Registered No. 05046791

Wales & West Utilities Limited

Annual report and consolidated financial statements
for the year ended 31 March 2021

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Directors and advisers

Directors

Andrew Hunter	Chairman (R)
Graham Edwards	Chief Executive Officer (H)
Dominic Chan	(A, R, H, T)
Grant Hawkins*	(A, T)
Hing Lam Kam	(R)
Duncan Macrae	(A, R, H, T)
Michael Pavia *	(A, H, T)
Charles Tsai	(A, R)
Neil Henson	(Alternate Director to Graham Edwards)
Neil McGee	(Alternate Director to Dominic Chan)
Wendy Tong-Barnes	(Alternate Director to Hing Lam Kam)

(A) Member of the Audit Committee
(R) Member of the Remuneration Committee
(H) Member of the Health & Safety Committee
(T) Member of the Treasury Committee
* *Independent non-executive director*

Company secretary and registered office
Paul Millar
Wales & West House, Spooner Close, Coedkernew, Newport, NP10 8FZ

Auditor
Deloitte LLP
5 Callaghan Square, Cardiff, CF10 5BT

Principal bankers
Barclays Bank plc
One Churchill Place, London, E14 5HP

Strategic report

Strategy and objectives

Wales & West Utilities Limited group's ("Company" or "Group" as the context requires) strategy is to continue to maintain the gas distribution network for which it is responsible in Wales and the South West of England as required under its Gas Transporters' Licence and by the Health and Safety Executive ("HSE"), whilst providing appropriate levels of customer and consumer service. Maintenance of the gas distribution network includes development to increase the number of consumers connected as well as regular repair and replacement to ensure that it is kept in a good operational state.

Information in respect of the regulatory environment is included within "The business model" section below.

These consolidated financial statements present the Company's and Group's results for the year ended 31 March 2021 and comparative financial statements for the year ended 31 March 2020 ("2020") as reported under Financial Reporting Standard 102 ("FRS 102").

The Group reports financial and non-financial key performance measures to the extent necessary for an understanding of the development, performance and position of the Group on pages 8 and 9.

The business model

Business environment

The Gas Distribution and Transmission Network in Great Britain comprises the National Transmission System and eight regional gas distribution networks ("GDN"). The National Transmission System is owned and operated by National Grid plc group.

The Company operates one of the eight independently owned regional GDN's comprising the Wales and South West of England local distribution zones. Together these eight networks represent the large majority of the GDN in Great Britain. The gas distribution business comprises the development, administration, maintenance and operation of the Company's GDN and the supply of gas transportation services.

There are other independent gas transporters who operate within the principal area of the Company's operation and the Company has contractual arrangements in place with them to ensure the safe passage of gas to their networks.

In addition to its gas distribution role, the Company also has obligations under its Gas Transporters' Licence to:

- provide 24 hour emergency response to all public reported gas escapes in Wales and South West England, irrespective of the cause (the significant majority of which are unrelated to the Company's distribution network);
- connect gas consumers to the distribution network, unless the consumer chooses to use another party to provide the connection; and
- provide meters to certain consumers if the consumer's gas supplier has not made alternative arrangements.

Regulatory environment

The gas distribution business of the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"). Ofgem operates under the direction and governance of The Gas and Electricity Markets Authority ("GEMA" or "The Regulator"), which makes all major decisions and sets policy priorities for Ofgem. The mechanism for regulation of the Company's activities in gas distribution and metering is derived from:

- the Gas Act 1986 (as amended);
- the terms of its Gas Transporters' Licence granted under Section 7 of the Gas Act 1986 (as amended); and
- the Utilities Act 2000.

As a regulated business the Company is subject to price controls set by Ofgem which define its allowed revenues. For the year ended 31 March 2021, the Company operated under Ofgem's RIIO (Revenue = Incentives, Innovation and Outputs) principles (the RIIO-GD1 price control) an eight year price control which commenced on 1 April 2013 and ended on 31 March 2021. This price control defined allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on the Company's investment in the gas infrastructure asset.

The business model (continued)

Regulatory environment (continued)

The Company submitted a RIIO-GD2 business plan to Ofgem on 9 December 2019 following engagement with stakeholders to ensure we developed a well justified and stakeholder led business plan. On 4 September 2020, WWU submitted its response to Ofgem on Ofgem's Draft Determination published on 9 July 2020 and Open Hearings via digital means took place in October 2020. WWU responded to the Draft Determinations and Ofgem published its Final Determination for the next regulatory control period, RIIO-GD2, on 8 December 2020. This control period will run from 1 April 2021 to 31 March 2026.

The RIIO framework introduced in GD1 remains in place in GD2 with some notable differences. These include price control deliverables for mains replacement and large capital pipeline rebuild - which means any non-delivery or change of specification could result in a hand back of cost allowances. There are also a number of use it or lose it allowances for investment in net zero and vulnerable customers, as well as a considerable increase in uncertainty mechanisms and additional guidance compared to GD1.

On 3rd March 2021, WWU sought permission from the CMA to appeal certain matters relating to RIIO-GD2, following approval from the Board. On 31 March 2021 the CMA granted WWU permission to appeal on all six of its heads of appeal. Ofgem submitted its defence to the appeals on 23 April 2021 and the appellants, including WWU, responded on 10 May 2021 to Ofgem's defence. The CMA has also held various Teach-in, Clarification and Main Hearings with the Appellants, Ofgem and three Intervenors, to gather and understand the evidence submitted. With the exception of the ESO (owned by National Grid), all other GDNs and Transmission energy licensees regulated by Ofgem have also sought, and were granted, permission to appeal by the CMA. On 11 August 2021 the CMA issued its Preliminary Determination on the various RIIO-2 appeals before it. The CMA has provisionally determined in favour of WWU on two grounds of appeal but has provisionally determined in favour of Ofgem on the other four grounds. The CMA appeal process remains in progress and the CMA's Final Determinations remain due by 31 October 2021.

In addition to the regulated revenues permitted by Ofgem, the Company earns non-regulated revenues, predominantly through gas meter work and smart meter installations. The Company aims to continue undertaking this work where it is of benefit to the Company. The Company submits specified annual returns and a regulatory reporting pack to Ofgem annually, generally by the end of July following the 31 March regulatory year end. In 2020 the deadline was extended to 31 August 2020 because of potential delays resulting from the change in working conditions imposed during the Coronavirus pandemic.

The Company is also regulated by the Health and Safety Executive.

Results and operating performance

The operating profit decreased to £172.0m for the year ended 31 March 2021 (2020: £222.9m), due to reductions in allowed revenue and increased exceptional costs. Exceptional costs are largely associated with the preparation for RIIO GD2 and include £12.7m restructuring costs and £1.8m legal and advisory costs in respect of the company's CMA appeal of the RIIO-GD2 price control. After net interest of £131.2m, which includes a fair value swap charge of £6.9m (2020: net interest of £152.6m, which includes a fair value swap charge of £20.1m) the consolidated profit before taxation for the year ended 31 March 2021 amounted to £40.8m (2020: profit of £70.3m). The consolidated profit attributable to shareholders amounted to £23.2m (2020: profit of £24.4m).

The derivative asset and liability recognised at 31 March 2021 is £48.7m and £964.6m respectively (2020: £53.8m asset and £975.7m liability). During the year ended 31 March 2021 there was a £6.0m decrease in the net book value liability largely due to net cash interest payments of £12.9m and a £6.9m charge to profit and loss. This charge is due to an increase in the forward RPI curve together with an increase to the forward interest rate curve (2020: there was an increase in the fair value liability leading to a profit and loss account charge of £20.1m due to an increase in the forward RPI curve and a decrease to the forward interest rate curve).

The results of the Group for the year ended 31 March 2021 are set out in the consolidated profit and loss account on page 40. During the year ended 31 March 2021, the Company invested and capitalised £155.9m, against which consumers contributed £11.8m (2020: £148.2m, against which consumers contributed £15.8m), on expanding and improving the regional GDN.

Part of network improvement includes replacement work on gas pipes recorded within capital investment. The Company laid 339kms of gas mains and undertook work on the related gas service pipes running from the gas mains to the properties of gas consumers at a gross cost of £79.6m during the year ended 31 March 2021 against which consumers contributed £2.6m (2020: 413kms at a gross cost of £81.6m against which consumers contributed £2.5m). Consumer contributions are included within turnover.

The business model (continued)

The replacement work was undertaken either because:

(i) mains were required to be replaced under a programme defined by the Health & Safety Executive where all iron mains up to and including 8" in diameter and within 30 metres of a property are to be replaced with plastic alternatives within a period of 30 years from 2002; or
(ii) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains above 8" and less than 18" in diameter, within 30 metres of a property and in excess of a defined risk threshold, are to be replaced within a period of 30 years from 2002; or
(iii) the overall condition of the metallic main warranted replacement; or
(iv) of a request (usually through a local authority as a result of a highways project) to move the gas infrastructure.

Covid-19
The Company is monitoring the impact on the Group of the Coronavirus pandemic. The safety of our customers and colleagues is fundamental, whilst maintaining the integrity of the gas network we operate.

The Covid-19 pandemic, and the resultant UK government lockdown and social distancing requirements, have significantly impacted the Company in the year ended 31 March 2021. The Company was unable to carry out certain Capital and Replacement expenditure work ("Repex") during the first Covid-19 related lockdown period from 22 March 2020 to 4 July 2020 and has incurred in total £7.8m stranded resource costs in operating expenditure ("Opex") which comprises £7.3m in the year ended March 2021 and £0.5m in the year ended March 2020. In addition the Repex work that the Company has been able to undertake during the lockdown period has been more expensive.

Across the entire year, the Company has undertaken additional safety practices for its operational and office based colleagues, in order to keep them and our customers safe. This includes the continuation of remote working, with the head office in Celtic Springs and our operational depots only being occupied by a small minority of the staff who normally work from them, and heighten use of personal protective equipment for operational activities where contact with the public or other colleagues is expected.

It is estimated that the pandemic has increased operating costs by £7.8m and reduced revenues by £2.5m compared to the budget, a total adverse earnings before interest, tax, depreciation and amortisation ("EBITDA") impact of £10.3m, of which £9.8m is related to the year ended 31 March 2021 (2020: £0.5m). The Company has not taken advantage of any of the Government's Covid-19 relief schemes during the year.

Business review
The Group's operating performance over the past year has been satisfactory, with all Ofgem's standards of performance being achieved. However, the Covid-19 pandemic has impacted the delivery and close out of RIIO-GD1 outputs, in particular the Mains Replacement programme. WWU over-delivered on its primary output of risk removed but has not achieved the secondary output of mains length decommissioned. Prior to the Covid-19 pandemic WWU were on track to deliver its commitments in full, however the national lockdowns and resultant pausing of the Mains Replacement programme have led to an unavoidable shortfall. Ofgem are yet to provide guidance on how this will be treated during the close out of RIIO-GD1 and have deferred discussions until the CMA appeals have concluded.

External targets were met in response to reported possible gas escapes, both within one and two-hour time frames. The Ofgem standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met. There were 1,285 complaints in the year ended 31 March 2021 (2020: 1,549). The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

Other targets include those relating to the achievement of Ofgem outputs and are measured and reported in Ofgem's RIIO-GD1 Annual Reports.

In addition to meeting the operational standards for the year, the Group also continued to work to improve operational efficiency through the performance management framework and the use of management information tools.

The business model (continued)

Financial review

Basis of accounting

The consolidated financial statements present the Group's results for the year ended 31 March 2021 with comparatives for the year ended 31 March 2020 and the financial position as at 31 March 2021 and 31 March 2020. They have been prepared using the accounting policies shown on pages 45 to 51, in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom.

Business unit reporting

In addition to providing the overall results and financial position in the consolidated financial statements, the Company provides a breakdown of those results and balances into a number of different business segments as required by the Gas Transporters' Licence within the Annual "A40 - GDN Regulatory Revenue Return" of Wales & West Utilities Limited prepared to 31 March.

Turnover in note 2 provides an analysis of income derived from regulated activities, non-regulated activities and from customer contributions in the year. Regulated revenue was down by 6.9% to £436.4m (from £468.9m in 2020). This was largely due to a 42% price reduction in exit capacity income, in line with a reduction in allowed revenue which was effective from April 2020. Commodity income was also lower due to the Covid-19 lockdown as well as warmer than expected weather in the Spring. Customer contributions were £4.0m lower in the year, down to £11.8m from £15.8m in 2020, as a result of a shutdown in customer facing connections between April 2021 and July 2021.

Liquidity, resources and capital expenditure

Net cash inflow from operations for the year ended 31 March 2021 amounted to £256.7m (2020: £297.3m), due to the reductions in revenue mentioned above.

Investing activities absorbed net cash of £19.1m (2020: £356.2m). Expenditure on tangible and intangible fixed assets were down by £11.6m to £147.8m (from £159.4m in 2020). The remaining year on year variance can be explained by the transfers in/out of money held on deposit which is now classified separately.

Net cash outflow from financing activities amounted to £71.4m (2020: £80.6m net cash inflow). Financing activities during the year ended 31 March 2021 included no bond issue and the £100m bond buyback was settled in April 2021 (2020: Financing activities included: a £75.0m tap on the £300.0m 2038 bond; a 21 year £250.0m bond issue and a bond buyback of £125.0m which cancelled the £125.0m November 2021 Class A bond).

Pension Scheme

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). At 31 March 2021 an FRS 102 pension valuation of £17.0m net deficit (2020: £42.4m net surplus) resulted in a debit to the statement of comprehensive income of £68.0m net of deferred tax of £12.9m (2020 £29.1m credit net of deferred tax of £5.5m). The Company contributed £9.3m of deficit contributions in respect of the defined benefit section of the Scheme during the year ended 31 March 2021 (2020: £17.7m of deficit contributions, £14.7m in respect of 2019/20 and £3.0m paid in advance for 2020/21) in line with the deficit recovery plan.

By reference to the Scheme Trust Deed and Rules, a surplus in the Scheme is considered recoverable by the Company. Accordingly, the Company therefore considers it appropriate to recognise an asset in respect of the Scheme where one arises. The deficit recognised at 31 March 2021 amounted to £17.0m (2020: £42.4m surplus).

The calculation of the gross pension liability of £577.4m (2020: £492.1m) has a number of areas of judgement, with the key assumptions being the discount rate, inflation rate and assumptions around mortality – as stated below:

- Discount rate - 2021: 2.00%, (2020: 2.20%) : £19.2m increase to the liability in the year
- Inflation rate - 2021: 3.30%, (2020: 2.55%) : £72.7m increase to the liability in the year

During the year ended 31 March 2021, the Company updated its assumptions around mortality from the Continuous Mortality Investigation ("CMI") 2019 model to the CMI 2020 model (2020: from the 2018 CMI model to the 2019 CMI model), to reflect the latest available information. The change to the CMI model decreased scheme liabilities by circa 0.2% and has led to a gain of £1.3m (2020: increased scheme liabilities by circa 0.8% and has led to a loss of £4.2m) recognised in the statement of comprehensive income. The mortality base table assumption is consistent with that used for both the 2019 triennial funding valuation and the 31 March 2020 FRS102 pension valuation.

The business model (continued)

Financial review (continued)

Pension Scheme (continued)

The Scheme net deficit of £17.0m (consisting of assets of £560.4m and liabilities of £577.4m) was based on underlying scheme asset valuations as at 31 March 2021. Details of the movements in the Scheme are set out in note 25.

With effect from 31 July 2021, the Company agreed with affected members the closure of the defined benefit section of the WWU Pension Scheme to future accrual. This closure is expected to result in a one off curtailment gain. Such a gain has not been included in the results to 31 March 2021 and is expected to be recognised in the results for the year ended 31 March 2022.

Shareholder deficit

Shareholder deficit at 31 March 2021 amounted to £619.2m (2020: £587.4m) as a result of a retained profit of £23.2m for the year ended 31 March 2021 (2020: retained profit of £24.4m) and an actuarial loss on the pension Scheme net of deferred tax of £55.0m (2020: net actuarial gain of £23.6m). The company does not currently have a distributable reserve.

Details of the ownership of the Company are included in note 26. There were no movements in the authorised or issued share capital of the Company during the year or up to the date of signing.

Borrowings and financing

Details of the Group's approach to financial risk management is set out in the Strategic report on pages 12 and 13.
Wales & West Utilities Finance plc ("WWUF") was established as a wholly owned subsidiary of the Company in March 2010. WWUF is the funding vehicle for raising public bonds to support the long term bond debt financing requirements of the Group. In addition, the Company has borrowed from the European Investment Bank ("EIB"), MetLife and National Westminster Bank plc ("NWB").

Details of total external borrowings of £2,576.1m (2020: £2,567.4m) are disclosed in notes 12 and 13. Total borrowings with senior secured lenders (i.e. excluding debt owed to shareholder entities) of £1,915.5m (2020: £1,912.8m) are also disclosed in note 13.

At 31 March 2021, cash at bank (excluding cash held on deposit) of £258.6m was held by the Group (2020: £92.4m). Cash held on deposit (for a period greater than three months) by the Group was £175.0m (2020: £300.0m).

As at 31 March 2021 the Company held index-linked swap contracts with a notional principal of £1,000.4m (2020: £1,003.8m) and interest rate swaps with a notional principal of £180.4m (2020: £180.4m). The net fair value liability of the interest and index-linked swap contracts at 31 March 2021 was £973.3m (2020: net liability of £974.7m. The difference between the book value and the fair value represents counterparty charges. This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward interest rates and RPI rates. During the year ended 31 March 2021, the Company restructured future accretion payment dates on £696.6m notional of RPI index-linked swaps to amend the payment profile from three yearly to six yearly. On these restructured swaps, the last accretion payment date was 31 March 2019. The next accretion payment date has been extended from 31 March 2022 to 31 March 2025 and then six yearly thereafter. The next accretion payment date on the remaining £303.8m notional of RPI Index-linked swaps remains as 31 March 2022.

At 31 March 2021, WWUF had in issue a series of guaranteed bonds, the majority of which are listed on the London Stock Exchange, with the exception of the £375.0m of Guaranteed bonds maturing in 2038 and the £250.0m Guaranteed bond maturing in May 2041 which are listed on the Luxembourg Stock Exchange. Details of all of these issuances are set out below:

Nominal value £m	Coupon	Class	Issue date	Redemption date	Note
300	5.75%	A	31 March 2010	29 March 2030	
100	2.496% Index-linked	A	31 March 2010	22 August 2035	
150	4.625%	A	4 November 2011	13 December 2023	
100	4.625%	A	4 November 2011	6 April 2021	(a)
150	5.00%	A	4 November 2011	7 March 2028	
300	3.00%	A	3 August 2018	3 August 2038	
75	3.00%	A	3 September 2019	3 August 2038	
250	1.875%	A	28 February 2020	28 May 2041	

The business model (continued)

Financial review (continued)

Borrowings and financing (continued)

a) On 30 March 2021, the Company announced the final results of a tender offer for £100m of WWUF's £250m 4.625% Class A nominal bond maturing on 13 December 2023. The bonds were purchased at 111.460% of their par value, and included accrued interest of £1.445m. A charge for £11.5m was made in the consolidated profit and loss account of WWU, representing the excess of the consideration paid above the book carrying amount of the bonds. The total consideration paid was £112.9m on the settlement date, 6 April 2021. On the same day, WWUF acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by the Company to it.

All of the bonds are unconditionally and irrevocably guaranteed by the Company and its immediate parent, Wales & West Utilities Holdings Limited ("WWUH") pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transporters' Licence.

The cumulative net proceeds of the issue of these bonds, including redeemed bonds, of £1,407.2m (2020: £1,407.2m) were lent by WWUF to the Company to repay its existing financing and for general corporate purposes.

Taxation

The Company operates entirely within the United Kingdom and is subject to all the main charges which fall under UK legislation. These include Corporation tax, VAT, PAYE and national insurance, regulatory licence fees, local authority fees (New Roads and Streetworks Act) and relevant rates.

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profit for the year.

The £2.4m current corporation tax charge for the year ended 31 March 2021 reflects the tax charge for the current financial year after the utilisation of brought forward losses of £1.1m (2020: £3.8m) and an adjustment in respect of prior years of £1.3m (2020: £nil). The overall current tax position for the year has moved from a tax charge of £3.8m in 2020 to a £2.4m charge in 2021 mainly as a result of the reduction in profit in the year.

Deferred tax is calculated based on enacted rates at the time the asset or liability is expected to unwind. The net deferred tax liability recognised at 31 March 2021 is £261.6m (2020: £257.8m).

The UK Government announced in the 2021 Budget on 3 April that the statutory tax rate will be increased to 25% with effect from 1 April 2023. This increase in the tax rate was substantively enacted after the balance sheet date on 24 May 2021 and will therefore be reflected in the deferred tax charge for the year ended 31 March 2022. The incremental one-off deferred tax charge is expected to be in the region of £82m.

Fixed assets

Freehold land and buildings are carried in the consolidated financial statements at depreciated historic cost of £18.4m for the year ended 31 March 2021 (2020: £18.8m).

Investment in the network is essential for ensuring the security of the gas supply and the safety of the public. Gross capital expenditure in the Company's network was £154.3m for the year ended 31 March 2021 (2020: £148.2m).

Contractual relationships

The Group has contractual relationships with many parties including directors, employees, suppliers, banking groups, debt investors, group companies and affiliated companies (see note 13 (iv)). Amongst the suppliers is Xoserve Limited, the sole company which provides gas throughput and billing information to the Group, and which is used by the Group in setting its regulated gas distribution charges to gas transporters. The Company's investment in Xoserve was £0.1m at 31 March 2021 (2020: £0.1m).

