Registered No. 05095454

Wales & West Gas Networks (Holdings) Limited

Annual report and consolidated financial statements
for the 15 month and 1 day period ended 31 March 2016

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Directors and advisors

Directors

Andrew Hunter	Chairman (R)
Graham Edwards	Chief Executive Officer (H)
Dominic Chan	(A, R, H, T)
Edmond Ip	
Hing Lam Kam	(R)
Duncan Macrae	(A, R, H, T)
Charles Tsai	(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 of Wales & West Utilities Limited
(R) Member of the Remuneration Committee of Wales & West Utilities Limited
(H) Member of the Health & Safety Committee of Wales & West Utilities Limited
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Strategic report

Strategy and objectives

Wales & West Gas Networks (Holdings) 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. This is achieved through the Company's indirect subsidiary Wales & West Utilities Limited ("WWU").

As a regulated business WWU is subject to price controls set by the Office of Gas and Electricity Markets ("Ofgem") which define its allowed revenues. The current eight year price control commenced on 1 April 2013 under Ofgem's new RIIO (Revenue = Incentives, Innovation and Outputs) principles (The RIIO-GD1 price control). This price control defined allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on WWU's investment in the gas infrastructure asset.

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

The Group reports financial and non-financial key performance indicators to the extent necessary for an understanding of the development, performance and position of the Group on pages 6 and 7.

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. The National Transmission System and four of the eight regional gas distribution networks are owned and operated by companies within the National Grid plc group.

The consolidated financial statements represent the Group's and Company's results for the 15 month and 1 day period ended 31 March 2016 ("period ended 31 March 2016") and comparative financial statements for the 364 day period ended 30 December 2014 ("period ended 30 December 2014").

The Group operates one of the independently owned regional gas distribution networks comprising the Wales and South West of England local distribution zones. Three other regional gas distribution networks are owned by independent operators. National Grid retained the remaining four regional gas distribution networks. Together these eight companies represent the large majority of the gas distribution network in Great Britain. The gas distribution business comprises the development, administration, maintenance and operation of the Company's gas distribution network and the supply of gas transportation services.

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

In addition to its gas distribution role, WWU also has obligations under its Gas Transporters' Llicence 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 WWU'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 WWU is regulated by Ofgem. Ofgem operates under the direction and governance of The Gas and Electricity Markets Authority ("The Regulator"), which makes all major decisions and sets policy priorities for Ofgem. The mechanism for regulation of WWU'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.

The business model (continued)

Regulatory environment (continued)

Under the current RIIO–GD1 price control, Ofgem has the ability to conduct a mid-period review. During the period ended 31 March 2016 Ofgem consulted on a mid-period review in respect of the gas distribution price control alongside other controls. The consultation resulted in Ofgem's decision document which was issued on 12 May 2016. In this decision document, Ofgem confirmed that it would not conduct a mid-period review over the operation of the RIIO-GD1 price control as it deemed the control was working appropriately. Ofgem however, did identify that some work was required to ensure effective output accountability by the Licensees, to fill in some gaps in the framework, and improve the operation of some of the mechanisms.

In maintaining the gas distribution network, WWU expects to operate within the revenue constraints placed on it by Ofgem as part of the price control settlement. It also anticipates earning incentive income through exceeding certain targets set by Ofgem as part of the RIIO-GD1 price control.

In addition to the revenues permitted by Ofgem, WWU earns other revenues, predominantly through gas meter work. WWU aims to continue undertaking this work, where it is of benefit to WWU. However, it is anticipated that revenue will reduce with the planned introduction of smart metering across the UK's population of domestic electricity and gas meters.

WWU submits Consolidated Regulatory Accounts, specified annual returns and a regulatory reporting pack to Ofgem annually, generally by the end of July following the 31 March regulatory year end.

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

Results and operating performance

The operating profit amounted to £149.7m for the 15 month and 1 day period ended 31 March 2016 (period ended 30 December 2014: £130.5m). After net interest of £97.0m (period ended 30 December 2014: £93.0m) the consolidated profit on ordinary activities before taxation for the 15 month and 1 day period ended 31 March 2016 amounted to £52.7m (period ended 30 December 2014: £37.5m). The consolidated profit attributable to shareholders amounted to £55.3m (period ended 30 December 2014: £38.2m).

The results of the Group for the 15 month and 1 day period ended 31 March 2016 are set out in the consolidated profit and loss account on page 16.

The trading subsidiary of the Wales & West Gas Networks (Holdings) Limited group is Wales & West Utilities Limited ("WWU").

WWU replaced 536kms of gas mains and undertook work on the related gas service pipes running from the gas mains to the properties of gas consumer's at a cost of £95.7m during the period ended 31 March 2016 (period ended 30 December 2014: 439kms at a cost of £74.5m). 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.

A further £1.6m (period ended 30 December 2014: £0.8m) was spent on Local Transmission System ("LTS") replacement projects.

Under Generally Accepted Accounting Practices in the United Kingdom these costs are charged as an operating cost.

In addition during the period ended 31 March 2016, WWU invested and capitalised £67.7m (period ended 30 December 2014: £55.9m), against which consumers contributed £11.6m (30 December 2014: £10.0m), on expanding and improving the regional gas distribution network.

The business model (continued)

Organisational restructure
An early retirement programme was announced by WWU on 15 October 2014 which was open to all staff who will reach 55 within three years of 30 December 2014. As a result the Company has offered early retirement to 58 people in December 2014 and accrued £4.0m for expected costs. During the period ended 31 March 2016 £1.4m of the accrual was utilised and £2.5m remains accrued for future pension strain liabilities within the consolidated financial statements at 31 March 2016 (30 December 2014: £3.9m).

