultimate parent undertaking (TopCo) to 23 September 2015 (2015 period: all of the 2015 period).

The services provided to the Company by Macquarie Capital (Europe) Limited were under normal commercial terms and related to financial advisory service.

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

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

No amounts have been provided at 31 March 2016 (2015: n/a), and no expense was recognised during the year (2015 period: n/a) in respect of bad or doubtful debts for any related party transactions.

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

a) Fair value disclosures

The following is an analysis of the 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 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 Company's financial instruments with the fair value of those instruments at 31 March 2016, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

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

continued

a) Fair value disclosures continued

	Carrying value £'000	Fair value £'000	Valuation method (see as follows)
Assets			
Non-current			
Transmission owner asset	272,869	294,940	Level 3
Derivative financial assets	2,606	2,606	Level 2
	<u>275,475</u>	<u>297,546</u>	
Liabilities			
Non-current			
Fixed rate secured bonds due 2034	238,392	244,671	Level 2
Fixed rate unsecured loan notes due 2035	44,731	49,360	Level 2
Provision	2,609	2,609	Level 3
	<u>285,732</u>	<u>296,640</u>	

All comparative figures for 31 March 2015 are £nil.

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 Company 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 Company'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 (2015 period: n/a) and there have been no reclassifications or transfers between the various valuation categories during the year (2015 period: n/a).

b) Management of risk

The Board has overall responsibility for the Company's risk management framework. This risk framework is discussed further in the Strategic Report.

The Company'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 Company by using financial instruments, including the use of derivative financial instruments – being the RPI swaps described in note 11 that are appropriate to the circumstances and economic environment within which the Company 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.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

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

b) Management of risk continued

i) Market risk

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

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

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

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

All of the Company's borrowings have been issued at fixed rates which exposes the Company 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 Company's activities.

The cash flows arising from the Transmission owner financial asset fluctuate with positive changes in RPI. The Company 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 note 11.

For the reasons outlined in note 11, 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.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

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

b) Management of risk continued

ii) Credit risk

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

Credit risk primarily arises from the Company's normal commercial operations that actually, or potentially, arises from the Company's exposure to: a) NGET in respect of invoices submitted by the Company for transmission services; b) the counterparties to the RPI swaps described in note 11; and d) short term deposits. There are no other significant credit exposures to which the Company is exposed. The maximum exposure to credit risk at 31 March 2016 is the fair value of all financial assets held by the Company. Information relating to the fair value of all financial assets is given above – note 17 (a). None of the Company's financial assets are past due or impaired.

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

Having considered the credit risks arising in respect of the exposures to NGET, the Directors consider that those risks are extremely low, given the evidence available to them. At 31 March 2016 amounts due from NGET amounted to £nil (2015: n/a).

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 2016, the fair values attributable to these positions were assets amounting to £2,606 (2015: n/a). The derivative asset positions are with counterparties of good standing and consequently the risk of default is considered to be very low.

Included in the balance sheet at 31 March 2016 (2015: n/a) cash and cash equivalents comprised short term deposits which were immediately accessible at that date. It is the Company's policy, and a requirement under the Company'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.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

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

continued

b) Management of risk continued

iii) Liquidity risk and Going Concern

Liquidity risk is the risk that the Company 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 Company operates; the credit worthiness of the Company's principal customer (NGET); and the RPI swaps that have been put in place, the cash inflows generated by the Company are highly predictable and stable. In addition, all of the Company's senior debt carries a fixed coupon, and based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is expected to generate over the whole period of the project. During the year ended 31 March 2016, senior debt-service costs amounted to £7,395k (2015 period: n/a). There is no contractual obligation on the Company to service the unsecured borrowing until 25 August 2035, although it is the Company'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 £3,113k (2015 period: n/a).

In accordance with the conditions of the various lending agreements, the Company 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 Company 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 Company's use of these funds is restricted either to the specific purpose contemplated by the lending agreements, or until certain conditions are met or exceeded. Where these conditions are met or exceeded then the use of any net cash generated in excess of the minimum necessary to meet the restrictive conditions is unfettered.

At 31 March 2016, the Company had access to a working capital reserve of £5,000k (2015: £nil) 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 Company had insufficient funds to meet the contractual senior debt service or hedging payments, the Company 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 2016, cash and cash equivalents included £15,018k (2015: n/a) 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 £7,093k (2015: n/a) the disbursement of which has to comply with the terms of the lending agreements generally, but otherwise are available for general corporate purposes.