Future developments

The Group does not envisage any material changes in the activity of the Group in the new regulatory control period to 31 March 2026. The Group expects to continue to safely maintain and develop the Gas Distribution Network for the benefit of stakeholders in accordance with the Gas Transporters' Licence granted by the Regulator. The Group has a good record against its key performance measures as set out below and aims to maintain this position into the future.

The business model (continued)

Future developments (continued)

Ofgem's new regulatory 5 year control period (RIIO-GD2) took effect from 1 April 2021. The Company has appealed Ofgem's Final Determinations in respect of that control period. See the regulatory environment section on pages 2 and 3 for further information.

The Group has retained stock levels since the Brexit transition and monitors both Brexit and Covid-19 key items on a weekly basis. Whilst the main risk of non-supply has passed, we are awaiting the full customs changes to be implemented before releasing these stock items for use in the network. Critical spares for repairs will remain at least 6 monthly usage for the time being.

Key performance measures

The Group uses a number of key measures of operational and financial performance to plan and monitor its business activities. These measures are principally focused on the safe and effective operation of the gas network infrastructure asset. Measures of operational performance include:

- process safety – safety of the gas transportation assets;
- occupational safety and health - injuries, near misses and ill health;
- environment – waste disposal, energy usage and use of natural resources;
- the management of controllable costs in relation to the regulated business;
- the achievement of service levels and the minimisation of complaints;
- the achievement of capital and replacement programme targets and cost efficiency; and
- the reliability of the gas distribution network and other customer facing quality of service measures.

The directors believe that safety is paramount and, as a fundamental part of this, that all work related injuries and illnesses are preventable. Consequently, the Group measures the level of injuries, incidents and near misses as a key operational performance indicator. In addition, process safety measures have been devised to measure both the 'health' of the infrastructure assets and their impact on the environment and the communities in which the Group works.

Contractor performance is measured in the same way as for direct employees.

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with consumers, Ofgem and the public. Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies. The Group is required by Ofgem to meet a number of different service targets ("Overall Standards"), including attendance at gas escapes, notifying consumers in advance of planned interruptions and responding to complaints. The Company's Gas Transporters' Licence also requires it to meet certain service targets for connections. Performance against these standards is reported to senior management every month and is reportable to Ofgem on an annual basis. Compensation payments are made to consumers under the Gas (Standards of Performance) Regulations 2005, in the regrettable event that certain service standards are not met. Compensation payments for the year ended 31 March 2021 amounted to £0.2m (2020: £0.2m), which included £0.1m of additional compensation as WWU voluntarily chose to double the Ofgem compensation rates since 2017 (2020: £0.1m).

The Company measures service quality to assess the performance of management and staff in serving consumers, including a quarterly survey which is undertaken by an independent market research company, the results of which are published on the Company's website and are reported to Ofgem.

Key performance measures (continued)

All regulatory standards of performance were achieved in the year ended 31 March 2021 and the preceding years as shown below. Key operational performance measures were:

	Ofgem Target	**Year ended 31 March 2021**	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2018
Responding to gas escapes					
1 hour target for uncontrolled escapes	97.0%	**99.2%**	99.0%	99.0%	98.0%
2 hour target for controlled escapes	97.0%	**99.8%**	99.8%	99.8%	98.6%
Standards of performance					
Issuing quotations	90.0%	**99.7%**	99.7%	99.6%	99.7%
Offer dates for work start and finish	90.0%	**99.1%**	99.7%	99.9%	99.9%
Jobs completed on agreed dates	90.0%	**94.9%**	95.0%	97.0%	97.2%
Responding to complaints	90.0%	**99.8%**	99.9%	99.0%	99.9%
Customer complaints					
Number of complaints		**1,285**	1,549	1,515	1,555
Number of jobs undertaken		**206,487**	266,792	266,071	272,721
Percentage complaints		**0.6%**	0.6%	0.6%	0.6%
Upheld complaints*					
Ombudsman service		-	-	-	-

*Upheld complaints are defined in The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

Key financial performance measures of the Group under FRS 102 were operating costs and operating cash flows as shown below:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Turnover	**454.8**	491.8	444.4
Operating costs	**(282.8)**	(268.9)	(271.5)
Operating profit	**172.0**	222.9	172.9
Operating profit before depreciation, amortisation, exceptional items and movement in provisions	***269.6***	*315.0*	*265.3*
Financing charges	**(131.2)**	(152.6)	(239.7)
Tax	**(17.6)**	(45.9)	(1.3)
Profit/(loss) after tax	**23.2**	24.4	(68.1)
Operating cash flows	**256.7**	297.3	277.2

Other key performance indicators:

	Year ended 31 March 2021	**Year ended 31 March 2020**
Total Net Emissions (tonnes CO_2e)	**399,938**	**471,887**
Headcount (full heads)	**1,592**	**1,624**
Capital Investment (£'m)	**155.9**	**148.2**
Mains Replaced (km)	**339**	**413**

Principal risks and uncertainties
The business, capital structure and the execution of the Company's strategy are subject to a number of risks.

The Company has carefully reassessed the impact of Covid-19 within each of the relevant risk factors.

Approach to risk
The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified below. In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Transporters' Licence, standards of service and obligations with the HSE. During the year, and subsequently, this included reviewing risk assessments in light of the impact of the Covid-19 pandemic on home, office and site working practices and their consequential impact on cyber security and GDPR.

If more than one principal risk event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

On an annual basis, the Board, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes, risks and controls with assurance and support provided by one of the Company's sub-committees, the Audit Committee. A key part of the review is the receipt of a Letter of Assurance from the Chief Executive, which consolidates the key matters of interest raised throughout the year by the management of the Group.

Within the business, the risk management process continues to be based on assessments of operational (including health and safety), regulatory, financial and other business or project risks. Key business departments prepare and maintain risk registers that capture their key risks and the actions being taken to manage them.

These risk registers support the Company's strategic risk register; this incorporates risks that are viewed as important to the Company from an ongoing risk management and mitigation perspective. Senior management is closely involved in the review process, whether that be through discussion at relevant committees or during review and challenge from the Company's internal audit function on a quarterly basis.

The key business risks facing the Company are set out below and have been identified from an inherent risk perspective as having the potential for a material adverse effect on our business operations and results, financial condition or reputation. With appropriate mitigating controls management attempts to reduce the impact of these risks within the business, but some of these risks are not wholly within its control, and may still have potential to result in a material adverse impact on the Group and its business activities, as may factors besides those listed.

Asset management systems
Failure in the design, implementation and maintenance of each of the Company's asset management systems, including asset health, physical security and integrity (e.g. asset data records), may result in major incidents leading to loss of life, adverse impact on the environment, loss of assets, prosecution under relevant legislation, or failure to meet the relevant applicable licence conditions.

The Company's asset management systems have been certified to ISO 55001 by an external assessor. The Asset Management team oversees a process of asset integrity and risk based management, which is subject to regular audit.

The WWU gas control centre manages gas flows on a day to day and intra-day basis within our gas distribution network and regular emergency exercises and testing are conducted in conjunction with the National Gas Control Centre as part of WWU's crisis management arrangements.

Capital spending and maintenance programmes are maintained by the Company with internal oversight and guidance.

Network Assets, Health and Safety
There are significant risks associated with network assets where failure could result in loss of supply of gas to customers or a fatality or serious injury occurs involving a colleague, a contractor, a member of the public or a third party. Customer service and continuity/quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Company.

Principal risks and uncertainties (continued)

Mains replacement targets, Health and Safety Executive

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme (see page 4), applicable to all GDNs may not be achieved. Non-compliance with the HSE 30:30 Mains Replacement Programme could result in financial penalties and could cause adverse publicity and impact negatively on the reputation of the Group. WWU undertakes the work through an agreement with one main contractor and has secured a contract until June 2021. Following an extensive external tender process WWU has taken the decision to end this arrangement and transition to an in-house delivery model.

A major third-party project within or close to our geography could result in a loss of skilled labour; or a major incident could result in the workforce being diverted away from the replacement programme for a period of time.

Regulation

The gas industry is subject to extensive regulatory obligations with which the regulated business must comply. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of WWU or, in the case of financial or workload misreporting, a potential fine and a negative reputational impact.

The prices which can be charged for the use of the Company's gas distribution network are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be allowed over a pre-determined period (historically five years but currently eight years, returning to five years from 2021). In addition, targeted incentive schemes have been introduced by the Regulator whereby the Group has the opportunity to perform against agreed targets and thereby increase its revenue or incur penalties if performance is below the targets.

WWU remains fully engaged with Ofgem at all levels of seniority, and the wider industry, to ensure that the RIIO framework remains balanced, sustainable and one that will support investment and customers. WWU has a business strategy team to support the RIIO-GD2 price control, understand future plans and the potential impacts on the business. See the regulatory environment section on page 3 for further information.

The business responds to all potential changes which impact on the business and seeks to mitigate any adverse impacts. The business has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations.

Supply chain

An interruption to the supply of critical materials or services could have a significant impact on the Company's ability to repair, maintain, develop and reinforce the network. The impact of Brexit and the Covid-19 pandemic is considered within future developments on page 7.

Reliance on skilled employees

WWU depends on the continued services and performance of a skilled workforce, its ability to retain suitably qualified individuals and recruit individuals with the right experience and skills or in training them, to replace those who leave or retire. The loss of qualified staff, or the inability to attract, retain or assimilate suitably qualified staff in the future, or the delay in hiring any such required personnel, could have an adverse effect on the Company's ability to manage its assets adequately.

Employee relations

The Company has a comprehensive range of employment policies which taken together are designed, inter alia, to foster a stable, positive working environment and relationships. There can be no assurance that the financial condition and performance would not be adversely affected by the threat of, or taking of, industrial action by employees, the majority of whom are members of union organisations.

Cyber security

In an increasingly complex environment, with the advent of new technologies, cloud services and mobile working, traditional security tactics are struggling to combat growing numbers of cyber threats; some of which are unknown and difficult to predict

As an operator of essential services and part of the UK critical national infrastructure, we play a vital role in society, ensuring the supply of energy to domestic and industrial customers across our region. The reliability and security of supply are essential to our customer's everyday activities.

Principal risks and uncertainties (continued)

Cyber security (continued)

Our cyber security strategy does not only address deliberate attacks, but also accidental failures of the technical infrastructure due to operator errors, equipment failures and natural disasters – and potential acts of disruption from inside the business.

Financial risk management

The Company's operations and capital structure expose it to a variety of financial risks that include commodity risk, credit risk, liquidity risk, interest rate risk, inflation risk, pension deficit and taxation. The Company has in place a risk management programme that seeks to limit potential for the adverse effects on the financial performance of the Company.

The directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. However, key decisions of the Treasury Committee are referred back to the Board for ratification. The policies set by the Board are implemented by the Company's finance department through the Treasury Committee.

Commodity risk

The Company is exposed to commodity volume risk through the purchase of "shrinkage gas" as a result of its operations. Shrinkage gas is the gas which leaks from the distribution network and also includes gas used by the Company and gas stolen from the network. This risk is managed through appropriate commodity purchases in the forward market.

The total gross cost of gas purchased for the year ended 31 March 2021 was £3.7m (2020: £3.3m). The gas is purchased through contracts renewed annually and these contracts typically fix the price of gas a day ahead of purchase. Price risk is allowed for under both the RIIO-GD1 and RIIO-GD2 regimes and treated as a cost pass through using day ahead prices and is therefore substantially mitigated. The volume risk is closely monitored and is also mitigated to a certain extent given the relatively stable flows of gas through the network and consequent consumption volumes. In addition, volatility in commodity prices such as oil could have a significant impact on supplier costs.

Liquidity risk

The Company maintains adequate liquidity resources through a combination of cash balances (overnight or short term deposits) with approved counterparties and headroom under committed revolver facilities provided by core banks. Liquidity forecasting over short and medium term timescales is embedded within the Finance function as a core process and is periodically updated.

The Group's Treasury policy requires an adequate level of liquidity to be maintained, but there can be no absolute assurance that WWU will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on the Bonds or any other maturing indebtedness will be capable of being so paid when due.

Leverage policy - The Group has significant debt obligations. To manage this risk the Group maintains, in addition to adequate liquidity resources, a policy to comply with senior lender contractual undertakings including financial ratios, and to achieve strong and stable investment grade credit ratings. To assist with the direction and control of financial leverage for the current regulatory control period to 31 March 2021 the Group maintains a policy to target a senior net debt to RAV ratio by 31 March 2021 within the range of 65% to 70%.

Credit risk

The Group is exposed to the risk that its counterparties, including shippers, may default on the terms of their agreements. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis. Exposure against credit limits is monitored daily and credit limits are reviewed at least annually in the case of credit checks and when any security document expires, an Investment Grade Rating changes or trading levels increase.

The amount of credit given to gas shippers is governed by the Uniform Network Code ("UNC") regulations and guideline. These provide for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of prepayment. The UNC criteria allow a maximum credit limit usage of 100% (2020: 100%) which, if exceeded, allows the Company to apply sanctions.

Principal risks and uncertainties (continued)

Financial risk management (continued)

Credit risk (continued)

If any of the Company's shipper customers default on their payment to the Company or become insolvent, and provided that WWU has followed and implemented the relevant procedures under the UNC, WWU can make an application to Ofgem for the costs and losses incurred from such events to be passed on to consumers.

Credit risk also arises with counterparties such as banks and other financial institutions with whom cash and deposits are placed. WWU's Treasury policy requires independently rated financial counterparties to have a minimum short term rating of A2 with Standard and Poor's, F2 with Fitch or P-2 with Moody's; and a minimum long term rating A- with Standard and Poor's and Fitch or A3 with Moody's. In relation to financial obligations that may arise under derivative contracts, counterparties with such obligations are required to maintain minimum rating thresholds and are subject to collateral posting obligations.

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Volatility in interest rates, real and/or nominal, could result in uncertainty over future cash flows. This volatility is reduced by a policy of maintaining a fixed nominal or real rate on at least 85% of liabilities on a rolling five year basis, 75% of liabilities thereafter, up to the end of the current control period, 31 March 2021. The Company has a policy target for interest rate risk of a minimum of 85% fixed.

Financial instruments

Appropriate index-linked swap and interest rate swap contracts are used to achieve the target interest risk profile. FRS 102 requires these swaps to be valued at 'fair value', which is calculated using market based interest rate and RPI inflation information at the year end. As at 31 March 2021, the Company held index-linked swap contracts with a notional principal of £1,000.4m (2020: £1,003.8m) and interest rate swaps with a notional principal of £180.4m (2020: £180.4m).

At 31 March 2021 the net fair value liability, including accruals for swap accretion and current swap interest payable and receivable, of the interest and index-linked swap contracts held by the Company was £973.3m (2020: £974.7m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward interest and RPI rates. Note 14 - Financial instruments and risk management provides further detail.

Inflation risk

In the current control period to 31 March 2021, the Company's allowed revenue and regulated asset value are linked to a rate of inflation measured by the Retail Price Index ("RPI"), and fluctuate with this rate of inflation. In addition, changes in the rate of inflation are also likely to impact on the operating costs, financial costs and capital expenditure of the Company.

The Company has entered into RPI-linked swaps partially to mitigate RPI inflation risk and to support the hedging policy target for interest rate risk as noted above.

Ofgem has decided to change the inflationary index from RPI to CPIH from 1 April 2021 and considers this change to be value neutral to investors and consumers in the long run. For regulated asset value at 31 March 2021, this change accelerates revenues into forthcoming control periods RIIO-GD2 and RIIO-GD3 from revenues in subsequent control periods.

Pension deficit risk

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). The defined benefit section of the Scheme was closed to new entrants in 2005 and 75% (2020: 72%) of members are either retired or have deferred benefits at 31 March 2021. Since 2005 new employees are entitled to enrol into the defined contribution section of the Scheme.

There are risks of increasing deficit pension contributions associated with the financial performance of the assets within the defined benefit section of the Scheme and with the estimate of the liabilities of the Scheme including the longevity of members. Currently, deficit repair costs in respect of service earned to 31 March 2013 are separately funded within regulated revenue. Deficit repair costs in respect of service post 31 March 2013 and ongoing service costs are funded out of the overall controllable cost allowance through regulated revenue.

See page 5 for consideration of the volatility of the pension assets and details of the criteria for the recognition of the pension liability at 31 March 2021.

Principal risks and uncertainties (continued)

Financial risk management (continued)

Pension deficit risk (continued)

In order to further minimise the risks of the fluctuating values of liabilities in the defined benefit section of the pension scheme, an announcement was made in December 2020 that the scheme will be closing to future accruals during the second half of 2021. Agreement is currently being sought with the members.

Corporate and social responsibility

Health, safety and environment

Process Safety

The Company's objective and obligation is to manage the risk of a major accident or severe gas supply loss. The management of the gas carrying assets is significant and a comprehensive safety management system has been established which is certified to ISO 55001; a Safety Case has been submitted to, and approved by, the Health and Safety Executive. During the year ended 31 March 2021 there were no significant incidents on the gas network (2020: none).

Occupational Health and Safety

The Company's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to members of the public. During the year ended 31 March 2021, there were two direct labour lost time injury ("LTIs") and one for contract labour (2020: one direct labour LTIs and none for contract labour LTIs), giving a 12 month frequency rate of 0.07 LTIs/100,000 hours worked for direct labour (2020: 0.03 LTIs/100,000 hours worked).

The Company continues to make progress in the management of occupational illnesses with a comprehensive health surveillance and occupational health programme for industrial employees.

With a deployed workforce (including contractors) of around 2,160 (2020: around 2,300), a multi-million pound replacement programme and the Company's core role of managing the safe and secure delivery of gas; the safety challenge is significant.

The Company meets this challenge by having a comprehensive management system designed and certified to "ISO 45001 – Occupational Health and Safety" ("ISO 45001"), with a structured risk management process at its core. ISO 45001 is the latest international standard governing Occupational Health and Safety, published in March 2018, and replaces "OHSAS 18001– Occupational Health and Safety Management". WWU is proud to be amongst the first UK companies to achieve this standard and the first GDN to do so.

The Company believes that its safety performance is amongst the leaders in the sector. This valued position is targeted at being maintained through continued, vigilant implementation of its health, safety and environmental procedures. Nurturing a safety aware culture within the Company's workforce that sees clear accountability resting with line management, employees and contract partners is a key element of the Company's successful record.

Environment

The Company is also proud of its environmental achievements and again maintained certification to "ISO 14001 - Environmental Management". By utilising and developing industry-wide best practices, the Company has reduced its environmental impact. Key areas of focus have been climate change, the disposal of waste to landfill and the use of quarried stone. Protecting the environment is a key focus for the Company going forward, and the Company is constantly looking for ways to minimise the environmental impact of its past, present and future activities. Details of the Company's carbon emissions can be found in the Director's report on pages 32 and form part of this report by cross-reference.

The Company continues to manage its portfolio of contaminated land sites. These sites are former manufacturing gas plants and can sometimes have a complex mix of contamination dating back over 100 years. The Company's remediation programme has a main focus on managing environmental risk.

Social and community

The Company aims to be a socially responsible citizen in the region covered by its gas distribution network. The Company is working to help combat fuel poverty in the region by working with Warm Wales (incorporating Integrated Energy Services), a community interest company, and Centrica to invest in network extensions with in-house projects by social landlords and local authorities to further improve energy efficiency and sustainability.

Corporate and social responsibility (continued)

Gender diversity

The Group employed the following mix of staff:

	At 31 March 2021			At 31 March 2020		
Number	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Executive and directors	16	4	20	17	1	18
Senior managers	28	8	36	28	8	36
Other employees	1,279	257	1,536	1,310	260	1,570
Total employees	**1,323**	**269**	**1,592**	**1,355**	**269**	**1,624**

The Group has undertaken a business restructure during 2020/21 with 126 people opting to take a Voluntary Redundancy package from April 1st 2021. Since the year end 103 employees left the business in April and a further 3 left the business in May.

WWU undertakes mains replacement work through an agreement with one main contractor, with a contract secured until June 2021. In addition, contractors are engaged to undertake larger capital projects and to provide some resource to back office departments. At 31 March 2021 WWU had over 570 contractors engaged (2020: over 740).

The Group is based in the UK and, to the extent that it is appropriate, aims for a workforce that is representative of the communities in which it operates.

The Group is committed to ensuring equal opportunities in recruitment, career development, promotion, training and reward for all employees.

Employment policies

The Group recognises that its employees are key to both the present and future success of the Group and supports the fundamental belief that to maximise the potential of every individual there must be:

- a comprehensive framework of policies, business priorities, values and behaviours which are widely understood;
- appropriate investment in training and development;
- a supportive working environment; and
- employee participation and involvement in business matters.

All employees have regular opportunities to discuss their individual performance and development in a focused and proactive way. The Group seeks to maximise employees' potential by identifying and developing talent and skills.

Colleague engagement

Our commitment to clear, regular and two-way engagement is fundamental in how the business is managed. We have a comprehensive employee engagement and communications strategy which has well embedded channels. Since establishment of the business in 2005 we have worked in collaboration with recognised Trade Unions through a formal consultative constitution.

A comprehensive communications programme has been developed and is led by the Executive Team. The Executive Team comprises the seven WWU internal department heads together with the CEO and Legal Counsel. During the year this included a programme of limited face to face colleague briefings (due to Covid-19 restrictions) by our Executive Committee as well as regular online briefings and Q&A sessions.

We have an annual face-to-face communications programme where the Executive Team and Senior Managers meet colleagues in an interactive roadshow format in different geographical locations across our network. These roadshows provide an opportunity to share information across a wide range of indicators and topics of interest, based on our priorities, as well as an opportunity to discuss local and network wide matters or interest or concern to colleagues. Two face to face rounds of roadshows took place in 2020 with the rest online as described above. During 2020 the main focus of communications (unrelated to Covid-19) was in respect of our RIIO-GD2 business plan and a focus on the regulatory outcomes and our response.