Business review
The Group's operating performance over the past fifteen months has been satisfactory, with all standards of performance being achieved. In particular, external targets for mains abandoned and replaced were met, as were targets in response to reported possible gas escapes, both within one and two hour time frames. The standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met. Other targets include those relating to the achievement of Ofgem outputs and are measured and reported in Ofgem's RIIO-GD1 Annual Reports. In 2015/16 all Ofgem targets have been met by the Company (2014/15: All targets met). There were 2,497 complaints in the period ended 31 March 2016 (period ended 30 December 2014: 2,807). The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

There were two direct labour lost time injuries ("LTI") and one contract labour LTI during the period ended 31 March 2016 (period ended 30 December 2014: one LTI through WWU's contract partners).

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

Financial review
Basis of accounting
The consolidated financial statements present the Group's results for the 15 month and 1 day period ended 31 March 2016 and the financial position as at 31 March 2016. They have been prepared using the accounting policies shown on pages 20 to 22, in accordance with Generally Accepted Accounting Practices in the United Kingdom.

The financial year accounting reference dates have been amended from the financial year ending on 30 December 2015 to a 15 month and 1 day period ending on 31 March 2016; and thereafter, for each financial year, to 31 March.

There were no changes in accounting policies adopted during the period. The Company will transition from UK GAAP to Financial Reporting Standard ("FRS102") as issued by the Financial Reporting Council for the year ending 31 March 2017.

Segmental reporting
In addition to providing the overall results and financial position in the financial statements, the Group provides a breakdown of those results and balances into a number of different business segments as required by the Licence within the Consolidated Regulatory Accounts of Wales & West Utilities Limited prepared to 31 March every year.

Liquidity, resources and capital expenditure
Net cash inflow from operations for the period ended 31 March 2016 amounted to £206.1m (period ended 30 December 2014: £191.4m).

Investing activities absorbed net cash of £54.2m (period ended 30 December 2014: £44.9m) and net cash outflow from returns on investments and servicing of financing amounted to £216.7m (period ended 30 December 2014: £105.6m) which included a triennial swap accretion payment of £83.6m in March 2016.

Cashflow forecasting
Both short term and long term cashflow forecasts are produced periodically to support liquidity management.

The business model (continued)

Pension Scheme
At 31 March 2016 an FRS17 valuation of £77.2m deficit (period ended 30 December 2014: £71.0m deficit) less a deferred tax asset of £2.8m (period ended 30 December 2014: £nil) resulted in a charge to the statement of total recognised gains and losses of £16.5m (period ended 30 December 2014: £31.4m). The Group contributed £12.6m (period ended 30 December 2014: £10.1m) of deficit contributions in respect of the defined benefit pension deficit during the period ended 31 March 2016. Details of the movements in the pension Scheme are set out in note 28.

Shareholder deficit
Shareholder deficit at 31 March 2016 amounted to £412.6m (30 December 2014: deficit £401.6m) as a result of a retained profit of £52.7m (period ended 30 December 2014: £38.2m), an actuarial loss on the pension scheme of £16.5m net of deferred tax of £2.8m (period ended 30 December 2014: £31.4m) and ordinary dividends of £44.4m (period ended 30 December 2014: £43.5m).

Details of the ownership of the Group are included in note 19. There were no movements in the authorised and issued share capital of the Group during the period.

Borrowings and financing
Details of net borrowings of £1,628.0m (30 December 2014: £1,463.6m) are disclosed in notes 12 and 13 and gross borrowings of £1,621.8m (30 December 2014: £1,461.8m) in note 14. Net borrowings include index-linked bond accretion and unamortised discount and debt issues costs. Cash of £100m was placed on deposit from borrowings drawn in the period (30 December 2014: £nil).

Details of the Group's approach to financial risk management are set out in the Strategic report on page 8 and 9.

Details of the financial instruments (interest rate swaps and RPI index-linked swaps) entered into by the Group, with a fair value (net liability) of £757.0m (30 December 2014: £815.2m) are set out in note 15. These instruments are held off balance sheet within these consolidated financial statements as required under UK GAAP.

Wales & West Utilities Finance plc ("WWUF") was established as a wholly owned subsidiary of WWU. WWUF is the funding vehicle for raising funds to support the long term debt financing requirements of the Group.

At 31 March 2016, WWUF had in issue a series of bonds, all of which are listed on the London Stock Exchange. Details of these issuances are set out below:

Nominal value	Coupon	Class	Issue date	Redemption date
£250m	6.25%	A	10 July 2009	30 November 2021
£200m	5.125%	A	2 December 2009	2 December 2016
£300m	5.75%	A	31 March 2010	29 March 2030
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035
£115m	6.75%*	B	31 March 2010	17 December 2018/2036*
£250m	4.625%	A	4 November 2011	13 December 2023
£150m	5.00%	A	4 November 2011	7 March 2028

* Legal maturity of the bond is 2036; however, the bond can be redeemed at the Group's sole option in 2018. If not redeemed in December 2018, the coupon for the bond increases to 3 month LIBOR + 9.4%, therefore management intends to refinance these borrowings by 2018 and as a result borrowings are disclosed as maturing within less than five years.

All of the bonds are unconditionally and irrevocably guaranteed by WWU 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 WWU to the extent permitted by the Gas Act and its Gas Transporters' Licence.

The cumulative net proceeds of the issue of these bonds, of £1,347.5m, were lent by WWUF to WWU to repay its existing bank financing and to fund further capital investment.