The Company prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Company. 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 Company'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 Company's reputation.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

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

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

During the year the Company has continued to meet its contractual obligations as they have fallen due. The Company has exceeded its targets to date in relation to the obligations that it has to senior debt holders 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 Company has sufficient headroom to continue as a going concern. The statement of going concern is included in the Strategic Report.

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

In determining the interest element of contractual cash flows in cases where the Company 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 Company selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the following table is prepared on the assumption the holder redeems at the earliest opportunity.

The numbers in the following table have been included in the Company'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 2016.

	2016 Contractual cash flows £'000	2016 0-1 years £'000	2016 1-2 years £'000	2016 2-5 years £'000	2016 >5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	540,806	20,757	21,386	68,467	430,196
Cash and cash equivalents	22,111	22,111	-	-	-
	562,917	42,868	21,386	68,467	430,196
Non-derivative financial liabilities					
Borrowings +	(344,869)	(17,435)	(15,361)	(49,336)	(262,737)
Trade and other non-interest bearing liabilities	(4,716)	(4,716)	-	-	-
Provision	(6,134)	-	-	-	(6,134)
	(355,719)	(22,151)	(15,361)	(49,336)	(268,871)
Derivative financial instruments					
RPI swaps	7,699	192	208	737	6,562
Net total	214,897	20,909	6,233	19,868	167,867

+ Including interest payments.

The 2015 comparative figures for the undiscounted contractual maturities of financial assets and financial liabilities, including interest, based on the position as at 31 March 2015 are all £nil.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

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

continued

b) Management of risk continued

iv) Sensitivities

Changes in RPI affect the carrying value of those financial instruments that are recorded in the balance sheet at fair value. The only financial instruments that are carried in the balance sheet at fair value are the standalone derivative financial instruments - RPI swaps - as described in note 11 above. As explained in note 11, 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 Company has no substantive economic impact on the Company 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 Company, arising from future changes in RPI, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the that proportion of the underlying cash flows being hedged that emanate from the holding of the Transmission owner asset.

v) Capital management

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

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

Subordinated debt has been issued in August 2015 to the Company's immediate parent undertaking, HoldCo, and carries a fixed rate coupon (see note 16). At 31 March 2016 the total principal value of the subordinated debt outstanding excluding accrued interest amounted to £44,731k (2015: n/a).

Ordinary equity share capital issued during the year amounted to £469k (2015 period: £0k) and at 31 March 2016 amounted to £469k (2015: £0k).

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

Notes to the regulatory financial statements

continued

For the year ended 31 March 2016

18. Ultimate parent company

WoDS Transmission plc's immediate parent Company is WoDS Transmission HoldCo Limited; both are limited companies domiciled in Great Britain and registered in England and Wales. The ultimate parent Company and controlling party is WoDS Transmission TopCo Limited (incorporated and registered in Jersey). WoDS Transmission HoldCo Limited is the largest and smallest group which consolidates the statutory financial statements of WoDS Transmission plc.

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 plc, WoDS, we, our, or us

The terms 'the Company', 'WoDS Transmission plc', 'WoDS', 'we', 'our', or 'us' are used to refer to WoDS Transmission plc, 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 regulatory 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 plc 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 TopCo and its subsidiary undertakings, WoDS HoldCo Limited and WoDS Transmission plc.

H

HS&E

Health, Safety, and the Environment

HoldCo

See WoDSH

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

MWh

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

N

NGET

National Grid Electricity Transmission plc

the Notes (see also subordinated loan, subordinated loan agreement, subordinated debt)

Unsecured 8.31% Loan Notes 2035

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)

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 Company 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 subordinated loan agreement.

STC

Transmission System Code

SQSS

Security and Quality of Supply Standard

Subordinated loan, subordinated loan agreement, subordinated debt

Amounts borrowed by the Company from its immediate parent undertaking, WoDSH which ranks behind the senior debt.

T

TEC

Transmission Entry Capacity

TOCA

Transmission Owner Construction Agreement

TopCo

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

WoDSH (or "HoldCo")

WoDS Transmission HoldCo Limited

WoDST (or "TopCo")

WoDS Transmission TopCo Limited