Corporate and social responsibility (continued)

Employment policies (continued)

Colleague engagement (continued)

In addition, our senior level Employee Forum is chaired by our Director of People and Engagement and focused on matters of change and business performance. Our Executive Team and Senior Trade Union representatives usually meet monthly to discuss and have their say on key matters of importance to colleagues and representatives such as company policy, organisation design, pay and terms and conditions. Supporting this are two formal consultative forums which are chaired by our Chief Operating Officer and Director of Business Services – focusing on operational staff and office staff respectively. In 2020 there were some significant discussions around changes to terms and conditions and working arrangements, and along with Covid-19 safety and wellbeing matters, this meant that the Forum met more frequently.

Other regular methods of Colleague engagement and collaboration include our Management Conferences, Young Person's Network and Wellbeing and Health Forum – also all done virtually during 2020.

Our magazine '2W' has remained a communications channel of choice for colleagues since 2005, and we took the decision to create an online version monthly during 2020, replacing the hard copy version. This takes a colleague-centric view of what goes on at Wales & West Utilities – showcasing achievements, awards and stories about our people, as well as updating them on key business activities and projects. This is supplemented by our online intranet which is updated daily with the last news from the Company and colleagues. Called 'Pipeline', this is our central hub of information for our people which can be accessed via mobile device or laptops. Colleagues at all levels can submit 'blogs' which are often opinion pieces on topical or business issues of importance to them.

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation; colleague engagement surveys and 'pulse' surveys provide the Group with valuable information upon which to base future policy decisions and understand the concerns of colleagues. WWU has in place, since 2017, a silver level accreditation from Investors in People. Investors in People ran the 2019 calendar year colleague survey on our behalf and achieved a 58% response rate. WWU did not run a full colleague survey in 2020; however, Investors in People conducted a strategic review with a small group of colleagues during the year in readiness for our full review in 2021.

The Group offers equality of opportunities and support for disabled employees and provides a comprehensive occupational health service which seeks to retain colleagues in employment.

The Group's policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes, abilities, values and behaviours in support of the Group's operational requirements. Once employed, a development plan is designed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group's operational requirements. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well-being of the Group's workforce with a wide reaching Wellbeing Strategy, with focus in the year on supporting psychological health.

Training and development

The Group has consistently sought to recruit and retain the best employees in its geography in order to provide the level of service which is expected by customers, and invests appropriately in training to protect and develop key competencies. The Group measures success in this area through employee retention. The Group had a voluntary staff turnover rate of 4% during the year ended 31 March 2021 (2020: 6.0%); this compares favourably to the published Chartered Institute of Personnel & Development statistics which showed that the average in UK industry during 2020 was 16% (2019: 15.0%).

To maintain appropriate retention rates the Group has developed a comprehensive People Strategy and continues its focus on wellbeing, succession planning and talent management. This ensures that colleagues with key skills and knowledge are retained and that there is a plan to replace them upon retirement.

The WWU Apprenticeship Programme is a three to five year training period, depending on the course of study undertaken. There are three purpose built in-house training centres for the apprentices to develop their practical and technical skills. Recruitment is undertaken on a targeted basis, ensuring that apprentices are recruited to areas of need.
Our apprentice population has been recruited into all our key operational disciplines of "Emergency", "Mechanical Engineering", "Electrical & Instrumentation", "Build and Repair" and "Replacement". All our apprenticeships are in key technical areas where skills are not readily available in the external market and training times can be up to five years.

Corporate and social responsibility (continued)

Employment policies (continued)

Training and development (continued)

Ensuring continuity of the key skills required within the Industry and enabling a full and proper knowledge transfer to take place will ensure that the Group is well placed to effectively undertake this work going forward. Working with our sector skills council, Energy & Utility Skills and other key partners, we are able to effectively and proactively plan for the future. The number of additional apprentices employed since WWU started trading in 2005 is 188 (2020: 188), meaning that 20% (2020: 20%) of the industrial workforce has joined the Company via the WWU Apprenticeship Programme.

Since 2005 the Company has also directly employed people previously employed by the Group's contract partners. This has tangible benefits to both the employees and the Group - not least the fact that it further refreshes the workforce.

Impact of Covid-19 on Colleagues

During the Covid-19 pandemic lockdown, WWU has been using technology to support our communications and engagement strategy more than ever. Our roadshows have been temporarily replaced with live Question & Answer sessions with our Executive Team and Senior Managers, for which recordings are available.

The frequency of virtual meetings with our Trade Union colleagues has increased, meeting at least weekly during the early months of the pandemic and more latterly at least twice a month to take feedback and answer questions.

Colleagues who can work from home have been supported to do so since March 2020, and a steering group has been set up to review options for returning safely to office when government guidance allows. Operational colleagues have been safely deployed into our communities based on relevant guidance for that area. Throughout 2020 and 2021 we undertook research to establish their views on our works continuing as well as to understand their expectations in regards to safety matters such as PPE, social distancing etc. This supported our customer communications so that we were able to target different areas with relevant messaging at the right time.

Transition impact of RIIO-GD2

In RIIO-GD1 the Mains Replacement programme was delivered through the Western Gas Alliance; a partnership between WWU and a leading Tier 1 provider. Following an extensive external tender process WWU has taken the decision to end this arrangement and transition to an in-house delivery model.

On the 30 June 2021 the Western Gas Alliance ceased; contractor staff joined WWU as employees and WWU took on the management and delivery responsibility of the RIIO-GD2 outputs and deliverables.

As a result of this employment transfer, WWU increased its directly employed labour workforce by over 250 employees. WWU will continue to contract with a number of smaller organisations in order to meet the full RIIO-GD2 output.

Non-Financial Reporting

Details of the Company's employment policies can be found above on pages 15 and 16 and form part of this report by cross-reference. The Group also has policies on fraud, anti-bribery and whistleblowing as described on page 26.

The Group has also published a modern slavery statement and corporate responsibility policy – both of which can be found on the companies' website: www.wwutilities.co.uk/about-us/our-company/publications. WWU and its owners have a zero tolerance to slavery and human trafficking and are committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its business. WWU joined the Slave-Free Alliance in 2019, an organization set up by the charity Hope for Justice and WWU will continue to work with them in the future to improve its systems and processes and the fight against modern slavery.

Environmental matters are discussed on page 14 as well as the Carbon Reporting measures on page 32. We exceeded our commitment to reduce carbon emissions by 10% over the 2013-2021 price control period.

Chairman's statement

As a Group we continue to strive towards our ambition 'to deliver outstanding levels of gas safety, reliability and customer service so that we are trusted and valued by the millions of people we serve every day.'

Performance

This previous year has been challenging not just due to the impact of the Covid-19 pandemic and the disruptions that has caused, but also due to the changing price control period and the impending close out of RIIO-GD1 and the starting of RIIO-GD2. Covid-19 has caused £7.3m of current year costs to remain in operating expenses ("stranded costs") which would usually have been capitalised if our replacement work had been able to be completed. Along with this, £12.7m of restructuring costs and £1.8m of costs related to our appeal to the Competition and Markets Authority have also been committed to.

Despite the challenges mentioned above, our operating performance over the past year has been satisfactory, with all standards of performance being achieved, consistent with previous years. Covid-19 has impacted the delivery and close out of our RIIO-GD1 outputs, in particular the Mains Replacement programme, yet despite this, we over-delivered on our primary output of risk removed. Prior to the Covid-19 pandemic we were on track to deliver all our commitments in full, however the national lockdowns and resultant pausing of the Mains Replacement programme led to an unavoidable shortfall in our secondary output of mains length decommissioned. Ofgem are yet to provide guidance on how this will be treated during the close out of RIIO-GD1. Throughout the eight years of RIIO-GD1 we have performed very well against outputs and incentives to deliver greater efficiency, innovation, stakeholder engagement, and an enhanced standard of service for our customers.

External targets were met in response to reported possible gas escapes, both within one and two-hour time frames. The Ofgem standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met. There were 1,285 complaints in the year ended 31 March 2021 (2020: 1,549). Our employees remain our most valuable resource and continued training, engagement and support and have ensured operational efficiency and operational standards have all been met. Working practices have been adapted due to Covid-19 with increased safety procedures, office and depot based employees work from home and increased online communication and engagement being put in place. We are acutely aware of the mental health of our employees and additional emphasis and support has been provided where required.

The future role of the network

The UK government has set a target for the UK to be net zero ready by 2050. As an organisation we are committed to building a sustainable network as well protecting the environment and so have set a more aggressive target to be net-zero ready by 2035. This will include accelerating the replacement programme of gas mains with polyethylene which could then be used to transport a safe and reliable hydrogen based gas network for customers well into the future. Whilst much of our gas distribution network is underground and out of sight, our services play a central role in the daily lives of all our customers. Working with a range of stakeholders to develop sustainable, innovative and affordable energy, we believe our role is to contribute positively to the quality of life and wellbeing of our customers and communities we serve. As a Group we will continue to invest in our gas distribution network, so we can continue to successfully deliver gas to homes and businesses, offering the very best service for our customers, both now and for generations to come.

The role and effectiveness of the board

Our Board is responsible for ensuring leadership through effective oversight and review. Supported by its principal committees – Audit, Health and Safety, Remuneration, and Treasury – the Board continues to set the strategic direction and aims to deliver sustainable shareholder value over the longer term. The work of the Board complements, enhances and supports the work of the Executive Committee. We believe that effective governance is realised through leadership and team work and collaboration across all levels within the Board structure drives a culture of continuous improvement.

Capital providers

As a Group we are funded by a combination of debt and equity. Representatives of the shareholder are members of the board and also sit on the principal committees - Audit, Health and Safety, Remuneration, and Treasury. This ensures that the needs and concerns of the Company's shareholders are considered and addressed. We also continue to communicate with our debt holders on an individual basis upon request through ongoing reporting requirements, information provided in the Company's investor website and investor updates prior to any possible debt issuance.

Andrew Hunter
Chairman
16 August 2021



The Board

The Board's Statement on s172(1)
The Board of Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term.

Key decisions and matters that are of strategic importance to the Company are appropriately informed by s172 factors.

Through an open and transparent dialogue with our key stakeholders, we have been able to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition and culture. As part of the Board's decision-making process, the Board and its Committees consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

Below are our key stakeholder groups, how we engaged with them throughout the year and how we measured the effectiveness of the engagement.

Engaging with stakeholders
The success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us, and working together towards shared goals assists us in delivering long-term sustainable success. In order to fulfil their duties, the Directors of the Group itself take care to have regard to the likely consequences on all stakeholders of the decisions and actions which they take. Where possible, decisions are carefully discussed with affected groups and are therefore fully understood and supported when taken. Reports are regularly made to the Group Board by the business units about the strategy, performance and key decisions taken which provides the Board with assurance that proper consideration is given to stakeholder interests in decision making. At Group level, the Board is well informed about the views of stakeholders through the regular reporting on stakeholder views and it uses this information to assess the impact of decisions on each stakeholder group as part of its own decision-making process.

Details of the Group's key stakeholders and how we engage with them are set out below:

Shareholders
As owners of our Group we rely on the support of shareholders and their opinions are important to us. The shareholders have appointed shareholder representatives to sit on the Board. The Board has appointed two non-executive directors to the Board to represent stakeholders and provide an expert independent view. We have an open dialogue with our shareholders through one-to-one meetings, group meetings, webcasts and the Annual General Meeting. Discussions with shareholders cover a wide range of topics including financial performance, strategy, outlook, governance and ethical practices.

Colleagues
Our people are key to our success and we want them to be successful individually and as a team. Our culture is built on our Company Ambition, Priorities and Values which were developed with staff in 2013. This underpins all of our people procedures and activities. This will be updated for the next price control review to make sure that it reflects changes but is consistent and familiar for colleagues.

There are many ways we engage with and listen to our people including colleague surveys, forums, round table groups, face-to-face briefings, internal communities, newsletters and through our anonymous colleague whistle-blowing line. Key areas of focus include health and well-being, development opportunities, pay and benefits. Regular reports about what is important to our colleagues are made to the Board ensuring consideration is given to colleague needs.

Details of the Company's employment policies and employee consultation undertaken can be found in the Strategic report on pages 15 to 17 and form part of this report by cross-reference.

Consultation with colleagues is very important on a wide range of issues, but none more so than on matters of safety. Our approach to fatigue and working time has been undertaken alongside Trade Union representatives and colleagues, with their input being received at the HSE Consultative Forum chaired by the Chief Executive and subsequently in working sessions. Colleague feedback has helped us to shape an evolved risk assessment process, policy documents and colleague communications.

The Board

The Board's Statement on s172(1) (continued)
Customers
Our ambition is to deliver best-in-class service to customers. We build relationships with our customers, who are mainly gas shippers and the end gas consumer, with whom we interact to understand their needs and views and listen to how we can improve our service for them. We use this knowledge to inform our decision-making, for example to tailor our workforce to suit customer demands. Details of the Company's key performance measures, including Ofgem standards of service and customer satisfaction results can be found in the Strategic report on pages 8 and 9 and form part of this report by cross-reference.

The Customer Engagement Group ("CEG") was formalised in August 2018 with a role to scrutinise our future plans. They are an independent group that reflects the views of customers and stakeholders from across Wales & the South West of England. The group is chaired by Dr Mike Brooker, formerly Managing Director of Dwr Cymru Welsh Water with seven other members representing different customers and stakeholders with specialisms in communications and engagement, business, supporting customers in vulnerable situations and research.

During 2020 Ofgem assessed the GDN's business plan. The Company has been working together with Ofgem in the form of working groups; albeit many of these have been 'virtual'. Engagement has continued with customers and stakeholders and the Customer Engagement Group throughout.

Ofgem published its Final Determination for the next regulatory control period, RIIO-GD2, on 8 December 2020. Throughout the RIIO-GD2 discussion process the Company evaluated the outcome and continued to participate actively in bilateral and industry discussions with Ofgem to get the best outcome for customer. It was clear the interests of the customer had not been at the forefront of the RIIO-GD2 Final Determination, hence on 3 March 2021, WWU sought permission from the CMA to appeal certain matters relating to RIIO-GD2, following approval from the Board. On 31 March 2021 the CMA granted WWU permission to appeal on all six of its heads of appeal. Ofgem submitted its defence to the appeals on 23 April 2021 and the appellants, including WWU, responded on 10 May 2021 to Ofgem's defence. The CMA has also held various Teach-in, Clarification and Main Hearings with the Appellants, Ofgem and three Intervenors, to gather and understand the evidence submitted. With the exception of the ESO (owned by National Grid), all other GDNs and Transmission energy licensees regulated by Ofgem have also sought, and were granted, permission to appeal by the CMA. On 11 August 2021 the CMA issued its Preliminary Determination on the various RIIO-2 appeals before it. The CMA has provisionally determined in favour of WWU on two grounds of appeal but has provisionally determined in favour of Ofgem on the other four grounds. The CMA appeal process remains in progress and the CMA's Final Determinations remain due by 31 October 2021.

Suppliers
We build strong relationships with our suppliers to develop mutually beneficial and lasting partnerships. Engagement with suppliers is primarily through a series of interactions and formal reviews and we also host regular conferences to bring suppliers and customers together to discuss shared goals and build relationships. Key areas of focus include innovation, health and safety and sustainability. The Board recognises that relationships with suppliers are important to the Group's long-term success and is briefed on supplier feedback and issues on a regular basis.

The majority of third party spend is subject to formal tender, contracting and performance management processes at Wales & West Utilities. This includes the formal assessment of a suppliers capability, professional standing, insurance coverage and Health & Safety management credentials. Strategic suppliers are also subject to performance management throughout the term of the contract and most include performance indicators, and some performance incentives. The procurement team operate in a strategic capacity, sourcing contracts to support business outcomes and is not involved in tactical purchasing, as this is performed by the end users, at point of need.

Stakeholder engagement underpins the strategic sourcing approach deployed at Wales & West Utilities. Most tender events include 3-4 key stakeholders from varying disciplines across the business. These stakeholders provide the necessary category expertise to ensure business objectives are met. These stakeholders also become the contract owners, once contracts are agreed and suppliers appointed. This continuity also ensures that stakeholders are bought into the process early and then responsible for their successful delivery.

The Board

The Board's Statement on s172(1) (continued)
Suppliers (continued)
Examples of how stakeholder engagement has influenced the scope and outcome of a contract award are:

- **Aerial Surveillance Contract:** Engaged the services of an Aviation expert to define the scope of the services, the commercial model adopted and ensure compliance with Civil Aviation Regulations. The Experts recommendations were built into the tender documents and the evaluation criteria of the tender. We also included a recommendation to allow drones for the service provision during the life of the contract, thus future proofing the scope of services and achieve innovation and commercial goals. This was successfully implemented and is working well.

- **Customer Services System:** The Senior Buyer running the event engaged stakeholders from across Finance, IT and Customer Services for the creation of the tender documents and the evaluation of the supplier bids. By using a cross-functional team this allowed a solution to be selected that met wider criteria than just Customer Services, but also aligned with IT strategy and the provision of data to support decision making. Since go-live, this has been very well received internally.

- **SAP S4 and Application Services Contract:** Internal resources from within the IT team and external subject matter experts from ImprovIT were drawn upon to ensure the services contract was successfully, scoped, tendered and implemented.

Details of the Company's key contractual relationships can be found in the Strategic report on page 7 and forms part of this report by cross-reference.

Communities
We engage with the communities in which we operate to build trust and understand the local issues that are important to them. Key areas of focus include how we can support local causes and issues, create opportunities to recruit and develop local people and help to look after the environment. We partner with local charities and organisations at a site level to raise awareness and funds. The key issues and themes across local communities are reported back to the Board. The impact of decisions on the environment both locally and nationally is considered with such considerations as the minimising of Shrinkage gas and Carbon Monoxide awareness.

In 2021 we are trialling a Citizen's Panel which aims to be an opportunity to speak directly with an informed group of members from our communities about our plans and strategies, seeking feedback to shape what we do. This will complement our Customer Engagement Group which is comprised of senior level experts who support and challenge our work on behalf of customers.

Government and regulators
We engage with the government and regulators through a range of industry consultations, forums, meetings and conferences to communicate our views to policy makers relevant to our business. Key areas of focus are compliance with laws and regulations and health and safety. The Board is updated on legal and regulatory developments and takes these into account when considering future actions. Details of the Company's regulatory environment including RIIO-GD2 can be found in the Strategic report on pages 2 and 3 and forms part of this report by cross-reference.

Illustrations of how s172 factors have been applied by the Board can be found throughout the Strategic Report. For example, information on how we maintain safety records can be found on page 14; for details on how we have considered the impact of the Company's operations on the community and environment see page 14; for capital allocation and investment decisions, see pages 4 to 6.

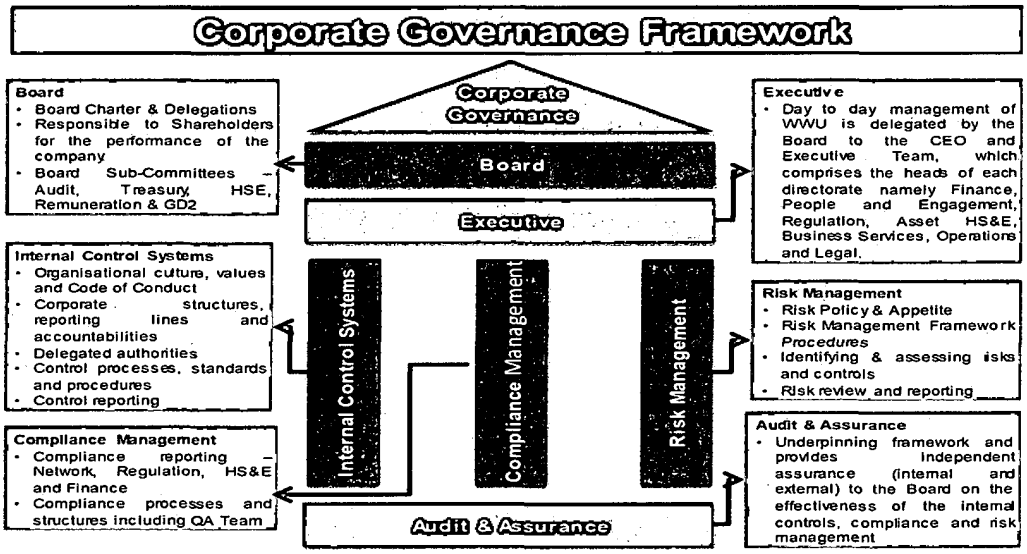
The Board and its Corporate Governance Framework

Scope of Corporate Governance statement

WWU is not a listed entity, but as a large private company is required to prepare a corporate governance statement under section 172 of Companies Act. This statement has been prepared using the 'Wates Principles' ("Wates") to provide a clear message on the business model, future strategies and core values of WWU. It describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of Companies Act.

Corporate Governance Framework

Details of the Board and its Corporate Governance Framework are set out below. The board has detailed terms of reference setting out its responsibilities, accountabilities and reporting obligations and, in respect of the subsidiary board committees, how they operate in conjunction with the Board as detailed later in this section. These, together with the risk management and internal control frameworks, form an effective and robust governance structure designed to manage and develop the Group in accordance with the Group's strategy.



Board of Directors

The Board is responsible to the shareholders for all aspects of the Group's and Company's performance and meets on a bi-monthly basis to review the strategic direction of all business activities and monitor performance against approved business plans and budgets.