Fixed assets
Freehold land and buildings are carried in the consolidated financial statements at depreciated historic cost of £16.0m (30 December 2014: £14.6m).

The business model (continued)

Fixed assets (continued)

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 Group's network was £67.7m (period ended 30 December 2014: £52.9m), offset by customer capital contributions towards the construction of fixed assets of £11.6m (period ended 30 December 2014: £10.0m) and net replacement expenditure charged to the profit and loss account was £97.3m for the period ended 31 March 2016 (period ended 30 December 2014: £75.3m). Fixed assets acquired on the acquisition of the Wales & West gas distribution business by the Company in June 2005 are included at fair value. The Company now considers this to be cost.

Contractual relationships

The Group has contractual relationships with many parties including directors, employees, suppliers and banking groups. The most significant in terms of their effect on the business of the Group is considered to be the relationship with Xoserve Limited, the sole company which provides gas throughput (meter reading) and billing information to the Group, 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 2016 (30 December 2014: £0.1m).

Future developments

The Group is a regulated gas distribution business owning and operating the principal Gas Distribution Network in Wales and the South West of England; The Directors do not envisage any material changes in the activity of the Group for the foreseeable future. Other than those matters referred to above, there were no significant developments within the Group that occurred during the financial period under review.

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.

Key performance indicators

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 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. WWU 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. WWU's 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 period ended 31 March 2016 amounted to £0.2m (period ended 30 December 2014: £0.2m).

The Group 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 WWU's website and are reported to Ofgem.

Strategic report (continued)

Key performance indicators (continued)

All regulatory standards of performance were achieved in the period ended 31 March 2016 and the preceding years as shown below.

Key operational performance measures were:

	Ofgem Target	**15 month period ended 31 March 2016**	364 day period ended 30 December 2014	Year ended 31 December 2013	Nine months ended 31 December 2012
Responding to gas escapes					
1 hour target for uncontrolled escapes	97.0%	**98.6%**	98.6%	98.1%	98.4%
2 hour target for controlled escapes	97.0%	**99.6%**	99.6%	99.4%	99.6%
Standards of performance					
Issuing quotations	90.0%	**99.2%**	98.9%	98.1%	99.2%
Offer dates for work start and finish	90.0%	**99.9%**	99.9%	99.9%	99.9%
Jobs completed on agreed dates	90.0%	**94.2%**	94.0%	95.1%	95.0%
Responding to complaints	90.0%	**99.8%**	99.9%	99.8%	99.7%
Customer complaints					
Number of complaints		**2,497**	2,807	2,453	1,647
Number of jobs undertaken		**282,972**	234,185	260,995	98,955
Percentage complaints		**0.9%**	1.2%	0.9%	1.7%
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 were operating costs and operating cash flows as shown below:

	15 month period ended 31 March 2016 £m	364 day period ended 30 December 2014 £m	Year ended 31 December 2013 £m	Nine months ended 31 December 2012 £m
Turnover	**510.9**	417.3	406.3	277.0
Operating costs	**(187.2)**	(146.9)	(147.9)	(102.2)
Replacement costs	**(97.3)**	(75.3)	(78.9)	(70.0)
Operating profit before exceptional items and depreciation	**226.4**	195.1	179.5	104.8
Profit/(loss) after tax	**55.3**	37.5	22.6	(35.3)
Operating cashflows after exceptional items	**206.1**	191.4	148.6	60.7

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks.

The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. Within the business, the risk management process continues to be based on assessments of operational (including safety), 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. Senior management are closely involved at critical stages in the review process, owning their respective risks in the corporate risk register maintained by the Internal Audit department and, where appropriate, individual directorate risk registers.

Principal risks and uncertainties (continued)
The key business risks facing the Group are set out below and have been identified from our risk management process as potentially having a material adverse effect on our business, financial condition, results of operations and reputation. They are managed within the business, but are not wholly within our control, and may still result in having a material adverse impact on the Group and its business activities, as may factors besides those listed.

Operational
- maintenance of the gas distribution network and security of supply,
- health, safety and environmental compliance,
- appropriate investment in the network asset, and
- meeting mains replacement targets.

Regulatory
- compliance with the Group's licence obligations and standards of service, and
- impact of future price controls determined by Ofgem, including the effect of incentive mechanisms.

Employee
- retention of key individuals or the ability to recruit people with the right experience and skills from the local community.

Finance and funding
- the ability to raise sufficient funds to finance its activities or such funds may be only available at higher cost.

The Group has a comprehensive approach to risk. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified above. In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Licence, standards of service and obligations with the Health and Safety Executive.

If more than one 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 internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes. 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 through the period end processes undertaken by the Group.

Financial risk management
The Group's operations and capital structure expose it to a variety of financial risks that include the, pension deficit, credit risk, liquidity risk, interest rate risk and inflation risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and related finance costs. The Group also uses derivative financial instruments to manage interest rate and inflation risk.

The directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. The policies set by the Board are implemented by the Group's finance department through the Treasury Committee.

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 has a considerable number of members who are either retired or have deferred benefits. Since 2005 new employees are entitled to enrol in to the defined contribution section of the Scheme.

There are risks of increasing 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 through the price control. Deficit repair costs in respect of service post 31 March 2013 and on-going service costs are funded out of the Total expenditure allowance ("Totex") through regulated revenue.

Commodity risk
The Group 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 WWU and gas stolen from the network. This risk is managed through appropriate commodity purchases in the forward market.