Appointment to the Board is made in accordance with the articles of the Company.

The roles of Chairman (Andrew Hunter) and Chief Executive Officer (Graham Edwards) are held separately. There is no standing Deputy Chairman. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The directors other than the Chief Executive and his alternate are independent of management and free from any business or other relationship with the Company, other than as shareholder representatives. Due to the nature of the Shareholder Agreement in place for the Wales & West Gas Networks (Holdings) Limited Group, which entitles each shareholder to a relevant number of seats on the Board of each entity in that group, WWU's shareholder appointed board directors are representatives from each shareholder. Therefore, the shareholders are already appropriately protected as they are involved in making all the key business decisions. As such some aspects of the UK Corporate Governance Code are not applicable for the Group.

All directors have full access to the internal audit team, the external auditor and to management. No director has a financial interest in the Company other than by way of their fees as disclosed in the Report of the directors. The Chairman has confirmed that he has sufficient time to undertake his duties as Chairman given his commitments outside the Group.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

Grant Hawkins and Michael Pavia are considered to be independent non-executive directors. The role of the non-executive directors includes scrutinising the performance of management; satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

The two independent non-executive directors attend and participate in decisions at all WWU Board meetings and at meetings of WWU's Audit Committee, Treasury Committee and HSE Committee. Whilst these are formally constituted at the Wales and West Gas Networks (Holdings) Limited ("WWGN") Group level, their work relates to the Group's activities. The independent non-executive directors therefore play a full part in all strategic decisions at the WWU Board. All directors' views are given full consideration and due weight in all proceedings of the Board and Committees.

During the year ended 31 March 2021, attendance at Board and Committee meetings has been quorate. Papers are circulated to the relevant directors in advance of the meetings and, where they have been unable to attend, any comments or issues are raised with management prior to the meeting.

The Board meetings held during the year and up to the date of signing are detailed below with attendees:

Date of 2020/21 Board meetings	Attendees	Directors	Attendance at Board meetings
8 April 2020	8 out of 8	Andrew Hunter	8 out of 8
17 June 2020	8 out of 8	Graham Edwards	8 out of 8
8 July 2020	8 out of 8	Dominic Chan (or alternate)	8 out of 8
27 July 2020	8 out of 8	Grant Hawkins	8 out of 8
21 September 2020	8 out of 8	Hing Lam Kam (or alternate)	8 out of 8
20 November 2020	8 out of 8	Duncan Macrae	8 out of 8
20 January 2021	8 out of 8	Michael Pavia	8 out of 8
15 April 2021	8 out of 8	Charles Tsai	8 out of 8

Board composition is reviewed regularly to ensure appropriate balance of expertise, skills and experience for the requirements of the business of the Group. Evaluation of the performance of the Board directors is conducted by virtue of their appointments being made and monitored by the investing shareholders; accordingly there is no standing nominations committee. The Chairman regularly reviews and agrees the training and development needs with each director.

The performance of members of the Executive Committee is assessed annually by the Chief Executive Officer as part of WWU's performance management process.

All directors make an active contribution to the affairs of the Board. The Company Secretary is responsible to the Board for ensuring that all Board procedures are followed and that the Board is briefed on all legislative, regulatory and corporate governance developments.

The Board reserves for its consideration or approval all Company matters which includes the Group's strategy, major items of capital expenditure and certain material contracts, save for those which it explicitly delegates to management. The form of delegated authority is reviewed by the Board periodically.

The Board is responsible for monitoring the statutory audit of the annual report and consolidated financial statements, reviewing and monitoring the independence of the statutory auditor, and, in particular, the provision of additional services to the Company.

The Remuneration Committee, which comprises Andrew Hunter, as chairman, Dominic Chan, Duncan Macrae, Hing Lam Kam and Charles Tsai, has written terms of reference. This Committee meets as necessary to consider and determine the terms and conditions of employment of senior management, including salary, bonus, and pension entitlements. The activities of the Remuneration Committee meetings are reported to the Board at least annually.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

The Treasury Committee, which comprises Dominic Chan, as chairman, Duncan Macrae, Michael Pavia and Grant Hawkins, has written terms of reference and meets as required. The directors have delegated financial risk management to the Treasury Committee, which considers the funding requirements of the Group and reports its activities to the Board with key decisions referred back to the Board for ratification. The policies set by the Board are implemented by the Company's Finance department.

The Health and Safety Committee, which comprises Michael Pavia as chairman, Graham Edwards, Dominic Chan and Duncan Macrae, has written terms of reference and meets regularly. It reviews the Company's safety and environmental record and activities. The activities of the Health and Safety Committee meetings are reported to and considered by the Board at each HSE meeting, with a formal report being presented to the Board on an annual basis.

The Audit Committee, which comprises Michael Pavia, as chairman, Dominic Chan, Duncan Macrae, Grant Hawkins and Charles Tsai, has written terms of reference. This Committee meets at least three times a year to monitor the adequacy of internal controls, accounting policies and financial reporting of the Company and the Group and receives reports from the internal audit team and external auditor on a regular basis. The activities of the Audit Committee meetings are reported to and considered by the Board.

During the year, and in the period up to the approval of these consolidated financial statements, the Audit Committee held three meetings and assisted both executive and non-executive directors to discharge their individual and collective responsibilities by undertaking the following work:

i. reviewed significant issues and provided comments on the consolidated financial statements, received reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the group's internal controls and risk management and confirming auditor independence;
ii. reviewed the appropriateness of accounting policies, significant accounting judgements and evidence supporting the going concern basis for the accounts and recommended approval of the accounts to the Board;
iii. reviewed the effectiveness of the external auditors and their effectiveness in respect of the audit process and discussed their outputs with the external audit partner;
iv. reviewed the effectiveness of the internal audit function, including approving the appointment of external co-sourcing partners to carry out specialist assurance work;
v. considered and approved external auditor's fees for both audit and non-audit services, by reference to the Committee's policy on approval of non-audit fees;
vi. approved the internal audit work programme for the year, reviewed progress against the programme and received reports on the outputs of internal audits;
vii. reviewed the risk and control framework and reporting; and
viii. monitored compliance with the Company's procedures designed to prevent bribery, having regard to the provisions of the Bribery Act 2010, including receiving reports on any whistleblowing allegations.

The external auditor has confirmed to the Audit Committee that it remains independent and maintains internal safeguards to ensure its objectivity. The Audit Committee considers that the external auditor remains independent.

The Board and its Corporate Governance Framework (continued)

Attendance at Committee meetings by directors and/or alternates during the year ended 31 March 2021 and up to the date of signing is shown below:

Date of meeting	Audit Committee	Remuneration Committee	Health and Safety Committee	Treasury Committee
17 June 2020	5 out of 5	-	-	-
3 September 2020	-	-	3 out of 4	-
5 November 2020	5 out of 5	-	-	-
14 December 2020	-	-	-	4 out of 4
20 January 2021	-	5 out of 5	-	-
28 January 2021	-	-	-	2 out of 4
22 February 2021	3 out of 5	-	2 out of 4	-
16 March 2021	-	-	-	4 out of 4

Internal control

The Board is responsible for the process to identify, evaluate and manage significant risks facing the Group and maintaining the Group's system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group through the risk register that is regularly reviewed by the Board and has been in place throughout 2020/21 and up to the date of the approval of these consolidated financial statements.

Risk identification and management

On an annual basis, the WWU Board of directors, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes, risks and controls with assurance and support provided by one of the Company's Board committees, the Audit Committee.

WWU has endorsed a Corporate Governance Framework (page 22) which supports the Board and puts assurance at its foundation and internal control and risk management at its core.

The Board is responsible for identifying the major business risks faced by the Company and determining a suitable response. The Audit Committee, as a committee of the Board, operates under delegated authority from the Board to discharge this responsibility on their behalf and reviews the effectiveness of the system of internal financial control of the Group and receives reports from the internal audit team and external auditor on a regular basis. In order to ascertain the effectiveness of the risk management framework, the Board receives a verbal summary of each Audit Committee meeting from the Audit Committee Chairman and requests further information as appropriate.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. There are also established procedures for planning and capital expenditure, together with information and reporting systems for monitoring the Group's businesses and performance. The Board has adopted a Code of Business Conduct applicable to all staff, setting out the standards which the Company expects of them.

The Board is ultimately responsible for reviewing the effectiveness of control of WWU's key business risks, set out on pages 10 to 13, and key elements of this process are described below. Using this information the Board will:

- review and examine WWU's performance on risk management and internal control; and
- consider the internal and external risk profile of the coming year and consider if current risk management and mitigating actions are likely to be sufficient and effective.

Under the Group risk management policy, all Executive Committee members are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

The Board and its Corporate Governance Framework (continued)

Internal control (continued)

The Group also has policies covering suspected fraud, anti-bribery and whistleblowing included in the Code of Business Conduct, and we thoroughly investigate any allegations of misconduct and irregularity and consider the implications for our control environment. These policies apply to all directors, employees, workers, agents or any other persons acting for, or on behalf of, the Group. The Group will seek to ensure that third parties such as joint venture partners, agents and consultants also commit to the principles and relevant practices referred to in the Code of Business Conduct.

All of these processes serve to ensure that a culture of effective control and risk management is embedded within the organisation and that the Group is in a position to react appropriately to new risks as they arise. A key part of that process is the receipt of a Letter of Assurance from the Chief Executive which consolidates the key matters of interest raised throughout the statutory and regulatory year undertaken by the Group. The Letter of Assurance is based on a confirmation by each member of the Executive Committee of the accuracy of the risk, management process, effectiveness of internal controls and general governance. The report is used by the Chief Executive Officer as an opportunity to update the Board on any significant issues or projects that may have arisen in the period under review.

Internal control framework

The Group has an established internal control framework which comprises:

- a clearly defined structure which delegates an appropriate level of authority, responsibility and accountability, including responsibility for internal financial control, to management of defined departments;
- a comprehensive budgeting and financial reporting function with an annual budget and business plan approved by the Board, which also monitors the financial reporting process, monthly results and updated forecasts for the year against budget;
- a cash management plan to ensure that the Group has adequate funds and resources for the foreseeable future;
- documented financial control procedures; managers of departments are required to confirm annually that they have adequate financial controls in operation and to report all material areas of financial risk; compliance with procedures is reviewed and tested by the Company's internal audit department;
- an investment appraisal process for evaluating proposals for all major capital expenditure and acquisitions, with defined levels of approval and a system for monitoring the progress of capital projects; and
- a post-investment evaluation process for major capital expenditure and acquisitions to assess the success of the project and learn any lessons to be applied to future projects.

The Board and its Corporate Governance Framework (continued)

Internal control (continued)

Internal control framework (continued)
Key elements of the WWU internal control process are:

- *Strategic risk framework:* This process involves the Executive Committee in the identification, assessment, and monitoring of risks significant to WWU. The document is formally appraised at each Audit Committee but new risks are added as required and improvement actions and risk indicators monitored on a regular basis. Closed risks are removed.

- *Operational/compliance/financial risk frameworks:* This process involves each Executive Committee member and their management teams in the identification, assessment, and monitoring of risks significant to their function. Risks are reviewed quarterly with new risks added as required and improvement actions and significant risks monitored on a regular basis by the Executive Committee. The frameworks are formally reported upon in the Executive Letters of Assurance to the Chief Executive Officer at 31 December each year prior to reporting results to the parent undertaking. The letters are updated at 31 March for the statutory and regulatory year, and informally as required.

- *Reporting to the Board and Executive Committee:* The Executive Committee considers new risks as they arise and reports to the Board and Audit Committee as appropriate. This includes regular updates throughout the year of the risks currently considered to be key to the sustainability of the business model.

- *Internal Audit:* This involves periodic reporting to the Executive Committee and the Audit Committee, the Head of Internal Audit has unfettered direct access to the Audit Committee.
- *External Audit:* External Audit will be kept informed on the status of the risk management process. Any findings in the area of risk management identified during the annual audit process will be communicated to the Board via the Audit Committee. The results of any external audit findings are incorporated into the Internal Audit monitoring process and improvements to the internal control environment are made as required.

- *Ofgem's Data Assurance Guidelines ("DAG"):* Regulatory year 2015/16 saw the full implementation of DAG which requires all relevant regulatory submissions to be risk assessed and proportionate controls put in place to ensure accuracy and completeness of such returns. DAG requires the documentation of methodologies and processes to collate and account for information being submitted, and specifies the assurance process around such information. The requirements of DAG include a reconciliation of the statutory consolidated financial statements to the annual regulatory performance.

The directors have delegated to executive management implementation of the system of internal financial control throughout the Group. This includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records and compliance with accepted accounting principles in order to enable the preparation of consolidated financial statements which show a true and fair view of the Group's results and financial position.

Processes underpinning the financial reporting systems are managed and monitored by functional line management through regular reporting. Data consolidated into the Group's consolidated financial statements is reconciled to the underlying financial records.

The Board and its Corporate Governance Framework (continued)

Internal control (continued)

Internal control review

The Chief Executive and Finance Director have undertaken an annual assessment for the annual statutory and regulatory year under review and up to the date of approval of the consolidated financial statements on the Company's internal control including financial, operational and compliance controls and risk management functions.

In making the annual assessment, the Chief Executive and Finance Director have: considered and prepared a list of the significant risks which documents how they have been identified, evaluated and managed the Company's ability to respond to changes in its business and the external environment, considered and documented the scope and quality of management's continued monitoring of risks and of the system of internal control, and the work of the internal audit function and other providers of assurance.

The Company continues to improve its IT control environment and widened the application of SAP's Governance Risk Compliance software solution during the year. This resulted in increased awareness of potential access risks, which the Company deals with as identified.

The Chief Executive and Finance Director are satisfied that the Company's internal control systems are effective and adequate. In addition, the Chief Executive and Finance Director are satisfied with the adequacy of financial resources, qualifications and experience of the staff of their accounting and financial reporting function, and their training programmes and budget, and also the adequacy of their anti-bribery and anti-corruption policy, procedures and programmes.

The directors and Executive Committee are not aware of any un-remediated significant control deficiencies which require additional consideration or disclosure.

Fair, balanced and understandable

The directors consider the consolidated financial statements, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the directors have carefully considered the events and trends during the year ended 31 March 2021 and the way in which these matters have been presented in the consolidated financial statements.

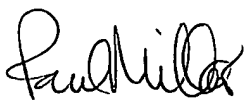
External auditor

The external auditor is engaged to express an opinion on the consolidated financial statements.

The Company has a policy in place to monitor and maintain the objectivity and independence of the external auditor, Deloitte LLP. The policy requires prior approval from the Audit Committee for non-audit work above a threshold level of £50,000. However, due to restrictions introduced by the EU regarding the provision of non-audit services, effective as of 17 June 2016, the presence of listed debt in the Group classifies it as an EU public listed entity which impacts on the ability of the external auditor to continue providing certain non-audit services. These restrictions and impact on non-audit services provided have been discussed with Deloitte LLP. Details of the amounts paid to Deloitte LLP are set out in note 3(c) Audit fees to the consolidated financial statements.

This strategic report of the directors was approved by the Board of Directors and authorised for issue on 16 August 2021.

By order of the Board



Paul Millar
Company secretary
16 August 2021

Report of the directors

The directors have pleasure in presenting the annual report to the shareholder of the Wales & West Utilities Limited group ("the Company" or "the Group" as the context requires) together with the audited consolidated financial statements for the year ended 31 March 2021 as presented on pages 40 to 78.

Principal activities
The Company is a private company limited by shares. The Company is principally engaged in the management of gas transportation assets throughout Wales and the South West of England.

History and development
The Company is a regulated gas transportation business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline. The Company operates under a Gas Transporters' Licence granted by the Gas and Electricity Markets Authority and is responsible for the safety, development, maintenance and daily operation of the GDN which it owns. Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

Details of the immediate and ultimate parent companies are set out in note 26 to the consolidated financial statements.

Dividends on ordinary shares
The directors do not recommend the payment of an interim or final dividend in respect of the year ended 31 March 2021 (2020: £nil).

Directors
The names of the current directors of the Company are shown on page 1.

There were no changes in directors during the year.

Company secretary
The name of the current Company secretary is shown on page 1.

Directors' service contracts and remuneration
Details of directors' remuneration and service contracts are set out in note 4(a).

Directors' interests
There were no significant contracts subsisting during or at the end of the year with the Group in which any director is or was materially interested (other than service contracts).

None of the directors has or has had a beneficial interest in the shares of the Company.

Contributions for political purposes
During the year ended 31 March 2021, there have been no political donations (2020: £nil).

Future developments
Details of future developments can be found in the Strategic report on page 7 and form part of this report by cross-reference.

Disabled employees
Details of the Company's policy for the employment of disabled employees can be found in the Strategic report on page 16 and form part of this report by cross-reference.

Employee consultation
Details of the Company's employment policies and employee consultation undertaken can be found in the Strategic report on pages 15 to 17 and form part of this report by cross-reference.

Contractual relationships
The Group has contractual relationships with many parties including directors, employees, suppliers, banking groups, debt investors, group companies and affiliated companies (see note 13 (iv)). Amongst the suppliers is Xoserve Limited, the sole company which provides gas throughput and billing information to the Group, and which is used by the Group in setting its regulated gas distribution charges to gas transporters. The investment in Xoserve was £0.1m at 31 March 2021 (2020: £0.1m). During the period, Xoserve sold its stake in Correla Ltd, and as part of the sale agreement, the Group received a £0.5m rebate in relation to billing fees.

Financial risk management relationships
The Board is responsible for maintaining a risk management and financial risk management objectives and policies of the Group and the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Strategic report on pages 12 to 14 and form part of this report by cross-reference.

Corporate Governance arrangements
The Group has only debt securities listed on the London Stock Exchange and Luxembourg Stock Exchange, as such, the full corporate governance disclosures set out in the UK Corporate Governance Code are not required. The Corporate Governance Statement sets out how the Group applies the Wates Principles and includes a description of the main features of our internal control environment and can be found in the Strategic report on pages 22 to 28 and form part of this report by cross-reference. A description of the composition and operation of the Board and its Committees can be found in the Strategic report on pages 19 to 24 and form part of this report by cross-reference.

Going concern
The Group's consolidated financial statements have been prepared on the basis that the Group and Company is a going concern.

The business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The risks that the business faces in the coming year are set out on pages 10 to 13. The financial position of the Group, its cash flows and liquidity position are set out on pages 3 to 6 and form part of this report by cross-reference. In arriving at their decision to prepare the consolidated financial statements on a going concern basis the directors have reviewed the Group's and Company's budgets and forecasts (consistent with allowed revenues in the Ofgem Final Determination published in February 2021 for RIIO-GD2) to September 2022, its medium-term business plans, the risks faced by the Group and the shareholder deficit position. The directors concluded that the Group and Company were in a position to meet their liabilities as they fall due during the period to September 2022.

Therefore, we conclude it would be appropriate to prepare the financial statements on a going concern basis.

Regulatory reporting
The Gas Transporters' Licence, under which the Company operates, requires specific accounting statements to be published for regulatory years ending on 31 March. During 2018, the Ofgem external reporting requirements were enhanced, with the stakeholder in mind, to include an annual Regulatory Financial Performance Reporting pack which is submitted to Ofgem. Ofgem has therefore removed the requirement to prepare Consolidated Regulatory Accounts. Copies of the final Consolidated Regulatory Accounts for the Group for the regulatory year ended 31 March 2018 are available from the Company secretary and on the WWU website.

Qualifying indemnity
On 5 June 2008, the Group entered into a qualifying indemnity, within the meaning of section 235 of the Companies Act 2006, in favour of the directors of the Group's subsidiary, Wales & West Pension Scheme Trustees Limited, where a director is acting as Trustee of an occupational pension scheme to protect him/her against liabilities.

Directors' liability insurance
The Group has entered into deeds of indemnity for the benefit of each director of the Group in respect of liabilities to which they may become liable in their capacity as a director of the Group and of any Company in the Group. These indemnities are qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 and were in force during the financial year and also at the date of approval of the consolidated financial statements.

Engaging with suppliers, customers and other stakeholders
Details of the Company's engagement with suppliers, customers and other stakeholders can be found in the Strategic report on pages 19-21 and forms part of this report by cross-reference.

Impairment review
The Group concluded that the licence modifications made by Ofgem on 3rd February, which modifications implemented its Final Determination first published on 8 December 2020 and updated on 3rd February 2021, is an indicator of impairment. Therefore, an impairment review has been carried out.

WWU has used the fair value basis, with reference to the implied multiple to Regulatory Asset Value from recent market transactions. The implied RAV multiple which would indicate impairment is below other market transactions. Therefore, on a fair value basis, we have concluded no impairment is required.

Exceptional items
Exceptional costs of £14.5m (2020: £nil) are largely associated with the preparation for RIIO GD2. We have reviewed all activities and structures of the support functions, resulting in £12.7m of severance costs. Subsequent to our decision to challenge the RIIO GD2 Final Determination (page 3) we have incurred £1.8m legal and advisory related costs. We have classified these as exceptional as we expect the ongoing CMA costs in total to be material.

Carbon reporting

The carbon and energy reporting criteria is set within an operational control organisational boundary, of which 100% is UK based.

Our report reflects the carbon emissions across all our work streams and the geography within which we operate. It includes all occupied buildings whether owned by the Company or leased from third parties and operational installations where gas and electricity is used. The report also includes Scope 3 emissions for vehicles used by our primary contractors and emissions associated with primary suppliers.

	Note	Year ended 31 March 2021*	Year ended 31 March 2020*
Scope 1, Stationary Combustion (tonnes CO_2e)	1	215	470
Scope 1, Fugitive Emissions including Shrinkage (gas leakage, own use gas and theft of gas) (tonnes CO_2e)	2,3	386,071	454,465
Scope 1, Mobile Combustion (tonnes CO_2e)		8,677	9,666
Scope 2, Emissions from purchased electricity (tonnes CO_2e)	4	903	1,161
Total Gross Emissions (Scope 1 and 2) (tonnes CO_2e)		**395,866**	**465,762**
Total Gross Energy Consumption (Scope 1 and 2) (kWh)		**371,806,804**	**386,628,986**
Carbon (Scope 1 and 2 in tonnes CO_2e)/ £m turnover	5	870	947
Carbon (Scope 1 and 2 in tonnes CO_2e)/ GWh gas throughput of the network	5	6.6	7.4
Scope 3 – Business Travel (Tonnes CO_2e)		0.5	59
Scope 3 – Purchased Goods and services, including contractor vehicles, polyethylene pipe and helicopter services) (Tonnes CO_2e)	6	4,079	6,074
Total Gross Emissions (Scope 3) (tonnes CO_2e)		**4,079**	**6,133**
Total Gross Emissions (Scope 1, 2 and 3) (tonnes CO_2e)		**399,946**	**471,895**
Renewable energy generated (kWh)		134,387	132,010
Total Net Energy Consumption (Scope 1, 2) (kWh)		**371,825,634**	**386,599,495**
Total Net Emissions (Scope 1, 2 and 3) (tonnes CO_2e)		**399,938**	**471,887**

* - Data provided here is in line with annual business carbon footprint reporting to Ofgem using DEFRA 2020 conversion factors. Conversion factors are updated annually.

Note

1. Energy consumption values for a limited number of locations estimated due to unavailable data, considered to be less than 0.5% of total business carbon footprint;
2. Shrinkage gas is calculated using an Ofgem approved engineering mathematical model. Asset data and performance is populated within this model combined with pre-determined leakage rates to estimate the level of Shrinkage Gas by component. The conversion of Shrinkage gas from energy quantity to the CO2 equivalent is carried out by using Ofgem conversion factors and DEFRA guidance March 2020 (RIIO-2 Environmental Reporting Guidance v_1 final (ofgem.gov.uk)). 2020 Shrinkage values are based upon estimated values which are expected to be within a 2% tolerance of the final calculated emissions;
3. Value includes fugitive emissions associated with refrigeration and air conditioning units which have been recorded as nil for this reporting period;
4. Value based upon location-based methodology;
5. Intensity metrics have been selected to permit broad and sector specific carbon emission comparison. Sector specific intensity metrics have been discussed and agreed via the Energy Networks Association and the Gas Environment Group;
6. Value excludes personally hired vehicles due to unavailable data; this is considered to be less than 0.1% of the total business carbon footprint;

Carbon reporting (continued)
Our ambition for reducing emissions is to be a net-zero ready Network by 2035. This ambition would see an increase in our mains replacement programme, reduced emissions from above ground installations and an increase in the proportion of green gas (including hydrogen) injected into our network.

Through carbon and energy saving initiatives employed since 2013 we have reduced our carbon emissions by over 29%.

Our scope 1 and 2 carbon reporting and total business carbon footprint has seen a reduction in emission during the year ending 31 March 2021 from previous years. A proportion of the reduction of the 2021 carbon emission are attributed to the procedural impacts associated with the conversion of the Ofgem shrinkage calculations into carbon equivalent emission. This is consistent with other Ofgem and future environmental reporting requirements. The change specifically relates to the conversion factors associated with the calculation of shrinkage gas (gas leakage from old metallic pipes, gas stolen from the network and gas used in the management of the network).

The greatest change is associated with the reduction of our fugitive emissions as part of our mains replacement programme and our investment in upgrading gas pressure control systems. Our renewable electricity generation has created over 130,000kWh of green energy and has had a positive impact on our carbon footprint.

In response to the Covid-19 pandemic normal working practices were adapted during 2020; this resulted in fewer vehicle and buildings emissions associated with a less-mobile works force, as expressed with lower business travel and energy consumption. During the reporting period our carbon intensity in tCO_2e per £m turnover has also reduced reflecting a reduction in carbon and turnover.

During the year from 1 April 2020 to 31 March 2021, the following carbon and energy efficiency actions have been taken:

- Our mains replacement programme has seen the successful abandonment of approximately 346kms (2020: 431kms) of metallic mains with 21,503 (2020: 29,133) services being replaced or transferred; the replacement of leaking metallic pipe work with polyethylene ("PE") pipe reducing our fugitive emissions significantly.

- We designed and built an A+ Energy Performance Certificate (EPC) rated depot in Redruth; the design included 50kW solar panels, smart LED lighting, water saving solutions and vehicle charging facilities. This new facility replaces an EPC D rated property.

- We continue to proactively manage our operational and company car fleet. This has included: providing a consistent messaging through policy and senior management example; the rolling replacement of Euro V compliant models with more efficient Euro VI models within the operational fleet; increasing the number of electrical charging points across our network; and encouraging the take up of ultra-low emission vehicles (ULEVs) by existing and new employees. ULEV reached 38% in March 2021 with a further 21% of the fleet to become ULEV during 2021.

Adaptation Reporting Power
WWU continue to take a proactive role in the management of risk to physical assets from climate change. The third reporting round to the DEFRA's Climate Change Adaptation Reporting Power (ARP), as set out in the Climate Change act 2008, is due in 2021. The report, updated with UKCP18 projections, will build upon our existing assessment of risk publicly reported in 2015.

As a Group we support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). Climate change is a substantial risk and our roadmap is to reduce the risk to the business by adopting both an internal and external strategic approach. Internally we are constantly striving to reduce our operational emissions and we have been successful in reducing net emissions by 12% in the year as disclosed above. Externally we have a unique role to play in the de-carbonisation of our network and are working with our partners to connect more sustainable sources of renewable gas (currently we have 19 renewable sources of gas connected to our network). We are also help pioneer innovative projects using our 2050 Energy Pathfinder simulation model and helping develop the use of Hydrogen within the network. These are discussed on page 18 and form part of this report by cross-reference.

Report of the directors (continued)

Disclosure of information to auditor
In the case of each person who is a director at the time when the report is approved under section 419 of the Companies Act 2006:

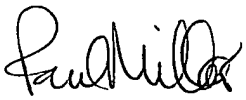
- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP has expressed its willingness to continue in office as auditor and are deemed to be reappointed, subject to certain specified circumstances under s487 of the Companies Act 2006.

This report of the directors was approved by the Board of Directors and authorised for issue on 16 August 2021.

By order of the Board



Paul Millar
Company secretary
16 August 2021

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and the consolidated financial statements in accordance with applicable law and regulations.

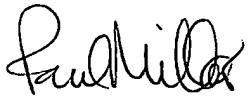
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

By order of the Board



Paul Millar
Company secretary
16 August 2021

Independent auditor's report to the member of Wales & West Utilities Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion the financial statements of Wales & West Utilities Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included consideration of:

- the availability of cash and committed facilities and their utilisation over the going concern period;
- the level of borrowing including debt which is due over the going concern period;
- compliance with covenants at 31 March 2021 and forecast compliance at 31 March 2022 and the relevant headroom on the covenants;
- the assumptions used in the forecasts;
- the likelihood of a reverse stress test scenario arising;
- the historical accuracy of forecasts prepared by management against actuals achieved; and
- the clerical accuracy of the model used to prepare the forecasts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included Health & Safety Executive (HSE) legislation regarding construction and gas transportation, and licence conditions imposed by Ofgem.

We discussed among the audit engagement team, including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- Valuation of financial instruments; test the design and implementation of relevant controls, develop independent valuations for a sample of derivative financial instruments.
- Classification of overheads; test the design and implementation of relevant controls, testing a representative sample of costs to supporting evidence and the appropriateness of the classification of expenditure.
- Management override of controls; test the design and implementation of relevant controls, agreeing a sample of manual journals to underlying support, reviewing unusual non-business transactions as well as evaluating management's estimates and judgements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:
- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent auditor's report to the member of Wales & West Utilities Limited (continued)

Use of our report

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

Delyth Jones

Delyth Jones (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
26 August 2021

Consolidated profit and loss account for the year ended 31 March 2021

Continuing operations	Note	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Turnover	2	**454.8**	491.8
Net operating costs	3(a)	**(282.8)**	(268.9)
Operating profit before depreciation, amortisation, exceptional items and movement in provisions		**269.6**	315.0
Increase in insurance and environmental provisions	3(a, b)	**(0.5)**	(1.6)
Exceptional items – restructuring and CMA costs	3(a, c)	**(14.5)**	-
Depreciation and amortisation	3(a) 7,8	**(82.6)**	(90.5)
Operating profit		**172.0**	222.9
Operating profit	3	**172.0**	222.9
Interest receivable and similar income	5(a)	**2.4**	2.7
Interest payable and similar charges	5(b)	**(126.7)**	(135.2)
Fair value swap movements	5(c)	**(6.9)**	(20.1)
Profit before taxation		**40.8**	70.3
Tax on profit	6	**(17.6)**	(45.9)
Profit for the financial year		**23.2**	24.4

Consolidated and Company statement of comprehensive income for the year ended 31 March 2021

Group and Company	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit for the financial year attributable to ordinary shareholder	**23.2**	24.4
Actuarial (loss)/gain on pension scheme (note 25)	**(67.9)**	29.1
Deferred tax credit/(charge) on actuarial (loss)/gain on pension scheme (note 25)	**12.9**	(5.5)
Total comprehensive (expense)/income relating to the year	**(31.8)**	48.0

Consolidated and Company balance sheets at 31 March 2021

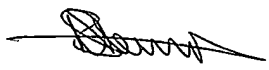
	Note	Group 31 March 2021 £m	Group 31 March 2020 £m (As restated see note 1)	Company 31 March 2021 £m	Company 31 March 2020 £m (As restated see note 1)
Fixed assets					
Intangible assets	7	**183.3**	177.2	**183.3**	177.2
Tangible assets	8	**2,708.6**	2,641.4	**2,708.6**	2,641.4
Investments	9	**0.1**	0.1	**0.2**	0.2
Pension asset	25	**-**	42.4	**-**	42.4
		2,892.0	2,861.1	**2,892.1**	2,861.2
Current assets					
Derivative asset					
– due after more than one year	14(e)	**48.7**	53.8	**48.7**	53.8
Stocks	10	**3.8**	3.6	**3.8**	3.6
Debtors	11	**54.4**	54.8	**54.4**	54.8
Cash at bank and in hand	21	**258.6**	92.4	**258.6**	92.4
Cash on deposit	22	**175.0**	300.0	**175.0**	300.0
		540.5	504.6	**540.5**	504.6
Current liabilities					
Creditors: amounts falling due within one year	12(a)	**(337.4)**	(115.3)	**(1,692.2)**	(1,567.4)
Net current assets/(liabilities)		**203.1**	389.3	**(1,151.7)**	(1,062.8)
Total assets less current liabilities		**3,095.1**	3,250.4	**1,740.4**	1,798.4
Creditors: amounts falling due after more than one year	12(b)	**(3,391.7)**	(3,544.2)	**(2,037.0)**	(2,092.2)
Provisions for liabilities	17	**(305.6)**	(293.6)	**(305.6)**	(293.6)
Pension liability	25	**(17.0)**	-	**(17.0)**	-
Net liabilities		**(619.2)**	(587.4)	**(619.2)**	(587.4)
Capital and reserves					
Called up share capital	18	**30.7**	30.7	**30.7**	30.7
Profit and loss account		**(649.9)**	(618.1)	**(649.9)**	(618.1)
Total shareholder's deficit		**(619.2)**	(587.4)	**(619.2)**	(587.4)

The profit for the financial year dealt with in the financial statements of the parent Company was £23.2m (2020: £24.4m).

The annual report and consolidated financial statements of Wales & West Utilities Limited (registered number 05046791) on pages 40 to 78 were approved by the Board of Directors and authorised for issue on 16 August 2021 and were signed on its behalf by:



Graham Edwards
Chief Executive Officer



Neil Henson
Director

Consolidated and Company statement of changes in equity for the year ended 31 March 2021

Group and Company	Note	Called up share capital £m	Profit and loss account £m	Total £m
At 1 April 2019		**30.7**	**(666.1)**	**(635.4)**
Profit for the year		-	24.4	24.4
Remeasurement of net defined benefit liability	25	-	29.1	29.1
Deferred tax on net defined benefit liability remeasurement	25	-	(5.5)	(5.5)
Total comprehensive income		-	**48.0**	**48.0**
At 31 March 2020		**30.7**	**(618.1)**	**(587.4)**
Profit for the year		-	23.2	23.2
Remeasurement of net defined benefit liability	25	-	(67.9)	(67.9)
Deferred tax on net defined benefit liability remeasurement	25	-	12.9	12.9
Total comprehensive expense		-	**(31.8)**	**(31.8)**
At 31 March 2021		**30.7**	**(649.9)**	**(619.2)**

Consolidated cash flow statement for the year ended 31 March 2021

	Note	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m (As restated see note 1)
Operating activities			
Net cash inflow from continuing operating activities	19	**267.7**	315.0
Taxation		**(1.7)**	-
Pension deficit contributions	25	**(9.3)**	(17.7)
Net cash flows from operating activities		**256.7**	297.3
Cash flows from investing activities			
Purchase of intangible fixed assets		**(14.8)**	(8.7)
Purchase of tangible fixed assets		**(133.0)**	(150.7)
Proceeds of disposal of tangible fixed assets		**3.7**	3.2
Net transfers from/(to) deposit accounts		**125.0**	(200.0)
Net cash outflow from investing activities		**(19.1)**	(356.2)
Cash flows from financing activities			
Interest received in respect of index-linked swap contracts		**4.0**	6.6
Interest received in respect of interest rate swaps		**2.5**	3.3
Interest received – other		**3.2**	1.2
Interest paid in respect of index - linked swap contracts		**(15.2)**	(11.1)
Interest paid – other external debt		**(60.5)**	(69.6)
Interest paid on loan from affiliate		**-**	(40.0)
Index linked swap settlement		**(4.2)**	-
Premium paid over par on repayment of Class A bond		**-**	(12.0)
Payments in respect of finance lease obligations		**(1.2)**	(1.2)
Net bond debt issued proceeds		**-**	328.4
Bond debt repaid		**-**	(125.0)
Net cash (outflow)/inflow from financing activities		**(71.4)**	80.6
Net increase in cash and cash equivalents		**166.2**	21.7
Cash and cash equivalents at beginning of year	21, 22	**92.4**	70.7
Cash and cash equivalents at end of year	21, 22	**258.6**	92.4
Net increase in cash and cash equivalents		**166.2**	21.7
Analysis of cash and cash equivalents			
Cash at bank	21, 22	**258.6**	92.4
Total cash and cash equivalents	22	**258.6**	92.4
Analysis of cash on deposit			
Cash on deposit at beginning of period	21, 22	**300.0**	100.0
Cash on deposit at end of period	21, 22	**175.0**	300.0
Net transfers (from)/to deposit accounts as per above	22	(125.0)	200.0

Principal accounting policies

The consolidated financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom including Financial Reporting Standard 102 ("FRS 102") and comply with the Companies Act 2006. A summary of the principal Group accounting policies, which have been consistently applied in both the current year and the prior year, is shown below.

Changes in accounting policy
There have been no changes in accounting policy during the current or prior year.

General information and basis of accounting
Wales & West Utilities Limited (registered number 05046791) is a private company limited by shares incorporated in Wales, United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Report of the directors on page 29.

These consolidated financial statements have been prepared in accordance with the historical cost convention, as modified, for the fair valuation exercise undertaken on the acquisition of the gas distribution business in 2005; the fixed asset fair value exercise undertaken on transition to FRS 102; the valuation of pension assets and liabilities; the valuation of financial derivatives; and in accordance with FRS 102 issued by the Financial Reporting Council.

The functional currency of Wales & West Utilities Limited is considered to be the pound sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling.

Wales & West Utilities Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to the presentation of inter-group transactions and related party transactions.

The consolidated financial statements of Wales & West Utilities Holdings Limited, within which this Company is included, can be obtained from the address provided in note 26.

Going concern
The directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these consolidated financial statements, as set out in the Report of the directors on page 30.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 March.

All intra-group transactions, balances, income and expenses between Group companies are eliminated on consolidation.

Related party transactions
The Company is a 100% owned subsidiary of Wales & West Utilities Holdings Limited and is included in the consolidated financial statements of Wales & West Utilities Holdings Limited. Consequently, under the terms of Section 33 of FRS 102 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are wholly owned within the Wales & West Utilities Holdings Limited group.

Exceptional Items
When assessing whether an event should be classified as an exceptional item management considers the nature, frequency, materiality and the facts and circumstances of each event. Management considers whether there is any precedent, and ensures consistent treatment for both favourable and unfavourable transactions. Items of income or expense considered as exceptional are separately disclosed in the profit and loss account; such examples include significant restructuring and the associated costs (for example fees associated with closure of the Defined Benefit scheme), impairment of non-current assets and costs associated with the company's appeal to the CMA which are considered to be one off and material over time.

Revenue recognition
Turnover represents the sales value derived from two classes of business, being the distribution of gas together with the sales value derived from the provision of other services to customers during the year. All turnover is generated in the UK. Details of turnover split by class of turnover is presented in Note 2 - Turnover.

Principal accounting policies (continued)

Revenue recognition (continued)
Turnover from the distribution of gas is partially derived from the value of units supplied during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end and from the capacity requested by shippers.

Turnover is recognised to the extent that it is probable that economic benefit will flow to the Group and that the turnover can be reliably measured.

No liability/asset is recognised when revenues received or receivable exceed/do not meet the maximum amount permitted by regulatory agreement and changes will be made to future prices to reflect any over/(under) recovery.

Contributions received from customers towards the construction or diversion of network assets are recognised in turnover within the profit and loss account on job completion or at stages of a project in line with costs. The contributions are recognised in line with completion of the construction work as the obligation in respect of the contract is completed once the construction work is completed and there is no continuing obligation. The costs incurred in the year are recorded within the Gas Distribution Network fixed assets and depreciated over the life of the asset.

Other income
Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

Intangible assets and amortisation
The Gas Transporters' Licence held by Wales & West Utilities Limited has been recognised as a separately identifiable intangible asset, the value of which has been supported by an independent valuation. The Gas Transporters' Licence has been capitalised and is written off on a straight line basis over its useful economic life, which is estimated to be 45 years in line with the acquired asset base. Provision is made for any impairment.

IT software and the Gas Transporters' Licence held by Wales & West Utilities Limited have been recognised as separately identifiable intangible assets.

Intangible fixed assets are amortised, on a straight line basis, at rates estimated to write off their book amount over their estimated useful economic lives. No amortisation is provided on assets in the course of construction. In assessing estimated economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The amortisation periods for the principal categories of intangible fixed assets are shown below.

Gas Transporters' Licence	over 45 years
IT software	3 to 10 years

Tangible fixed assets and depreciation
Tangible fixed assets, which include assets in which the Group's interest comprise legally protected statutory or contractual rights of use, are included in the balance sheet at their cost less accumulated depreciation and provision for any impairment. Cost includes the original purchase price of the asset, payroll and other costs incurred which are directly attributable to the construction of tangible fixed assets.

Additions represent the purchase or construction of new assets and extensions or significant increases in the performance capacity of existing mains and services tangible fixed assets.

No depreciation is provided on freehold land or assets in the course of construction. Other tangible fixed assets are depreciated on a straight line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

The depreciation periods for the principal categories of tangible fixed assets are shown below:

Freehold buildings	up to 50 years
Leasehold land and buildings	over the period of the lease
Gas distribution network assets:	
Mains, services and regulating equipment	30 to 65 years
Storage	40 years
Meters	5 to 20 years
Vehicles, plant and equipment	3 to 10 years

Principal accounting policies (continued)

Impairment of fixed assets
Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of the income generating unit and their recoverable amounts. Recoverable amount is defined as the higher of fair value less cost of sale or 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 income generating unit, for which the estimates of future cash flows have not been adjusted.

Impairment reviews are carried out if there is any indication that an impairment may have occurred through a trigger event, or where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts.

Leased assets
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful lives and the lease period.

All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Grants and infrastructure charges
Grants and infrastructure charges relating to gas infrastructure assets and expenditure on other fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Investments
Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect permanent diminutions in value. Those held as current assets are stated at the lower of cost and net realisable value.

Stocks
Stocks are stated at the lower of cost and net realisable value with cost being determined on a weighted average basis which takes account of any provision necessary to recognise damage and obsolescence.

Decommissioning and environmental costs
Decommissioning and environmental costs, based on discounted future estimated expenditures, are provided for in full. The unwinding of the discount is included within the profit and loss account as a financing charge.

Provisions for liabilities
Provisions for liabilities, based on discounted future estimated expenditure, are provided for in full and where appropriate a corresponding tangible fixed asset or regulatory asset is also recognised. The unwinding of the discount is included within the profit and loss account as a financing charge.

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

i) Financial assets and liabilities
Debt is initially measured at fair value, which is the amount of the net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs and discounts on issue are recognised over the expected term of the instruments.

Financial instruments (continued)

i) Financial assets and liabilities (continued)

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. For a debt instrument to be subsequently measured at amortised cost using the effective interest rate method, specific conditions in Section 11.8 of FRS 102 -"Basic Financial Instruments" must be met.

Debt instruments that have no stated interest rate (and do not constitute a financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other than the derivative financial instruments referenced below, there are currently no other debt instruments which are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

ii) Derivative financial instruments

Derivative financial instruments ("derivatives") are used by the Group for the management of interest rate and index-linked exposures. The principal derivatives used are nominal interest rate swaps and index-linked swaps.