Principal risks and uncertainties (continued)

Financial risk management (continued)

Commodity risk (continued)

The total gross cost for the period ended 31 March 2016 was £6.6m (period ended 30 December 2014: £7.2m). The gas is purchased through contracts renewed annually and these contracts typically fixed the price of gas a day ahead of purchase. That price risk is allowed for under the RIIO-GD1 price control regime and treated as a cost pass through, therefore price risk is negligible. The volume risk is closely monitored and is not considered a material risk given the relatively stable flows of gas through the network and consequent consumption volumes.

Liquidity risk

The Group 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.

Credit risk

The Group 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.

The amount of credit given to Gas Shippers is governed by Uniform Network Code ("UNC") regulations and guidelines. This provides 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 Group Guarantees or by way of Prepayment.

The value at risk is monitored on a daily basis and is again regulated by UNC criteria allowing a maximum credit limit usage of 100% (30 December 2014: 100%) which, if exceeded, allows the Group to apply sanctions.

The Group's overall exposure is also monitored and approved having regard to the levels of exposure within each IGR category.

Credit risk also arises from cash at bank and through deposits with banks and other financial institutions. For banks and financial institutions, only independently rated parties with a minimum short term rating of A2 with Standards & Poor's, F2 with Fitch or P-2 with Moody's; and a minimum long term rating of A- with Standards & Poor's or Fitch, or A3 with Moody's are accepted.

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. The Group has a policy target for interest rate risk of a minimum of 85% fixed and a maximum of 15% floating.

Inflation risk

The Group's revenue base is exposed to the effects of changes in inflation, the Group has entered into RPI Index-linked swaps primarily to mitigate RPI volatility in revenue.

Corporate and social

Health, safety and environment

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 period ended 31 March 2016, there were two direct labour LTI's and one contract labour LTI (period ended 30 December 2014: one, contract labour LTI), giving a 12 month frequency rate of 0.07 LTI's/100,000 hours worked (period ended 30 December 2014: 0.00 LTIs/100,000 hours worked for direct labour).

The Group 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 2,000, a multi-million pound replacement programme and the Group's core role of managing the safe and secure delivery of gas; the safety challenge is significant. The Group meets this challenge by having a comprehensive management system designed and certified to standards such as ISO 55001 and ISO 14001, with a structured risk management process at its core.

Corporate and social (continued)

Health and Safety (continued)

The Group 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 Group's workforce that sees clear accountability resting with line management, employees and contract partners is a key element of the Group's successful record.

Environment

The Group 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 Group 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 Group going forward, and the Company is constantly looking for ways to minimise the environmental impact of its past, present and future activities.

The Group 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 Group's remediation programme has a main focus on managing environmental risk.

Social and community

The Group aims to be a socially responsible citizen in the region covered by its gas distribution network. The Group 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.

Gender diversity

The Group employed the following mix of staff as at 31 March 2016:-

Number	**Male**	**Female**	**Total**
Executive and directors	14	1	15
Senior managers	31	8	39
Other employees	1,101	211	1,312
Total employees	**1,146**	**220**	**1,366**

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

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 and values 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.

A comprehensive communications programme has been developed and is led by the Executive Team. The Executive Team comprises eight of the WWU internal department heads. During the period this ranged from a programme of interactive face to face colleague briefings by our Executive Team to individual team meetings supported by management infographics.

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation; colleague engagement surveys provide the Group with valuable information upon which to base future policy decisions. The overall engagement score from the annual engagement survey in March 2016 was 8.4 out of 10 (2015: 7.8 out of 10).

Corporate and social (continued)

Employment policies (continued)
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 and abilities and to the Group's operational requirements. Once employed, a career plan is developed 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 Colleague Well Being Strategy.

As part of our ongoing resourcing strategy we offered a voluntary early retirement programme to eligible staff during 2014. At 31 March 2016 the number of staff that had left on agreed terms were 34, with others due to leave on agreed dates during 2016 and 2017.

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.

The Group measures success in this area through employee retention. The Group had a staff turnover rate of 3.0% during the period ended 31 March 2016 (year ended 30 December 2014: 2.9%), this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average in UK industry during 2014 was 13.6%.

To maintain appropriate retention rates the Group has continued its focus on succession planning and talent management. This ensures that workers 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 and there are three purpose built in-house training centres for the apprentices to develop their practical and technical skills. Recruitment is on a targeted basis, ensuring that apprentices are recruited to areas of need.

The age profile of the industrial workforce is high and the Group will see a large number of leavers during the next five years and beyond. Our apprentice population has been recruited into the areas of "Emergency", "Mechanical Engineering" and "Electrical and Instrumentation"; in 2015 we extended our apprentice recruitment into the areas of "Build and Repair" and "Replacement". All our apprenticeships are in key areas where skills are not readily available in the external market and training times can be up to five years.

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. The number of apprentices employed since WWU started trading in 2005 is 119 (2014: 94), meaning that 16% (2014: 13%) of the industrial workforce has joined the Company via the WWU Apprenticeship Programme.

Since 2005 the Group 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.

By order of the Board

Paul Millar

P Millar
Company secretary
20 July 2016

Report of the directors

The directors have pleasure in presenting the annual report to the shareholders of the Wales & West Gas Networks (Holdings) Limited group ("the Group" or "the Company" as the context requires), together with the audited consolidated financial statements for the 15 month and 1 day period ended 31 March 2016 as presented on pages 16 to 46.

Principal activities
The Group is principally engaged in the management of gas transportation assets. The Group provides gas distribution and meter work services throughout Wales and the South West of England.

The purpose of the Company is to act as a holding company; it does not own any physical assets or have any employees.