All transactions are undertaken, or maintained, with a view to providing a commercial hedge of the interest and inflation risks associated with the Group's underlying business activities and the financing of those activities. The derivatives are measured at fair value through the profit and loss account. No hedge accounting is applied.

Adjustment to comparative periods

£300m of cash on deposit at 31 March 2020 has been reclassified from 'cash at bank' to 'cash on deposit' on the face of the balance sheet to reflect the terms of the money on deposit, specifically that it has been placed on deposit for more than 90 days. At 31 March 2020 cash at bank is reduced to £92.4m from £392.4m. There is no impact on total current assets or net liabilities as a result of this restatement. The cash on deposit of £300m at 31 March 2020 has been removed from 'cash and cash equivalents' in the cash flow statement with movement disclosed as 'investing activities'.

The adjustment at 31 March 2020 reduces cash and cash equivalents to £92.4m from £392.4m as previously reported, the net increase in cash and cash equivalents for the year ended 31 March 2020 is £21.7m compared to £221.7m previously reported and net cashflow from investing activities is an outflow of £356.2m compared to a cash outflow of £156.2m previously reported.

£17.6m of derivative assets at 31 March 2020 have been reclassified from 'swap fair value liability' included in creditors due after more than one year to derivative asset due after more than one year on the face of the balance sheet to reflect the valuation of the derivative at 31 March 2020. This increases the swap fair value liability by £17.6m to £975.7m and creditors due after more than one year by £17.6m to £2,092.2m for the Company and to £3,544.2m for the Group. This also increases the derivative asset due after more than one year by £17.6m to £53.8m. For the Company, the adjustment reduces net current liabilities by £17.6m from £1,080.4m to £1,062.8m and increases total assets less current liabilities by £17.6m from £1,780.8m to £1,798.4m. For the Group the adjustment increases net current assets by £17.6m from £371.7m to £389.3m and also increases total assets less current liabilities by £17.6m from £3,232.8m to £3,250.4m.

This has no impact on net liabilities.

Principal accounting policies (continued)

Cash on deposit
Any cash deposit with an initial term greater than 3 months is classified as 'cash on deposit' rather than 'cash and cash equivalents' to reflect the illiquid nature of the deposit.

Pension costs
The Group operates one pension Scheme ("The Scheme") which has a defined benefit and a defined contribution section.

The pension costs in respect of the defined contribution section of the pension Scheme comprise contributions payable in respect of the year. The assets of the defined benefit section of the Scheme are measured using closing market values at the balance sheet date. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The increase in the net present value of the liabilities of the defined benefit Scheme expected to arise from employee service in the year is charged to operating profit. The net of the expected return on the Scheme's assets and the increase during the year in the present value of the Scheme's liabilities, arising from the passage of time, are included net as other finance charges. Actuarial gains and losses are recognised in the statement of comprehensive income.

A net pension asset is recognised to the extent the pension scheme net surplus is considered recoverable by the Company under the Trust Deed and Rules

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less/(more) than the value at which it is recognised, a deferred tax liability/(asset) is recognised for the additional tax that will be paid/(avoided) in respect of that difference. Similarly, a deferred tax asset/(liability) is recognised for the additional tax that will be avoided/(paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Principal accounting policies (continued)

Critical judgements in applying the Group's accounting policies

The following are critical judgements, not involving estimations (which are dealt with separately) that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Recognition of contributions received from customers towards the construction or diversion of a network asset
Contributions received from customers towards the construction or diversion of network assets of £11.8m (2020: £15.8m) are recognised in turnover within the profit and loss account on job completion or at stages of a project in line with costs. In making their judgement, the directors considered the detailed criteria for the recognition of revenue as set out in FRS 102 and, in particular, whether the Group had extinguished its performance obligation under the terms of the contract. Following a detailed review of the contracts with customers for construction or diversion of network assets the directors are satisfied that the Group has performed its obligations under the contract and that recognition of the revenue in the current year is appropriate. The contributions are recognised in line with completion of the construction work as the obligation in respect of the contract is completed once the construction work is completed and there is no continuing obligation. The costs incurred in the year of £155.9m (2020: £148.2m) are recorded within the Gas Distribution Network fixed assets and depreciated over the life of the asset.

Intercompany loans
Amounts owed to the wholly owned subsidiary, WWUF, of £1,471.5m at 31 March 2021 (2020: £1,464.2m) – management considers that although the loan is repayable on demand to the wholly owned subsidiary, settlement of the loan is not expected within the next financial year. The liability is classified as a current liability as the company does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.

Fair value measurements and valuation process
No debit adjustments are applied to reduce the fair value liability of derivative contracts. Management does not consider a debit adjustment appropriate because this could likely understate the reported fair value liability against ultimate settlement cost. Discount factors for derivative liabilities are therefore based on forward interest rates. A credit value adjustment is made for fair value assets as required under FRS 102, with an adjustment for counterparty credit made to discount rates.

Key source of estimation uncertainty
The following are the key assumptions concerning the future, and the other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

Key source of estimation uncertainty – Fair value measurements and valuation process
The Group's derivative financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value of the derivative asset of £48.7m and liability of £964.6m, the Group uses market-observable data to the extent it is available. The valuations at 31 March 2021 are based on a valuation methodology that is materially unchanged from the prior year. Fair values are based on market observable inputs wherever appropriate, as required by FRS 102, and are produced by discounting expected future cash flows under the swap contracts. These expected future cash flows are generated from market forward rates for RPI and interest over the remaining lives of the derivative contracts. A combined increase of 0.01% in long term RPI and long term interest rates would lead to an increase of £2.4m in fair value of the liability.

Key source of estimation uncertainty – impairment of fixed assets
Determining whether fixed assets are impaired may require an estimation of their value in use and fair value to the Company.

The Company assesses fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount of the assets. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Principal accounting policies (continued)

Critical judgements in applying the Group's accounting policies (continued)

Key source of estimation uncertainty – impairment of fixed assets (continued)
Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between willing market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

FRS 102 permits the higher of the recoverable values from value in use and fair value bases to be used, and if one basis exceeds the carrying value of fixed assets, there is no need to estimate the other basis. WWU has used the fair value basis, with reference to the implied multiples to Regulatory Asset Value from transactions in the gas distribution sector in the range 1.35x to 1.40x and transaction multiples more generally in the UK regulated energy sectors and water industry. A breakeven RAV multiple for the carrying value of net assets at 31 March 2021 of the WWU cash generating unit is estimated at 1.09x.

Key source of estimation uncertainty – Pension Scheme

Discount rate and mortality assumptions used to determine the carrying amount of the Company's defined benefit obligation
The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting year on high quality corporate bonds. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The mortality assumption is set based on the most recent mortality tables "SAPS3" with an adjustment for the CMI 2020 model. Details of the assumptions made and associated sensitivities to the discount rate and mortality assumptions are set out in note 25.

Valuation of Scheme assets used to determine the carrying amount of the Company's defined benefit obligation
The Scheme net deficit of £17.0m (consisting of assets of £560.4m and liabilities of £577.4m) was based on underlying scheme asset valuations as at 31 March 2021.

Software as a Service (SaaS)
During April 2021 the IFRS Interpretations Committee finalised its agenda decision in relation to configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, 'SaaS') and the application of IAS 38. That agenda decision offers clarification of the treatment of implementation costs which is relevant to the Group's ongoing programme to revise its access to software and systems. The Group is moving many of its applications to SaaS arrangements with third party partners.

The Group prepares its financial statements under FRS 102 and management is evaluating whether the committee's decision should apply to it. It has not been possible to complete that assessment in time for those adjustments to be reflected in these financial statements.

Notes to the consolidated financial statements

1. Company profit and loss account

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in these consolidated financial statements. The profit after taxation for the year ended 31 March 2021 within the financial statements of the Company was £23.2m (2020: £24.4m) and the actuarial loss on the pension scheme included in the consolidated statement of comprehensive income was £55.0m net of deferred tax (2020: net actuarial gain of £23.6m). The total comprehensive loss transferred to reserves was £31.8m (2020: £48.0m profit to reserves).

2. Turnover

The turnover of the Company is all derived from activities undertaken in the UK and an analysis by class of business is set out below:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Income from regulated activities	**436.4**	468.9
Income from non - regulated activities	**6.6**	7.1
Customer contributions towards the construction of assets	**11.8**	15.8
	454.8	491.8

Within customer contributions £2.6m (2020: £2.5m) was received by WWU in relation to replacement capital expenditure.

3. Operating profit

(a) Operating profit is stated after charging/(crediting):

	Note	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m
Continuing operations:			
Staff costs	4(b)	**92.2**	92.5
Staff costs capitalised as fixed assets		**(24.4)**	(35.5)
Depreciation: Own assets	8	**73.1**	79.0
Depreciation: Leased assets	8	**0.8**	0.8
Amortisation of intangible assets	7	**8.7**	10.7
Profit on disposal of fixed assets		**(3.6)**	(3.0)
Rentals under operating leases:			
Hire of plant and equipment		**0.8**	1.0
Other		**0.2**	0.3
Cost of stock recognised as an expense		**7.1**	7.6
Increase in provisions	3(b),17	**0.5**	1.6
Exceptional items	3(c)	**14.5**	-

Staff costs capitalised includes direct labour costs allocated to business activities based on time taken per employee to undertake (see note 4(b)) and ancillary costs.

(b) Increase in provisions

During the year ended 31 March 2021 following a review of historical costs incurred, an increase in the number of mesothelioma claims expected over future years gave rise to a £1.0m increase in the insurance provision (note 17(a)) (2020 £1.6m increase in the insurance provision). Following a detailed review of the expected land remediation environmental costs over future years, this gave rise to a £0.5m decrease in the environmental remediation provision (note 17(b)).

3. Operating profit (continued)

(c) Exceptional items

Exceptional items of £14.5m (2020: £nil) are largely associated with the preparation for RIIO GD2. We have reviewed all activities and structures of the support functions, resulting in £12.7m of severance costs which includes £3.0m past service pension cost as per note 25. Subsequent to our decision to challenge the RIIO GD2 Final Determination (page 3) we have incurred £1.8m legal and advisory related costs. We have classified these as exceptional as we expect the ongoing CMA costs to be material in the year.

(d) Auditor remuneration

Services provided by the Group's auditor

During the year the Group obtained the following services from the Group's auditor:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Fees payable to the Group's auditor for the audit of parent entity's and the consolidated financial statements:	**239.0**	248.3
Fees payable to the Group's auditor and its associates for other services:		
the audit of the Company's subsidiary	**9.0**	9.0
the audit of joint venture Companies	**-**	6.7
Total audit fees	**248.0**	264.0
assurance services related to group reporting	**28.0**	24.0
assurance services related to interim review	**39.0**	18.0
assurance services related to regulatory reporting	**31.0**	31.0
assurance services related to IFRS transition	**-**	5.0
other assurance services	**-**	50.0
Total non-audit fees	**98.0**	128.0

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Fees in respect of the pension Scheme:		
Audit of pension Scheme	**29.0**	28.0

Audit fees for all Group Companies are settled by WWU.

4. Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Fees payable to non–executive directors	**110.0**	87.0
Salary payments (including benefits in kind)	**493.9**	489.4
Performance related bonus (see below)	**385.8**	502.2
Pension contributions	**10.4**	10.0
Contributions in lieu of pension	**118.1**	118.1
	1,118.2	1,206.7

One director is a member of the defined contribution section of the Group pension Scheme. All other directors make their own pension arrangements.

The executive directors' remuneration is based on their overall company responsibilities and the policy is to ensure that they are rewarded competitively by providing remuneration consisting of a basic salary, benefits and annual performance related bonus, part of which is deferred, which require the achievement of demanding performance targets. These targets include safety, standards of service, customer satisfaction and financial.

The amount disclosed in respect of the period ended 31 March 2021 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2020. Bonuses are reviewed and paid in respect of a calendar year.

The performance bonus is apportioned between an amount due as a lump sum payable after the year end, and the balance payable under a long term incentive plan. The amount due under the long term incentive plan is payable three years after the year in which the award arose. The payment of the performance bonus is conditional on the director remaining in office on the payment date. At 31 March 2021, £0.8m was accrued in respect of amounts payable under the long term incentive plan for 1 director and members of the executive team (2020: £1.0m).

No director had any interest over shares in the Company/Group.

The independent non-executive directors receive a flat monthly fee for their services.

Five of the directors receive no remuneration from the Company/Group. These directors are employees of the parent companies they represent and are remunerated by them in their operational country. The alternate directors receive no remuneration from the company or their appointees for acting as alternate directors.

Highest paid director:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Salary payments (including benefits in kind)	**493.9**	489.4
Performance related bonus (see above)	**385.8**	502.2
Pension contributions	**10.4**	10.0
Contributions in lieu of pension	**118.1**	118.1
	1,008.2	1,119.7
Accrued Company pension (defined contribution)	**268.5**	200.3

4. Directors and employees (continued)

(b) Staff costs (including directors)

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Wages and salaries	**72.1**	71.8
Social security costs	**8.3**	8.2
Pension costs (note 25)	**11.8**	12.5
	92.2	92.5

Staff costs are allocated to business activities based on time taken per employee to undertake. On this basis £24.4m of the above staff costs have been capitalised during the year ended 31 March 2021 (2020: £35.5m).

(c) Average monthly number of employees during the period (excluding directors)

	Year ended 31 March 2021 Number	Year ended 31 March 2020 Number
Regulated gas distribution activities	**1,599**	1,588
Other activities	**2**	2
	1,601	1,590

5. Interest

(a) Interest receivable and similar income

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Interest receivable on bank deposits	**2.4**	2.7

(b) Interest payable and similar expenses

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
On external debt	**66.2**	70.8
On loan notes with affiliates	**47.5**	49.8
Premium over par on bond buy - back	**11.5**	12.0
Amortised debt issue costs and bond discount	**1.1**	1.3
On unwinding of discounts on provisions (note 17)	**1.4**	1.4
Other finance (credit)/charges – net pension (note 25)	**(1.1)**	(0.2)
Finance lease interest	**0.1**	0.1
	126.7	135.2

Interest on external debt for the year ended 31 March 2021 includes a charge of £1.7m (2020: £2.9m) for accrued inflation on the RPI linked bond.

5. Interest (continued)

(c) Index-linked and interest rate fair value swap movement

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
On index-linked derivative contracts – inflation accrual	**23.7**	37.3
Interest payable, on index-linked swaps	**19.6**	15.7
Interest receivable, on index-linked swaps	**(3.5)**	(5.3)
Interest receivable, on interest rate swaps	**(2.7)**	(2.6)
Accretion of swap extension costs	**5.8**	(15.2)
Fair value gain on index-linked swaps – excluding accruals	**(40.4)**	(5.1)
Fair value loss/(gain) on interest rate swaps – excluding accruals	**4.4**	(4.7)
Total swap portfolio loss	**6.9**	20.1

The reduction in total loss on RPI linked and nominal interest rate swaps for the year ended 31 March 2021 to £6.9m from £20.1m from the prior year was largely due to lower inflation.

6. Tax on profit

(a) Analysis of tax charge in the year

	Year ended 31 March 2021 £m	*Year ended 31 March 2020 £m*
The charge for taxation is made up as follows:		
Current tax		
UK corporation tax charge on profit of the year	**1.1**	3.8
Adjustments in respect of prior years	**1.3**	-
Total current tax	**2.4**	3.8
Deferred tax		
Origination and reversal of timing differences	**15.4**	18.5
Deferred tax relating to change in tax rate	**-**	23.0
Adjustments in respect of prior years	**(0.2)**	0.6
Total deferred tax charge	**15.2**	42.1
Total tax charge on profit (note 6(b))	**17.6**	45.9

The standard rate of UK corporation tax applied to reported profit is 19% (2020: 19%).

A current tax charge of £2.4m for the year ended 31 March 2021 arises, comprising £1.1m as a result of profit before tax in the year after the utilisation of bought forward losses (2020: £3.8m) and a prior period charge of £1.3m (2020 : £nil).

The deferred tax charge relating to the change of tax rate of £23.0m in the prior period to 31 March 2020 arose as a result of the differential tax rates at which deferred tax assets and liabilities are expected to unwind. The significant charge arose mainly due to the deferral of the reduction in the statutory tax rate to 17% from 19% which was due to come in to effect on 1 April 2020. The UK Government announced in the 2021 Budget on 3 April that the statutory tax rate will be increased to 25% with effect from 1 April 2023. This increase in the tax rate was substantively enacted after the balance sheet date on 24 May 2021 and will therefore be reflected in the deferred tax charge for the year ended 31 March 2022. The incremental one-off deferred tax charge is expected to be in the region of £82m.

The deferred tax assets and liabilities that make up the closing net deferred tax liability of £260.1m (2020: £257.8m) are set out in note 17(d) – Deferred tax.

6. Tax on profit (continued)

(b) Factors affecting the current tax charge for the year

The difference between the total tax charge and the amount calculated by applying the weighted average rate of corporation tax in the UK of 19.0% (2020: 19.0%) to the profit before tax is explained below:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit before tax	**40.8**	70.3
Profit before tax multiplied by the weighted average rate of corporation tax in the UK of 19.0% (2020: 19.0%)	**7.7**	13.4
Effects of:		
expenses not deductible for tax purposes	**9.3**	9.7
income not taxable in determining taxable profits	**(0.5)**	(0.8)
effect of change in tax rate	**-**	23.0
adjustment to current tax in respect of prior periods	**1.3**	-
adjustment to deferred tax in respect of prior periods	**(0.2)**	0.6
Current tax charge for the year (note 6(a))	**17.6**	45.9

The actual tax charge for the year ended 31 March 2021 of £17.6m (2020: £45.9m) is higher than the expected tax charge at the statutory rate of £7.7m mainly as a result of the disallowance of interest on shareholder loans of £47.5m and net £1.1m adjustments in respect of prior periods (2020: tax charge of £13.4m mainly as a result of the disallowance of interest on shareholder loans of £49.8m and the deferred introduction of the 17% statutory corporation tax rate increasing the deferred tax charge by £23.0m).

The net reversal of recognised deferred tax assets and liabilities expected to occur in the year to 31 March 2022 is a net charge of £9.2m (2020: £12.2m). This relates mainly to the reversal of deferred tax assets related to the fair value of derivatives recognised on balance sheet at 1 April 2016.

7. Intangible fixed assets

Group and Company

	Gas Transporters' Licence £m	IT software £m	Assets under construction £m	Total £m
Cost or valuation				
At 1 April 2020	229.0	35.8	19.5	**284.3**
Additions	-	-	14.8	**14.8**
Transfers in year	-	5.2	(5.2)	-
At 31 March 2021	**229.0**	**41.0**	**29.1**	**299.1**
Accumulated amortisation				
At 1 April 2020	76.4	30.7	-	**107.1**
Charge for the year	5.1	3.6	-	**8.7**
At 31 March 2021	**81.5**	**34.3**	-	**115.8**
Net book amount				
At 31 March 2021	**147.5**	**6.7**	**29.1**	**183.3**
At 31 March 2020	152.6	5.1	19.5	177.2

8. Tangible fixed assets

Group and Company

	Freehold land and buildings £m	Leasehold land and buildings £m	Gas distribution network assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2020	21.6	6.5	3,265.9	189.3	55.2	**3,538.5**
Additions	-	-	2.8	0.9	137.4	**141.1**
Disposals	-	-	-	(1.9)	-	**(1.9)**
Transfers in year	-	-	70.2	12.4	(82.6)	-
At 31 March 2021	**21.6**	**6.5**	**3,338.9**	**200.7**	**110.0**	**3,677.7**
Accumulated depreciation						
At 1 April 2020	2.8	4.9	733.4	156.0	-	**897.1**
Charge for the year	0.4	0.2	58.5	14.8	-	**73.9**
Disposals	-	-	-	(1.9)	-	**(1.9)**
At 31 March 2021	**3.2**	**5.1**	**791.9**	**168.9**	-	**969.1**
Net book amount						
At 31 March 2021	**18.4**	**1.4**	**2,547.0**	**31.8**	**110.0**	**2,708.6**
At 31 March 2020	18.8	1.6	2,532.5	33.3	55.2	2,641.4

The Company operates company cars on leases which meet the definition of finance leases under FRS 102 and are accounted for accordingly. At 31 March 2021 the net book amount of these assets held under finance leases was £1.3m (2020: £1.4m).

Included within the freehold land and buildings net book amount at 31 March 2021 is £2.8m (2020: £2.9m) in respect of land which is not depreciated.

9. Fixed asset investments

Group	Unlisted investments £m
Cost and net book value	
At 31 March 2021 and 31 March 2020	0.1

The unlisted fixed asset investment of £0.1m (2020: £0.1m) represents the Group's shareholding in Xoserve Limited, a private Company limited by shares, incorporated in England and Wales (registered number 05046877). The Group's shareholding represents 10% (2020: 10%) of the ordinary issued share capital of Xoserve Limited.

The principal activity of Xoserve Limited, a company incorporated in England and Wales, is as the Gas Transporters' Agent providing centralised information and data services for Gas Transporters and Gas Shippers in Great Britain. Xoserve's registered office address is Lansdowne Gate, 65 New Road, Solihull, B91 3DL.

Company	Unlisted investments £m
Cost and net book value	
At 31 March 2021 and 31 March 2020	0.2

An unlisted fixed asset investment of £0.1m (2020: £0.1m) represents the Company's shareholding in Xoserve Limited. The Company's shareholding represents 10% (2020: 10%) of the ordinary issued share capital of Xoserve Limited.

An unlisted fixed asset investment of £0.1m (2020: £0.1m) represents the entire issued share capital of Wales & West Utilities Finance plc comprising 50,000 shares of £1 each. Wales & West Utilities Finance plc is a private Company limited by shares, incorporated in England and Wales (registered number 06766848). The registered office address of Wales & West Utilities Finance plc is Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

The Company's shareholding represents 100% (2020: 100%) of the issued share capital of Wales & West Utilities Finance plc. Wales & West Utilities Finance plc has bonds listed on the London Stock Exchange.

In addition, the Company owns the entire issued share capital of Wales & West Utilities Pension Scheme Trustees Limited, a Company incorporated in England and Wales (registered number 05750643), which is non-trading and comprises 2 shares of £1 each. The registered office address of Wales & West Utilities Pension Scheme Trustees Limited is Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

10. Stocks

Group and Company

	31 March 2021 £m	31 March 2020 £m
Raw materials and consumables	**3.8**	3.6

The replacement cost of stocks is not materially different from their carrying value.

11. Debtors

Group and Company

	31 March 2021 £m	31 March 2020 £m
Amounts falling due within one year		
Trade debtors*	**44.8**	49.2
Other debtors	**5.3**	1.6
Prepayments	**4.3**	4.0
	54.4	54.8

* Trade debtors includes unbilled income of £42.0m (2020: £43.4m)

12. Creditors

	Note	Group 31 March 2021 £m	Group 31 March 2020 £m (restated)	Company 31 March 2021 £m	Company 31 March 2020 £m (restated)
(a) Other creditors falling due within one year					
External borrowings	13	**150.0**	-	**50.0**	-
Obligations under finance leases	13	**0.6**	0.6	**0.6**	0.6
Payments received on account		**21.2**	18.7	**21.2**	18.7
Trade creditors		**3.8**	11.5	**3.8**	11.5
Other taxation and social security		**11.7**	14.1	**11.7**	14.1
Corporation tax		**4.1**	3.8	**4.1**	3.8
Other creditors		**2.0**	2.2	**2.0**	2.2
Accruals		**144.0**	64.4	**127.3**	52.2
Amount due to subsidiary undertaking*		**-**	-	**1,471.5**	1,464.3
		337.4	115.3	**1,692.2**	1,567.4
(b) Amounts falling due after more than one year					
External borrowings	13	**1,764.3**	1,911.4	**409.6**	459.4
Loan notes with affiliates	13,14	**660.6**	654.6	**660.6**	654.6
Swap fair value liability (excluding accretion)	14(e)	**964.6**	975.7	**964.6**	975.7
Obligations under finance leases	13	**0.6**	0.8	**0.6**	0.8
Trade creditors		**0.6**	0.8	**0.6**	0.8
Other creditors		**1.0**	0.9	**1.0**	0.9
		3,391.7	3,544.2	**2,037.0**	2,092.2

*The amount due to subsidiary undertaking represents the proceeds of bond issuances loaned by WWUF to WWU. WWU pays interest at the applicable rate equal to the coupon rate on the underlying bond plus a nominal intercompany loan fee of £1,000 p.a. The repayment date of this intercompany debt is the scheduled maturity date of the underlying bond or at the demand of WWUF. The liability is classified as a current liability as the company does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.

13. External Borrowings
14.

	Group		Company	
	31 March 2021 £m	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m
Repayable as follows:				
In less than one year	**150.6**	0.6	**50.6**	0.6
In more than one year but not more than two years	**0.5**	50.4	**0.5**	50.4
In more than two years but not more than five years	**359.3**	249.4	**209.8**	0.4
In more than five years	**2,065.7**	2,267.0	**860.5**	1,064.0
	2,576.1	2,567.4	**1,121.4**	1,115.4
Less: amounts owed to affiliated entities	**(660.6)**	(654.6)	**(660.6)**	(654.6)
	1,915.5	1,912.8	**460.8**	460.8

As at 31 March 2021 the £2,576.1m (2020: £2,567.4m) of external borrowings comprised guaranteed bonds of £1,454.6m (2020: £1,452.0m), loan notes issued to affiliated companies of £660.6m (2020: £654.6m), EIB term loans of £309.9m (2020: £309.9m), a private placement of Class B notes with MetLife of £99.8m (2020: £99.7m), a National Westminster Bank plc loan of £50.0m (2020: £50.0m), revolving bank facilities of £nil debit (2020: £0.2m debit) and obligations under finance leases of £1.2m (2020: £1.4m).

Group
Guaranteed bonds

i) At 31 March 2021 WWUF had in issue guaranteed bonds with a nominal value of £1,425.0m (2020: £1,425.0m) and a book value of £1,454.6m (2020: £1,452.0m). Included in the guaranteed bonds book value is £35.8m (2020: £34.2m) of accrued inflation on the index-linked bond, unamortised bond fees and discount of £5.8m (2020: £6.8m) and £0.4m (2020: £0.4m) attributed to amortised cost accounting.

As at 31 March 2021, the guaranteed bonds have legal maturities ranging between April 2021 and May 2041 as outlined in the following table:

Nominal value £m	Coupon %	Class	Issue date	Redemption date	Note	Book value £m 31 March 2021	Book value £m 31 March 2020
300	5.75%	A	31 March 2010	29 March 2030		**296.4**	296.0
100	2.496%	A	31 March 2010	22 August 2035	(a)	**135.5**	133.9
150	4.625%	A	4 November 2011	13 December 2023		**149.7**	149.4
100	4.625%	A	4 November 2011	6 April 2021	(b)	**99.8**	99.6
150	5.00%	A	4 November 2011	7 March 2028		**148.8**	148.6
300	3.00%	A	3 August 2018	3 August 2038		**297.1**	297.0
75	3.00%	A	3 September 2019	3 August 2038		**84.5**	85.0
250	1.875%	A	28 February 2020	28 May 2041		**242.8**	242.5
1,425						**1,454.6**	1,452.0

a) The movement in the £100.0m nominal index-linked bond represents accrued inflation of £1.7m on the index-linked bond for the year (2020: £2.9m) and £0.1m (2020: £0.1m) in respect of amortised discount and bond fees. Included in the book value of the index-linked bond is £35.8m of accrued inflation (2020: £34.2m).

b) On 30 March 2021, the Company announced the final results of a tender offer for £100m of WWUF's £250m 4.625% Class A nominal bond maturing on 13 December 2023. The bonds were purchased at 111.460% of their par value, and included accrued interest of £1.445m. A charge for £11.5m was made in the consolidated profit and loss account of WWU, representing the excess of the consideration paid above the book carrying amount of the bonds. The total consideration paid was £112.9m on the settlement date, 6 April 2021. On the same day, WWUF acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by WWU to it.

13. External borrowings (continued)
Guaranteed bonds

All of the bonds are unconditionally and irrevocably guaranteed by the Company and its immediate parent, Wales & West Utilities Holdings Limited, pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transporters' Licence.

Company

ii) At 31 March 2021 the Company had borrowed funds with a nominal value of £310.0m (2020: £310.0m) under its EIB term loan facilities and £50.0m (2020: £50.0m) from NWB term loan facilities. The book value of the debt at 31 March 2021 is £359.9m (2020: £359.9m) after deducting unamortised debt fees of £0.1m (2020: £0.1m).

The table below details the tranches of funds drawn:

Nominal value £m	Bank	Fixed/ Floating	Coupon	Class	Drawdown date	Maturity date	Book value in £m at 31 March 2021	31 March 2020
60.0	EIB	Floating	0.455% + LIBOR	A	21 August 2015	31 March 2026	**60.0**	60.0
100.0	EIB	Floating	0.452% + LIBOR	A	30 November 2015	31 March 2027	**100.0**	100.0
100.0	EIB	Fixed	2.10%	A	27 January 2017	31 March 2026	**99.9**	99.9
50.0	EIB	Fixed	1.99%	A	22 March 2017	31 March 2027	**50.0**	50.0
50.0	NWB	Fixed	3.06%	B	4 May 2018	3 May 2021	**50.0**	50.0
360.0							**359.9**	359.9

iii) At 31 March 2021, the Company had borrowed £nil (2020: £nil) under its revolving credit facilities with a book value at 31 March 2021 of £nil debit representing unamortised credit facility fees of £nil (2020: £0.2m debit of unamortised credit facility). In January 2021, the Company agreed to a 364 day extension to these facilities. These facilities now mature in February 2022. The floating interest rates on drawings under these facilities range from LIBOR + 0.35% to LIBOR + 1.50% (2020: range from LIBOR + 0.35% to LIBOR + 1.50%).

iv) On 27 March 2018, the Company issued, for cash, £645.0m of 20 year subordinated loan notes expiring on 26 March 2038 to affiliated companies resident and incorporated in Hong Kong and controlled by the 4 members of the Hong Kong based consortium that jointly own West Gas Networks Limited (UK) and Western Gas Networks Limited (UK) (see note 26 - Immediate and ultimate parent companies and 27(d) related party transactions). The loan notes carry a coupon of LIBOR + 6.5% and interest is payable bi-annually in June and December. The loan notes are registered on the Official List of the International Stock Exchange in Jersey.

At 31 March 2021, the Company had borrowed £645.0m (2020: £645.0m) in the form of loan notes from affiliated companies. The book value of the debt at 31 March 2021 is £660.6m on an amortised cost basis (2020: £654.6m) after deducting unamortised debt fees of £0.2m (2020: £0.2m).

13. External borrowings (continued)

The table below details the loan notes' balances with those affiliated companies at 31 March 2021 and 31 March 2020:

Loan note holders	% share	Nominal value £m	Book value at 31 March 2021 £m	31 March 2020 £m
Affiliated entity	**30%**	**193.5**	**198.2**	196.4
Affiliated entity	**30%**	**193.5**	**198.2**	196.4
Affiliated entity	**30%**	**193.5**	**198.2**	196.4
Affiliated entity	**10%**	**64.5**	**66.0**	65.4
	100%	**645.0**	**660.6**	654.6

The £645.0m cash received in respect of the loan notes was used on 4 April 2018 to repay an equivalent amount of the loan from the Company's immediate parent, Wales & West Utilities Holdings Limited, and further intercompany loan repayments were made within the UK group.

v) The finance lease obligation in respect of company cars is included within borrowings above. The liability of obligations under finance leases at 31 March 2021 was £1.2m (2020: £1.4m).

vi) On 4 May 2018, the Company borrowed £50.0m of Class B debt from the NWB maturing on 3 May 2021. The loans carry a coupon of LIBOR + 1.25% and interest is payable bi-annually in May and November. This term loan was repaid in full 30 April 2021.

vii) On 28 March 2019, the Company borrowed Class B debt of £100.0m in the form of privately placed notes with Metife. The notes carry a coupon of 3.06% with £50.0m maturing on 31 March 2026 and £50.0m maturing on 30 September 2026.

14. Financial instruments and risk management

The Group's funding, liquidity and exposure to interest rate and credit risks are managed within a framework of policies authorised by the Board of Directors. In accordance with these policies financial derivatives are used to manage financial exposures within policy parameters and are not undertaken for speculative or trading purposes.

The Group's Treasury function is governed by policies determined by the Board, and reports periodically to the Treasury Committee and the Board.

(a) Categories of financial instruments

The carrying value of financial assets and liabilities held by the Group is summarised by category below:

Group and Company	Note	31 March 2021 £m	31 March 2020 £m (as restated)
Financial assets held at amortised cost			
Trade and other debtors	11	**54.4**	54.8
Cash and cash on deposit	21, 22	**433.6**	392.4
Total financial assets at amortised cost		**488.0**	447.2
Financial assets at fair value			
Derivative financial instruments	14(e)	**48.7**	53.8
Total financial assets		**536.7**	501.0

14. Financial instruments and risk management (continued)

	Note	Group 31 March 2021 £m	Group 31 March 2020 £m (restated)	Company 31 March 2021 £m	Company 31 March 2020 £m (restated)
Financial liabilities held at amortised cost					
Trade and other creditors	12 (a, b)	**7.4**	15.4	**7.4**	15.4
Accrued interest on bonds, bank loans and loans with affiliates		**89.9**	32.7	**73.0**	20.6
Obligations under finance leases	13	**1.2**	1.4	**1.2**	1.4
Guaranteed bonds	13	**1,454.6**	1,452.0	**-**	-
External borrowings – bank loans and fees	13	**359.7**	359.7	**359.9**	359.4
External borrowings – other loan notes	13	**99.7**	99.7	**99.7**	99.7
Loans with affiliates*	27(d)	**660.6**	654.6	**660.6**	654.6
Total financial liabilities at amortised cost		**2,673.1**	2,615.5	**1,201.8**	1,151.1
Financial liabilities at fair value					
Derivative financial instruments	14(e)	**964.6**	975.7	**964.6**	975.7
Total financial liabilities		**3,637.7**	3,591.2	**2,166.4**	2,126.8

*Amounts owed to affiliates represent subordinated unsecured loan capital. Payments made in respect of this capital are subject to restrictive conditions in the Common Terms Agreement with senior lenders and other parties.

The Group and Company's income, expense, gains and losses in respect of financial instruments are summarised below:

Group and Company	Note	31 March 2021 £m	31 March 2020 £m
Interest income and expense			
Total interest income for financial assets at amortised cost	5(a)	**(2.4)**	(2.7)
Total interest expense for financial liabilities at amortised cost	5(b)	**126.7**	135.2
Index linked and interest rate fair value swap movements			
On derivative financial assets measured at fair value through profit or loss	5(c)	**1.7**	(7.3)
On derivative financial liabilities measured at fair value through profit or loss	5(c)	**5.2**	27.4
		6.9	20.1

(b) Interest rate composition of gross borrowings

After taking account of the interest rate swaps entered into by the Company, the fixed and floating interest rate profile of the Group's gross borrowings, excluding intra-group indebtedness and loan notes issued to affiliates, was:

	Group		Company	
	31 March 2021 £m	31 March 2020 £m	**31 March 2021 £m**	31 March 2020 £m
Fixed nominal rate	**886.0**	886.0	**250.0**	250.0
Fixed real rate	**999.0**	999.0	**210.0**	210.0
Total	**1,885.0**	1,885.0	**460.0**	460.0

Fixed nominal rate

Within fixed nominal rate debt at 31 March 2021 is £150.0m (2020: £150.0m) of fixed rate debt drawn with the EIB, £636.0m (2020: £636.0m) of fixed rate bonds and £100.0m (2020: £100.0m) of privately placed loan notes with MetLife.

Fixed real rate

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (2020: £100.0m of 2.496% index-linked bonds) and £899.0m of fixed nominal rate and floating rate borrowings (2020: £899.0m) matched with index-linked swaps which together mitigate RPI volatility from regulated revenues.

(c) Interest rate profile of fixed rate borrowings

After taking account of swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 March 2021 and 31 March 2020, excluding intra-group indebtedness and loan notes issued to affiliates, together with the weighted average period for which the rate is fixed, was:

	Weighted average interest rate		Weighted average period for which rate is fixed	
Currency	**31 March 2021 %**	31 March 2020 %	**31 March 2021 Years**	31 March 2020 Years
Sterling: Fixed nominal rate	**2.55**	2.55	**15.6**	15.6
Fixed real rate	**4.94**	4.88	**7.7**	7.7

(d) Borrowing facilities

	31 March 2021 £m	31 March 2020 £m
Committed borrowing facilities	**485.0**	485.0
Drawn	**(360.0)**	(360.0)
Undrawn committed facilities	**125.0**	125.0

The drawn facilities at 31 March 2021 and at 31 March 2020 of £360.0m represent £310.0m of EIB loans and from 4 May 2018, £50.0m of Class B debt from the NWB expiring on 3 May 2021 as detailed in note 13 (2020: £360m drawn representing £310.0m of EIB loans and £50.0m of Class B debt from the NWB).

The £125.0m of undrawn facilities at 31 March 2021 and at 31 March 2020 comprised revolver facilities. In addition there are standby liquidity facilities of £90.0m (2020: £90.0m) which may be drawn following an event of default. These standby liquidity facilities are not regarded as part of the Group's ongoing liquidity facilities for general corporate purposes.

14. Financial instruments and risk management (continued)

(e) Fair values of financial instruments

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and bank loans approximates to book values due to the short maturity of these instruments after reflecting £nil (2020: £0.2m) of unamortised debt fees.

The fair value of the listed guaranteed bonds has been calculated using the 31 March 2021 quoted prices (2020: 31 March 2020 quoted prices).

The fair values of the derivative financial instruments represent the present value of expected future cash flows from those instruments, discounted at forward interest rates. The fair values do not represent a termination cost as at 31 March 2021.

Group	**31 March 2021**		31 March 2020	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Guaranteed bonds	**(1,454.6)**	**(1,675.9)**	(1,452.0)	(1,645.9)
Loans with affiliates	**(660.6)**	**(645.0)**	(654.6)	(645.0)
Bank loans	**(359.7)**	**(360.0)**	(359.7)	(360.0)
Other loan	**(99.7)**	**(100.0)**	(99.7)	(100.0)
Obligations under finance leases	**(1.2)**	**(1.2)**	(1.4)	(1.4)
Cash at bank	**433.6**	**433.6**	392.4	392.4
	(2,142.2)	**(2,348.5)**	(2,175.0)	(2,359.9)
Derivative financial instruments held to manage the interest rate profile				
Index-linked swaps liability	**(964.6)**	**(1,022.7)**	(975.7)	(1,030.1)
Index-linked swap asset	**16.7**	**16.7**	17.6	17.6
Interest rate swap asset	**32.0**	**32.6**	36.2	37.8
	(3,058.1)	**(3,321.9)**	(3,096.9)	(3,334.6)

Company	**31 March 2021**		31 March 2020	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Loans with affiliates	**(660.6)**	**(645.0)**	(654.6)	(645.0)
Bank loans	**(359.9)**	**(360.0)**	(359.4)	(360.0)
Other loan	**(99.7)**	**(100.0)**	(99.7)	(100.0)
Obligations under finance leases	**(1.2)**	**(1.4)**	(1.4)	(1.4)
Cash at bank and cash on deposit	**433.6**	**433.6**	392.4	392.4
	(687.8)	**(672.8)**	(722.7)	(714.0)
Derivative financial instruments held to manage the interest rate profile				
Index-linked swaps liability	**(964.6)**	**(1,022.7)**	(975.7)	(1,030.1)
Index-linked swap asset	**16.7**	**16.7**	17.6	17.6
Interest rate swap asset	**32.0**	**32.6**	36.2	37.8
	(1,603.7)	**(1,646.2)**	(1,644.6)	(1,688.7)

14. Financial instruments and risk management (continued)

(f) Interest rate and index-linked derivative contracts ("swaps")

Group and Company

The Group has entered into interest rate swap arrangements in order to manage the interest rate exposure of the Group and not for trading or speculative purposes.

The Group has entered into index-linked interest rate swaps to achieve stable real interest costs and to mitigate the impact of volatility from the RPI index-linked regulated revenues.

The Company values swap contracts on a discounted cash flow basis. Forward RPI and interest market data is used together with fixed amounts (i.e. the fixed interest rate receipt legs of certain swaps), to determine future undiscounted cash flows over the remaining life of the swaps. Those cash flows are then discounted to a present value sum using a discount curve represented forward OIS rates (2020: discounted to a present value sum using a discount curve represented forward OIS rates).

The fair value of derivative contracts at 31 March 2021 and 31 March 2020 is shown below:

	31 March 2021 £m	31 March 2020 £m
Fair value of financial derivatives		
Fair value of swap liability	**(1,022.7)**	(1,030.1)
Fair value of swap asset	**49.3**	55.4
Net fair value of financial derivatives	**(973.4)**	(974.7)

The difference between the fair value of derivative financial instruments of £973.3m disclosed above and the book value of derivative financial instruments as disclosed in note 14(e) of £915.9m reflect the unamortised element of swap restructure costs of £58.2m (2020: £54.4m) less the credit adjustment on the swap asset of £0.7m (2020: £1.6m).

Index-linked swaps

As at 31 March 2021, the Group held index-linked swaps with a notional principal of £1,000.4m (2020: £1,003.8m). These swaps enable mitigation of volatility from index-linked regulated revenues and interest rates on the pay leg of these swaps at 31 March 2021 ranged between 1.75% and 3.54% (2020: 1.48% and 3.25%). The maturity dates of these swaps range between November 2023 and November 2039 (2020: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,000.4m, £645.4m (2020: £648.8m) of these swaps have self-executing break dates and are phased as follows:

Calendar year of break clause	**31 March 2021 £m**	31 March 2020 £m
2020	**-**	3.4
2022	**3.4**	3.4
2024	**124.2**	124.2
2026	**136.0**	136.0
2027	**145.3**	145.3
2029	**105.9**	105.9
2030	**32.0**	32.0
2031	**23.6**	23.6
2032	**51.2**	51.2
2034	**15.8**	15.8
2036	**4.0**	4.0
2038	**4.0**	4.0
	645.4	648.8

The Group intends to continue to extend break dates well in advance of their due dates.

The remaining £355.0m (2020: £355.0m) of index-linked swaps do not have any such break clauses and mature in 2023, 2035 and 2039 (2020: 2023, 2035 and 2039).

14. Financial instruments and risk management (continued)

(f) Interest rate and index-linked derivative contracts ("swaps") (continued)

Index-linked swaps (continued)
During the year ended 31 March 2021, the Company restructured future accretion payment dates on £696.6m notional of RPI index-linked swaps to amend the payment profile from three yearly to six yearly.

Interest rate swaps
As at 31 March 2021, the Group held interest rate swaps with a notional principal of £180.4m (2020: £180.4m), which offset the floating LIBOR receive legs on the index-linked swaps. The interest rate on the pay legs of these swaps at 31 March 2021 is floating LIBOR (2020: floating LIBOR). The maturity dates of these swaps range between November 2023 and March 2030 (2020: between November 2023 and March 2030).