The principal trading Company of the Group is Wales & West Utilities Limited ("WWU").

On 11 February 2015 the Company changed its accounting reference date to 31 March.

History and development
WWU 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. WWU 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 gas distribution network which it owns. Gas is transported on behalf of approximately 30 gas shippers through WWU's distribution pipelines to around 2.5 million consumers.

The Group is a privately owned Group. Details of the ownership of the Group are set out in note 19 to the consolidated financial statements.

Dividends on ordinary shares
The Board of Directors approved the payment of an interim dividend in respect of the period ended 31 March 2016 of 7.66 pence per £1 ordinary share, totalling £22.2m, which was paid in June 2015 (30 December 2014: 7.51 pence per £1 ordinary share, totalling £21.8m, which was paid in June 2014).

The Board of Directors approved the payment of a final dividend in respect of the period ended 31 March 2016 of 7.64 pence per £1 ordinary share, totalling £22.2m which was paid in December 2015 (30 December 2014: 7.48 pence per £1 ordinary share, totalling £21.7m which was paid in December 2014).

Subsequent to the balance sheet date The Board of Directors approved the payment of an interim dividend in respect of the period ended 30 June 2016 of 7.64 pence per £1 ordinary share, totalling £22.2m which was paid on 21 June 2016.

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

There were no changes in directors during the period under review and up to the date of signature of the annual report and consolidated financial statements, all directors served throughout the period.

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

Directors' service contracts and remuneration
Details of directors' remuneration are set out in note 3(a).

Directors' interests
There were no significant contracts subsisting during or at the end of the period 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 Group.

Contributions for political purposes
During the period ended 31 March 2016, there have been no political donations (period ended 30 December 2014: £nil).

Report of the directors (continued)

Going concern
The Group's 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 and the mitigants which address these risks are set out on pages 7 to 9. The financial position of the Group, its cash flows and liquidity position are set out on pages 4 and 5.

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 budget for 2016, its forecasts and medium term business plans from 2017 to 2021 including capital expenditure plans, and taking into account the risks faced by the business, the directors believe that the Group is well placed to manage its business risks successfully. The review included considering the cash flow implications of the plans and comparing these with the Group's and Company's cash resources and committed borrowing facilities and concluded that the Group and Company was in a position to meet its liabilities as they fall due.

Consolidated Regulatory Accounts
The Gas Transporters' Licence, under which Wales & West Utilities Limited operates, requires specific accounting statements to be published. Copies of the Consolidated Regulatory Accounts for the Wales & West Utilities Limited group for the regulatory year ending 31 March 2016 will be available from the Company secretary after 31 July 2016.

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.

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 their 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.

By order of the Board

Paul Millar

P Millar
Company secretary
20 July 2016

Directors' responsibilities statement

The directors are responsible for preparing the annual strategic report, report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and 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

P Millar
Company secretary
20 July 2016

Independent auditor's report to the members of Wales & West Gas Networks (Holdings) Limited

We have audited the financial statements of Wales & West Gas Networks (Holdings) Limited ("the financial statements") for the 15 month and 1 day period ended 31 March 2016 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Consolidated and Company reconciliation of movements in shareholders' (deficit)/funds, the Consolidated and Company balance sheets, the Consolidated cashflow statement, the principal accounting policies and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 March 2016 and of the Group's profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.

Nigel Thomas

Nigel Thomas (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom
28 July 2016

Consolidated profit and loss account for the 15 month and 1 day period ended 31 March 2016

Continuing operations	Note	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Turnover		**510.9**	417.3
Net operating costs	2(a)	**(361.2)**	(286.8)
Operating profit before replacement expenditure, exceptional items and depreciation		**323.7**	270.4
Replacement expenditure	2(a)	**(97.3)**	(75.3)
Exceptional items	2(b)	**(1.1)**	(2.8)
Depreciation	7	**75.6**	(61.8)
Operating profit		**149.7**	130.5
Operating profit	2	**149.7**	130.5
Interest receivable and similar income	4(a)	**32.3**	26.3
Interest payable and similar charges	4(b)	**(129.3)**	(119.3)
Profit on ordinary activities before taxation		**52.7**	37.5
Tax on profit on ordinary activities	5	**2.6**	0.7
Profit for the financial period attributable to ordinary shareholders	21	**55.3**	38.2

Consolidated statement of total recognised gains and losses for the 15 month and 1 day period ended 31 March 2016

	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Profit for the financial period	**55.3**	38.2
Actuarial loss on pension Scheme less deferred tax recognised on pension liability (note 28)	**(16.5)**	(31.4)
Total recognised gains relating to the period	**38.8**	6.8

There are no material differences between the profit on ordinary activities before taxation and the profit/(loss) for the financial period stated above and their historical cost equivalents.