15. Capital commitments

Group and Company	31 March 2021 £m	31 March 2020 £m
Tangible fixed assets	**28.9**	74.8
Intangible fixed assets	**2.8**	10.5
Capital purchases contracted for but not provided for	**31.7**	85.3

In order to meet regulatory and service standards, the Group and Company has other longer term capital expenditure obligations within the regulated gas distribution business, which include investments to meet shortfalls in performance and condition, and to provide for new demands and growth.

The determination for the eight year regulatory period which commenced on 1 April 2013 and ended on 31 March 2021 included capital and replacement investment of £1,006.0m (in 2009/10 prices).

16. Leasing commitments

At 31 March 2021 and 31 March 2020 commitments in respect of total future minimum lease payments under non-cancellable operating leases were as follows:

Group and Company Land and buildings	31 March 2021 £m	31 March 2020 £m
Within one year	**0.1**	0.1
Between two and five years	**0.1**	0.1
After five years	**0.1**	0.1
	0.3	0.3

17. Provisions for liabilities

Group and Company

	Note	31 March 2021 £m	31 March 2020 £m
Insurance provision	(a)	**5.0**	4.1
Environmental and holder demolition provision	(b)	**15.9**	15.6
Wayleaves provision	(c)	**6.7**	6.7
Deferred tax	(d)	**260.1**	257.8
Other provisions – development claims	(e)	**6.2**	5.4
Other provisions – contract provisions	(e)	**11.7**	4.0
		305.6	293.6

(a) Insurance provision

Group and Company

	Note	31 March 2021 £m	31 March 2020 £m
At 1 April		**4.1**	2.4
Unwinding of discount	5 (b)	**0.2**	0.2
Charged in the year	3 (b)	**1.0**	1.6
Utilised in the year		**(0.3)**	(0.1)
At 31 March		**5.0**	4.1

The insurance provision is the estimate of liabilities in respect of past events incurred by the business. In accordance with insurance industry practice, these estimates were based on experience from previous years and there is, therefore, no identifiable payment date. The provision has been discounted to its estimated net present value using a long-term pre-tax WACC of 5.9% (2020: 5.9%). During the year ended 31 March 2021 following a review of historic costs incurred, an increase in the number of mesothelioma claims expected over future years gave rise to a £1.0m increase in the insurance provision (2020: £1.6m increase).

(b) Environmental and holder demolition provision

Group and Company

	Note	31 March 2021 £m	31 March 2020 £m
At 1 April		**15.6**	14.8
Unwinding of discount	5 (b)	**1.0**	1.0
Released in the year	3 (b)	**(0.5)**	-
Utilised in the year		**(0.2)**	(0.2)
At 31 March		**15.9**	15.6

The environmental and holder demolition provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. During 2021 the Group reassessed the provision as part of the preparation for RIIO-GD2, including a review of expected future cost and the timing of work, resulting in a £0.5m decrease in the provision (2020: £nil). The provision has been discounted to its estimated net present value using a long-term pre-tax WACC of 5.9% (2020: 5.9%). The anticipated timing of the cash flows for statutory decontamination is expected to be incurred over the period until 2050.

17. Provisions for liabilities (continued)

(c) Wayleaves provision
Group and Company

	Note	31 March 2021 £m	31 March 2020 £m
At 1 April		**6.7**	6.6
Unwinding of discount	5 (b)	**0.3**	0.3
Utilised in the year		**(0.3)**	(0.2)
At 31 March		**6.7**	6.7

The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves. The provision has been discounted to its estimated net present value using a long-term pre-tax WACC of 5.9% (2020: 5.9%). The provision is expected to be utilised over the period until 2037.

(d) Deferred tax
Group and Company

	Note	31 March 2021 £m	31 March 2020 £m
At 1 April		**257.8**	210.2
Charged to profit and loss account	6(a)	**15.2**	42.1
Charged to comprehensive income	25	**(12.9)**	5.5
Total net deferred tax liability at 31 March		**260.1**	257.8
Deferred tax liability analysed as follows:			
Accelerated capital allowances		**341.4**	342.8
Timing difference in respect of intangibles		**28.0**	29.0
Tax losses carried forward		**(31.0)**	(34.3)
Future tax relief on swap liabilities		**(70.8)**	(85.0)
Short-term timing differences on general provisions		**(2.8)**	(2.8)
Pension (liability)/asset		**(4.7)**	8.1
Total net deferred tax liability at 31 March		**260.1**	257.8

There are no expiry dates for any of the timing differences.

(e) Other provisions
Group and Company

	31 March 2021 £m	31 March 2020 £m
At 1 April	**9.4**	9.2
Charged in the year	**8.5**	1.2
Released in the year	**-**	(1.0)
Utilised in the year	**-**	-
At 31 March	**17.9**	9.4

Other provisions relate to potential claims from third parties and suppliers which include uncertainty in terms of timing and value of their ultimate settlement.

18. Called up share capital

	31 March 2021 £	31 March 2020 £
Authorised:		
30,675,000 Ordinary shares of £1 each	**30,675,000**	30,675,000
Allotted, called up and fully paid:		
30,675,000 Ordinary shares of £1 each	**30,675,000**	30,675,000

19. Net cash inflow from operating activities

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Continuing operations:		
Operating profit	**172.0**	222.9
Depreciation of tangible fixed assets	**73.9**	79.8
Amortisation of intangible fixed assets	**8.7**	10.7
Profit on disposal of fixed assets	**(3.6)**	(3.0)
One off item – restructuring provision	**12.4**	-
Net (increase) in stocks	**(0.2)**	(0.5)
Net (increase)/decrease in debtors	**4.0**	(8.9)
Net increase in creditors	**2.4**	12.0
Difference between pension charge and cash contributions	**(1.1)**	0.9
Movements in provisions for liabilities	**(0.8)**	1.1
Net cash inflow from operating activities	**267.7**	315.0

20. Net debt reconciliation

	At 1 April 2020 £m (Restated)	Cash flows £m	Finance leases £m	Other non-cash £m	At 31 March 2021 £m
Cash at bank	92.4	166.2	-	-	**258.6**
Cash on deposit	300.0	(125.0)	-	-	**175.0**
Guaranteed bonds	(1,452.0)	-	-	(2.6)	**(1,454.6)**
Less: accrual for index-linked bond accretion	34.2	-	-	1.7	**35.9**
Loans with affiliates	(654.6)	-	-	(6.0)	**(660.6)**
Bank loans	(359.7)	-	-	-	**(359.7)**
Other loans	(99.7)	-	-	-	**(99.7)**
Obligations under finance leases	(1.4)	-	0.2	-	**(1.2)**
	(2,140.8)	41.2	0.2	(6.9)	**(2,106.3)**

21. Analysis of changes in cash in the year

Group and Company	Note	31 March 2021 £m	31 March 2020 £m (Restated)
At 1 April	22	**92.4**	70.7
Net cash inflow	22	**166.2**	21.7
At 31 March	22	**258.6**	92.4

22. Analysis of cash and cash deposits

Group and Company	Note	31 March 2021 £m	31 March 2020 £m (Restated)	Change in year 31 March 2021 £m	Change in year 31 March 2020 £m (Restated)
Cash at bank	21	**258.6**	92.4	**166.2**	21.7
Cash on deposit		**175.0**	300.0	**(125.0)**	200.0

23. Reconciliation of net cash flow to decrease/(increase) in net debt

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m (Restated)
Increase in cash as per cash flow statement	**166.2**	21.7
Net transfers (from)/to deposit accounts	**(125.0)**	200.0
Obligations held under finance lease	**(0.2)**	(0.1)
Amortisation of debt issue costs and discount	**(0.7)**	(0.7)
Amortised cost of bonds - interest	**0.2**	0.2
Net bond debt issued proceeds	**-**	(328.4)
Net bond debt repaid/retired early	**-**	125.0
Loans with affiliates	**(6.0)**	(5.3)
Decrease in net debt	**34.5**	12.4
At 1 April	**(2,140.8)**	(2,153.2)
At 31 March	**(2,106.3)**	(2,140.8)

	Note	31 March 2021 £m	31 March 2020 £m
Borrowings	13	**(2,576.1)**	(2,567.4)
Less: accrual for inflation on index-linked bond	14(e)	**36.2**	34.2
Debt	20	**(2,539.9)**	(2,533.2)
Cash at bank and on deposit	21, 22	**433.6**	392.4
Net debt		**(2,106.3)**	(2,140.8)

24. Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or were outstanding at the end of the year.

The only transactions with directors during the year were payments of directors' remuneration, as disclosed in note 4(a) Directors emoluments and interests.

25. *Pension Scheme*

The Company operates one pension Scheme, the Wales & West Utilities Pension Scheme ("the Scheme"), which has defined benefit and defined contribution sections.

Defined benefit section
The Company operates a funded defined benefit pension Scheme. The Scheme funds are administered by Trustees and are independent of the Group's finances. Contributions are paid to the Scheme in accordance with the Schedule of Contributions agreed between the Trustees and the Group. The Scheme is a registered Scheme under the provision of Schedule 36 of the Finance Act 2004.

A full actuarial valuation as at 31 March 2019 was completed by Lane Clark & Peacock and showed a deficit on the technical provisions basis of £69m. The calculations carried out to produce the results of that valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities were measured using the projected unit method.

The next triennial valuation of the Scheme is due as at 31 March 2022.

The key FRS 102 assumptions used for the Scheme are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 102 liabilities and the net deficit of assets below the FRS 102 liabilities (which equals the gross pension liability).

Financial assumptions	**31 March 2021**	31 March 2020
Inflation assumption	**3.30% pa**	2.55% pa
Discount rate	**2.00% pa**	2.20% pa
Rate of increase in pensions in payment	**3.30% pa**	2.55% pa
Rate of increase in salaries	**4.05% pa**	3.30% pa
Mortality assumptions		
Life expectancy of a male aged 60	**26.6**	26.6
Life expectancy of a male currently age 40 from age 60	**28.4**	28.4

The assets in the Scheme (excluding the defined contribution section of the Scheme and the members' AVC funds) and the expected rates of return at 31 March 2021 and 31 March 2020 were:

Asset distribution	**% of Total**	**31 March 2021 Fair value £m**	% of Total	31 March 2020 Fair value £m
Equities	**-**	**-**	-	-
Government bonds	**10.6**	**59.1**	12.2	65.3
Direct lending	**12.1**	**68.0**	12.0	64.2
Property	**9.9**	**55.6**	10.3	55.2
Liability Driven Investment funds	**31.9**	**179.0**	32.0	171.0
Diversified Growth fund	**11.3**	**63.1**	10.1	54.1
Diversified Credit fund	**21.0**	**117.8**	20.6	110.2
Cash	**3.2**	**17.8**	2.8	14.5
Total market value of assets	**100.0**	**560.4**	100.0	534.5

25. Pension Scheme (continued)

The following amounts at 31 March 2021 and 31 March 2020 were measured in accordance with the requirements of FRS 102:

Balance sheet	**31 March 2021 £m**	31 March 2020 £m
Total market value of assets	**560.4**	534.5
Present value of Scheme liabilities	**(577.4)**	(492.1)
Net (deficit)/surplus in the Scheme	**(17.0)**	42.4

The Scheme is represented on the balance sheet at 31 March 2021 as a net deficit under FRS 102 of £17.0m (2020: £42.4m net surplus).

By reference to the Scheme Trust Deed and Rules, a surplus in the Scheme is considered recoverable by the Company. Accordingly, the Company therefore considers it appropriate to recognise an asset in respect of the Scheme where one arises. The deficit recognised at 31 March 2021 amounted to £17.0m (2020: £42.4m surplus).

During the year ended 31 March 2021, contributions by the Company of £17.1m (2020: £24.7m, which included £17.7m; £14.7m for 2019/20 and £3.0m on 27 March 2020 in advance for 2020/21 in respect of the agreed 15 year deficit recovery plan ending 31 March 2031), were made in respect of members of the defined benefit section. This includes £9.3m in respect of deficit reduction contributions.

Scheme expenses are met by the Company. The Company has set aside £1.1m outside of the Scheme for the year ended 31 March 2021 in order to meet the Scheme's administration expenses (2020: £1.5m). At 31 March 2021 there were no contributions due to the defined benefit section of the Scheme (2020: £nil).

It has been agreed that the ongoing employer contribution will be at a rate of 78.3% (2020: 56.3%) of pensionable salary plus an allowance for expenses. In addition, the Group agreed a 12 year deficit recovery plan following the 31 March 2019 actuarial valuation with contributions of £14.7m due for the year ended 31 March 2020, £9.0m per annum until 31 March 2023, £7.5m for the year ended 31 March 2024, £6.5m per annum until 31 March 2028 and £6.0m per annum until 31 March 2031.

The following amounts have been recognised in the consolidated financial statements for the year ended 31 March 2021 and the year ended 31 March 2020 under the requirements of FRS 102:

Profit and loss account	**Year ended 31 March 2021 £m**	Year ended 31 March 2020 £m
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**(6.5)**	(7.9)
Past service cost *	**(3.2)**	-
Total operating charge	**(9.7)**	(7.9)
Analysis of amounts charged to other finance costs:		
Net interest on the net defined liability (note 5(b))	**1.1**	0.2
Total pension expense	**(8.6)**	(7.7)

Pension costs of £11.8m shown in note 4(b) comprise £6.5m of current service cost, £0.2m of past service costs* and £5.1m of defined contribution costs (2020: £12.5m; £7.9m of current service cost and £4.6m of defined contribution costs).

25. Pension Scheme (continued)

*On 20 November 2020, the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the initial ruling. A high-level estimate of £0.2m has been determined to account for the impact of this ruling, this is recognised within the Past Service Cost in the Profit and loss account.

£3.0m of Past Service Cost for the year to 31 March 2021 is to reflect enhanced pension benefits available to members as part of a voluntary redundancy exercise and this cost has been classified as an exceptional item as part of the restructuring costs due to the material nature of the total restructuring costs.

The following amounts have been recognised within the statement of comprehensive income under FRS 102:

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Remeasurements recognised in comprehensive income/(expense)		
Return on Scheme's assets excluding interest income	**27.1**	1.9
Experience loss on obligation	**-**	(13.6)
Changes in demographic assumptions underlying the present value of the obligation	**(3.1)**	(4.2)
Changes in financial assumptions underlying the present value of the obligation	**(91.9)**	45.0
Actuarial (loss)/gain recognised in the statement of comprehensive income/(expense) – pre tax	**(67.9)**	29.1
Deferred tax credit/(charge) on actuarial loss/gain (note 17(d))	**12.9**	(5.5)
Actuarial (loss)/gain recognised in the statement of comprehensive income/(expense) - net	**(55.0)**	23.6

The Scheme is closed to new entrants and, under the method used to calculate pension costs in accordance with FRS 102, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

Changes in the present value of the defined benefit obligations are as follows:

	31 March 2021 £m	31 March 2020 £m
Opening defined benefit obligations	**492.1**	543.5
Past service cost – GMP equalisation	**3.2**	-
Current service cost	**6.5**	7.9
Interest cost	**10.5**	12.5
Employee contributions	**0.1**	0.2
Benefits paid	**(30.0)**	(44.8)
Actuarial loss from change in demographic assumptions	**3.1**	4.2
Actuarial loss/(gain) from change in financial assumptions	**91.9**	(45.0)
Actuarial loss from experience on scheme liabilities	**-**	13.6
Closing defined benefit obligations	**577.4**	492.1

At 31 March 2021, the weighted average duration of the defined benefit obligations was around 20 years (2020: 20 years).

25. Pension Scheme (continued)

Changes to the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation at the reporting date by the estimated amounts shown below:

Impact on the defined benefit obligation	31 March 2021	31 March 2020
Reducing the discount rate by 0.5%	**+ £62.3m**	+ £49.7m
Increasing the assumption for RPI inflation by 0.5%	**+ £56.6m**	+ £46.1m
Increasing the assumption for life expectancy by 1 year	**+ £21.4m**	+ £14.3m

Changes in the fair value of the Scheme assets are as follows:

	31 March 2021 £m	31 March 2020 £m
Opening fair value of Scheme assets	**534.5**	539.8
Expected return on assets	**11.6**	12.7
Employer contributions	**17.1**	24.7
Employee contributions	**0.1**	0.2
Benefits paid	**(30.0)**	(44.8)
Actual less expected return on assets	**27.1**	1.9
Closing fair value of Scheme assets	**560.4**	534.5

With effect from 31 July 2021, the Company agreed with affected members the closure of the defined benefit section of the WWU Pension Scheme to future accrual. This closure is expected to result in a one off curtailment gain. Such a gain has not been included in the results to 31 March 2021 and is expected to be recognised in the results for the year ended 31 March 2022.

Defined contribution scheme
The Group also operates a defined contribution section of the Scheme for staff. The employer paid £5.1m during the year ended 31 March 2021 (2020: £4.6m) in respect of defined contribution members.

26. Immediate and ultimate parent companies

The immediate parent company is Wales & West Utilities Holdings Limited (WWUH), a private company limited by shares and registered in England and Wales with registered number 07092596. WWUH is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The Company's ultimate parent Company is Wales & West Gas Networks (Holdings) Limited (UK), a private company limited by shares and registered in England and Wales with registered number 05095454. Wales & West Gas Networks (Holdings) Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements. Wales & West Gas Networks (Holdings) Limited, the Group, has no controlling party as it is immediately owned by consortium members. Copies of the annual consolidated financial statements of Wales & West Gas Network (Holdings) Limited and Wales & West Utilities Holdings Limited may be obtained from their registered office, The Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

The shares in the ultimate parent company, Wales & West Gas Networks (Holdings) Limited, are owned equally by West Gas Networks Limited and Western Gas Networks Limited. These two companies are ultimately owned by a consortium comprising CK Hutchison Holdings Limited ("CKH") (30%), CK Infrastructure Holdings Limited ("CKIH") (30%), Power Assets Holdings Limited (30%) and CK Asset Holdings Limited (10%). The 10% shareholding previously held by the Li Ka Shing Foundation was transferred to CK Asset Holdings Limited on 21 May 2021.

27. Related party transactions

a) Xoserve Limited

The Group owns 10% (2020: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid Group as owner of the gas transmission business in the UK. From 1 April 2017 the governance and control of Xoserve is reflective of the principles set out in Ofgem's Funding Governance and Ownership review. Whilst the Company will continue to own its 10% stake in Xoserve, its control of Xoserve will be diminished under this new arrangement.

Xoserve provides gas throughput (meter reading) and billing information to the Company which is used by the Company in setting its regulated gas distribution charges to gas transporters. The net cost to the Company of Xoserve providing these services (after a rebate from the sale of Correla) was £1.9m in respect of the year ended 31 March 2021 (2020: £2.3m), of which £0.1m was charged to capital (2020: £nil).

b) Seabank Power Limited

The Group provides Seabank Power Limited group ("Seabank Power") with an emergency callout, pipeline inspection and maintenance service. Seabank Power is 25% owned by Cheung Kong Infrastructure Holdings Limited (Hong Kong) and 25% owned by Power Assets Holdings Limited (Hong Kong). Both of these companies hold a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited. These services are provided on normal commercial terms. The income to the Group in respect of services to Seabank Power was £0.1m for the year ended 31 March 2021 (2020: £0.2m).

c) CK Hutchison Holdings Limited

CK Hutchison Holdings Limited is a company which holds a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited (UK). CK Hutchison Holdings Limited owns 75.67% of CK Infrastructure Holdings Limited, a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 March 2021 the Group was invoiced by Hutchison International Limited for the following services negotiated by CK Hutchison Holdings Limited.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.2m for the year ended 31 March 2021 (2020: £0.2m). The contract is for a 5 year period from 1 April 2016.

Microsoft EA Licencing agreement - cost to the Group £0.7m for the year ended 31 March 2021; of which £0.3m was charged to capital (2020: £0.8m of which £0.4m was charged to capital). The contract is for a 3 year period from 1 April 2018.

d) Loans from affiliated companies

On 27 March 2018, WWU issued £645.0m, net of fees of £0.2m, of loans to affiliates with a 20 year term expiring on 26 March 2038 to companies associated with the consortium which own the shares of West Gas Networks Limited and Western Gas Networks Limited (See note 26). The loan notes attract interest at LIBOR + 6.5% (2020: LIBOR + 6.5%). At 31 March 2021 the book value of these loans was £660.6m (2020: £654.6m).

During the year ended 31 March 2021, interest of £47.5m (2020: £49.8m) was charged on these loans. During the year ended 31 March 2021 no loan interest was paid to affiliates (2020: £40.0m). At 31 March 2021 £60.1m is accrued and is included in accruals (2020: £18.6m included in accruals).

The interests of the affiliates in the loan notes of the Company as at 31 March 2021 and at 31 March 2020 were:

Loan note holders	% share	Nominal value £m	31 March 2021 £m	31 March 2020 £m
Affiliated entity	**30%**	**193.5**	**198.2**	196.4
Affiliated entity	**30%**	**193.5**	**198.2**	196.4
Affiliated entity	**30%**	**193.5**	**198.2**	196.4
Affiliated entity	**10%**	**64.5**	**66.0**	65.4
	100%	**645.0**	**660.6**	654.6

28. Post Balance Sheet event

Defined Benefit Scheme closure

With effect from 31 July 2021, the Company agreed with affected members the closure of the defined benefit section of the WWU Pension Scheme to future accrual. This closure is expected to result in a one off curtailment gain. Such a gain has not been included in the results to 31 March 2021 and is expected to be recognised in the results for the year ended 31 March 2022.