Consolidated and Company reconciliation of movements in shareholders' (deficit)/funds for the 15 month and 1 day period ended 31 March 2016

Group	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Total recognised gains relating to the period	**38.8**	6.8
Ordinary dividends (note 6)	**(44.4)**	(43.5)
Net increase in shareholders' deficit	**(5.6)**	(36.7)
At 31 December/1 January	**(401.6)**	(364.9)
At 31 March/30 December	**(407.2)**	(401.6)

Company	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Total recognised gains relating to the period	**88.6**	66.9
Ordinary dividends (note 6)	**(44.4)**	(43.5)
Net increase in shareholders' funds	**44.2**	23.4
At 31 December/1 January	**595.2**	571.8
At 31 March/30 December	**639.4**	595.2

Balance sheets at 31 March 2016

	Note	Group 31 March 2016 £m	Group 30 December 2014 £m	Company 31 March 2016 £m	Company 30 December 2014 £m
Fixed assets					
Tangible assets	7	**1,346.5**	1,356.0	**-**	-
Investments	8	**0.1**	0.1	**-**	-
		1,346.6	1,356.1	**-**	-
Current assets					
Stocks	9	**3.4**	3.5	**-**	-
Debtors	10	**53.9**	44.6	**741.6**	695.7
Current asset investments	11	**100.0**	-	**-**	-
Cash at bank and in hand	25	**38.3**	42.4	**-**	-
		195.6	90.5	**741.6**	695.7
Current liabilities					
Creditors: amounts falling due within one year	12(a)	**(307.7)**	(115.7)	**(5.4)**	(3.7)
Net current (liabilities)/assets		**(112.1)**	(25.2)	**736.2**	692.0
Total assets less current (liabilities)/assets		**1,234.5**	1,330.9	**736.2**	692.0
Creditors: amounts falling due after more than one year	12(b)	**(1,535.2)**	(1,630.1)	**(96.8)**	-
Provisions for liabilities	18	**(32.1)**	(31.4)	**-**	-
Net (liabilities)/assets before pension liability		**(332.8)**	(330.6)	**639.4**	595.2
Pension liability, net of deferred tax asset	28	**(74.4)**	(71.0)	**-**	-
Net (liabilities)/assets including pension liability		**(407.2)**	(401.6)	**639.4**	595.2
Capital and reserves					
Called up share capital	19	**290.3**	290.3	**290.3**	290.3
Share premium account	20	**-**	-	**-**	-
Profit and loss account	21	**(697.5)**	(691.9)	**349.1**	304.9
Total shareholders' (deficit)/funds		**(407.2)**	(401.6)	**639.4**	595.2

The financial statements on pages 16 to 46 were approved by the Board of Directors and authorised for issue on 20 July 2016 and were signed on its behalf by:

Graham Edwards
Chief Executive Officer

Neil Henson
Director

Consolidated cashflow statement for the 15 month and 1 day period ended 31 March 2016

	Note	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Operating activities			
Net cash inflow from continuing operating activities	22	**206.1**	191.4
Net cash inflow from operating activities		**206.1**	191.4
Returns on investments and servicing of finance			
Dividends received		**0.4**	0.4
Interest received in respect of index-linked swap contracts		**14.4**	14.5
Interest received in respect of interest rate swaps		**6.5**	6.6
Interest received on current asset investments		**0.4**	-
Interest received - other		**0.3**	0.2
Interest paid in respect of index-linked swap contracts		**(1.2)**	(1.2)
Interest paid in respect of interest rate swaps		**(1.8)**	(1.8)
Interest paid - other external debt		**(101.1)**	(74.3)
Interest paid in respect of loan notes		**(6.8)**	(6.5)
Payments in respect of index-linked swap contracts		**(83.6)**	-
Dividends paid	6	**(44.2)**	(43.5)
Net cash outflow from returns on investments and servicing of finance		**(216.7)**	(105.6)
Taxation			
UK corporation tax received		**0.7**	0.5
Tax received		**0.7**	0.5
Investing activities			
Purchase of tangible fixed assets		**(67.7)**	(55.9)
Capital contributions towards the construction of a fixed assets		**11.6**	10.0
Proceeds of disposal of tangible fixed assets		**1.9**	1.0
Net cash outflow from investing activities		**(54.2)**	(44.9)
Net cash (outflow)/inflow before financing		**(64.1)**	41.4
Financing			
Debt issue costs	23	**-**	(0.2)
Debt drawn down	23	**160.0**	-
Cash transferred to current asset investment	25	**(100.0)**	-
Repayment of borrowings - revolver facilities	23	**-**	(40.0)
Net cash inflow/(outflow) from financing		**60.0**	(40.2)
Decrease/(increase) in cash at bank and in hand	24	**(4.1)**	1.2
Cash at bank-end in hand	24	**38.3**	42.4
Cash on term deposit	11,25	**100.0**	-
Total cash and cash deposits	25	**138.3**	42.4

Principal accounting policies

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom and comply with the Companies Act 2006. A summary of the principal Group accounting policies, which have been consistently applied in both the current period and the prior year, is shown below.

On 11 February 2015 the Company changed its accounting reference date to 31 March.

For the period commencing 1 April 2016 the Group will present its consolidated financial statements under Financial Reporting Standard 102 ("FRS102") as issued by the Financial Reporting Council and comparative balances will be restated accordingly.

Changes in accounting policy
There have been no changes in accounting policy during the current period.

Basis of accounting
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 and in respect of the valuation of pension assets and liabilities.

Going concern
The directors are satisfied that the Group and Company has 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 13.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Uniform accounting policies have been adopted across the Group.

Turnover
Turnover represents the sales value derived from the distribution of gas together with the sales value derived from the provision of other services to customers during the period. Turnover is billed monthly and excludes value added tax within the UK.

Turnover from the distribution of gas is partially derived from the value of units supplied during the period and includes an estimate of the value of units supplied between the date of the last meter reading and the period end and from the capacity requested by shippers. No liability is recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and reductions will be made to future prices to reflect any over-recovery.

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 capacity of existing tangible fixed assets. Customer contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and amortised on a straight line basis to the profit and loss account over the estimated economic lives of the 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.

Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, shown below:

Principal accounting policies (continued)

Tangible fixed assets and depreciation (continued)

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

All assets are depreciated on a straight line basis.

Following a review of asset lives acquired at business acquisition from National Grid in 2005 the useful economic life of certain infrastructure assets has been increased but remains within the range stated above.

Replacement expenditure represents the costs of planned maintenance of mains and services assets by replacing or lining sections of pipe. This expenditure is principally undertaken to repair and to maintain the safety of the network and is therefore expensed as incurred. Expenditure which enhances the performance of the mains and services assets is treated as an addition to tangible fixed assets.

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 net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the net amount that can be generated through sale of the assets. 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, or where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the profit and loss account.

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 in the year to which they relate.

Grants, customer contributions and infrastructure charges

Grants, customer contributions 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.

Stocks

Stocks are stated at the lower of cost and net realisable value which takes account of any provision necessary to recognise damage and obsolescence.

Financial 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.

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.

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 include 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. Amounts payable or receivable in respect of interest rate swaps and index-linked swaps are recognised in the profit and loss account within net interest over the economic lives of the agreements or underlying position being hedged.

Pension costs
The Group operates one pension Scheme with defined contribution and defined benefit pension sections.

The pension costs in respect of the defined contribution section of the pension Scheme comprise contributions payable in respect of the period.

The assets of the defined benefit section of the pension 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 period is charged to operating profit. The net of the expected return on the scheme's assets and the increase during the period in the present value of the Scheme's liabilities, arising from the passage of time, are included in other finance income or costs, as appropriate.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

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.

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.

A net deferred tax asset is regarded as recoverable and therefore 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.

Deferred tax balances are not discounted.

Exceptional items
These are items of an unusual or non-recurring nature incurred by the Group and include restructuring costs and provision and accrual charges or credits taken through the profit and loss account.

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 financial statements. The profit after taxation, but before dividends, for the period dealt with in the financial statements of the Company was £88.6m (period ended 30 December 2014: £66.9m). The amount transferred to reserves was £44.2m (period ended 30 December 2014: £23.4m).

2. Operating profit

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

	Note	**Period ended 31 March 2016 £m**	Period ended 30 December 2014 £m
Continuing operations:			
Staff costs	3(b)	**96.9**	74.0
Own work capitalised		**(23.0)**	(16.6)
Depreciation: Own assets	7	**75.6**	61.8
Less amortisation of customer contributions		**(3.1)**	(2.5)
Less amortised grants		**(0.1)**	(0.1)
Profit on disposal of fixed assets		**(1.3)**	(0.6)
Replacement expenditure		**97.3**	75.3
Rentals under operating leases:			
Hire of plant and equipment		**3.0**	2.4
Other		**0.7**	0.6
Exceptional items ~ restructuring costs	2(b)i	**-**	4.1
Exceptional items ~ net increase/(decrease) in provisions	2(b)ii,18	**1.6**	(2.0)
Exceptional items ~ holiday pay on overtime	2(b)iii,	**(0.5)**	0.7

Own work capitalised includes direct labour and ancillary costs.

(b) Exceptional items

The exceptional items relate to:

i) an early retirement programme was announced by WWU on 15 October 2014 which was open to all staff who will be over 55 within less than three years of 30 December 2014. As a result WWU has offered early retirement to 58 people and £4.0m was accrued within the consolidated financial statements as an exceptional item for the period ended 30 December 2014. At 31 March 2016, 34 people had left under the early retirement programme and £2.5m remains accrued for future pension strain liabilities (30 December 2014: £3.9m).

i) A further £0.1m was incurred during the period ended 30 December 2014 in respect of an organisational restructure which commenced in December 2012.

ii) the environmental and holder demolition provision. A review of costs incurred and the timing of work done up to the period ended 31 March 2016, gave rise to a £1.6m increase in the provision following the identification of a new site (note 18) (period ended 30 December 2014: decrease in the provision of £2.0m).

iii) holiday pay due on overtime and other elements of variable pay following an EU ruling in 2014. WWU accrued £0.7m in respect of a potential claim from employees at 30 December 2014, the actual amount paid was £0.2m resulting in an accrual release of £0.5m during the period ended 31 March 2016. At 31 Mach 2016 £nil was accrued as an exceptional costs for holiday pay on overtime (30 December 2014: £0.7m).

2. Operating profit (continued)

(c) Auditor remuneration
Services provided by the Group's auditor

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

	Period ended 31 March 2016 £000	Period ended 30 December 2014 £000
Fees payable to the Company's auditor for the audit of parent entity and the consolidated financial statements	**5.0**	5.0
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**74.4**	72.5
Assurance services related to group reporting	**72.6**	40.5
Assurance services related to regulatory reporting	**67.7**	72.8
Other assurance services	**22.9**	21.9
Tax compliance services	**45.3**	88.9
Tax advisory services	**195.3**	235.2
	483.2	536.8

	Period ended 31 March 2016 £000	Period ended 30 December 2014 £000
Fees in respect of the pension scheme:		
Audit of pension scheme	**15.9**	15.9

Audit and tax fees were paid by Wales & West Utilities Limited, a group company.

3. *Directors and employees*

(a) Directors' emoluments and interests

	Period ended 31 March 2016 £000	Period ended 30 December 2014 £000
Fees	**106.3**	76.8
Salary payments (including benefits in kind)	**541.9**	415.0
Performance related bonus (see below)	**428.8**	399.3
Pension contributions	**26.9**	23.7
Contributions in lieu of pension	**128.1**	98.8
	1,232.0	1,013.6

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

Performance related bonuses in respect of service by the directors for the year will be payable. Bonuses are payable subject to the achievement of certain targets. These include safety, standards of service, customer satisfaction and financial.

The amount disclosed in respect of the period ended 31 March 2016 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2015. 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 period/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 period in which the award arose.

The performance bonus is conditional on the director remaining in office on the payment date.

No director had any interest over shares in the Company.

Six of the directors receive no remuneration from the Company. These directors are employees of the parent companies they represent and are remunerated by them in their operational country.

Highest paid director:

	Period ended 31 March 2016 £000	Period ended 30 December 2014 £000
Salary payments (including benefits in kind)	**541.9**	415.0
Performance related bonus (see below)	**428.8**	399.3
Pension contributions	**26.9**	23.7
Contributions in lieu of pension	**128.1**	98.8
	1,125.7	936.8
Accrued company pension (Defined contribution)	**139.9**	79.9

3. Directors and employees (continued)

(b) Staff costs	**Period ended 31 March 2016 £m**	Period ended 30 December 2014 £m
Wages and salaries	**73.1**	56.1
Social security costs	**7.7**	5.8
Pension costs (note 28)	**16.1**	12.1
	96.9	74.0

Of the above, £17.7m (period ended 30 December 2014: £13.1m) has been capitalised. Redundancy costs of £nil (period ended 30 December 2014: £0.2m) were paid through payroll and included within restructuring costs disclosed within exceptional items in note 2b(i).

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

	Period ended 31 March 2016 Number	Period ended 30 December 2014 Number
Regulated gas distribution activities	**1,335**	1,319
Other activities	**2**	2
	1,337	1,321

4. Interest

(a) Interest receivable and similar income	**Period ended 31 March 2016 £m**	Period ended 30 December 2014 £m
Income from fixed asset investments	**0.4**	0.4
On index-linked swaps	**17.6**	14.5
On interest rate swaps	**8.1**	6.6
On current asset investments	**0.6**	-
Other interest receivable	**0.8**	0.2
Other finance income – net pensions (note 28)	**4.8**	4.6
	32.3	26.3

(b) Interest payable and similar charges	**Period ended 31 March 2016 £m**	Period ended 30 December 2014 £m
On external debt	**94.2**	75.3
On index-linked derivative contracts – inflation accrual	**16.8**	30.5
On loans from parent undertakings	**8.3**	6.5
On index-linked swaps	**1.8**	1.2
On interest rate swaps	**2.2**	1.8
Amortised issue costs and discount	**2.7**	2.1
On unwinding of discounts and change in discount rate on provisions (note 18)	**3.2**	1.7
Other	**0.4**	0.2
	129.3	119.3

5. Tax on profit on ordinary activities

(a) Analysis of credit in the period	**Period ended 31 March 2016**	Period ended 30 December 2014
Taxation is made up as follows:	**£m**	£m
Current taxation		
UK corporation tax on profit of the period	-	-
Adjustments in respect of prior periods	-	(0.7)
Total current tax (note 5(b))	-	(0.7)
Deferred tax		
Origination and reversal of timing differences	**(2.6)**	-
Total deferred tax	**(2.6)**	-
Total tax on profit on ordinary activities	**(2.6)**	(0.7)

The £2.6m deferred tax credit is in respect of tax relief to be claimed in the next accounting period to 31 March 2017 largely in relation to capital allowances on plant expenditure prior to 31 March 2016 (period ended 30 December 2014: £nil)

(b) Factors affecting the current tax for the period
The current tax assessed for the period is different to the weighted average rate of corporation tax in the UK of 20.2% (30 December 2014: 21.5%). The differences are explained below:

	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Profit on ordinary activities before tax	**52.7**	37.5
Profit on ordinary activities before tax multiplied by the weighted average rate of corporation tax in the UK of 20.2% (30 December 2014: 21.5%)	**10.6**	8.0
Effects of:		
Adjustments in respect of prior periods	-	(0.1)
Prior period adjustment in respect of land remediation relief	-	(0.6)
Tax effect of expenses that are not deductible in determining taxable profit/(loss)	**6.6**	5.7
Non taxable income	**(0.1)**	(0.1)
Utilisation of tax losses	**(10.6)**	(8.1)
Accelerated capital allowances	**(4.1)**	(3.6)
Short term timing differences	**0.6**	0.8
Short term timing differences in respect of pension scheme	**(2.8)**	(2.7)
Current tax credit for the period (note 5(a))	-	(0.7)

A deferred tax asset has not been recognised in respect of tax losses with a tax value of £12.8m (30 December 2014: accelerated capital allowances and tax losses of £24.8m) as there is insufficient evidence that the asset will be recoverable.

As announced at Budget 2016, the corporation tax main rate will be reduced by an additional 1% for the Financial Year beginning 1 April 2020. Legislation in Finance Bill 2016 will set the rate at 17%, replacing the rate set for Financial Year 2020 in the Finance (No. 2) Act 2015. This change in the corporation tax rate will not materially affect the future tax charge.

6. Dividends on equity shares

	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Interim dividend in respect of the period ended 31 March 2016, 7.66 pence per £1 ordinary share (2014: 7.51 pence per £1 ordinary share)	**22.2**	21.8
Final dividend in respect of the period ended 31 March 2016, 7.64 pence per £1 ordinary share (2014: 7.48 pence per £1 ordinary share)	**22.2**	21.7
Total dividends paid	**44.4**	43.5

Subsequent to the balance sheet date on 21 June 2016 the Company paid an interim dividend of £22.2m equivalent to 7.64pence per ordinary share, split equally to West Gas Networks Limited and Western Gas Networks Limited.

7. Tangible fixed assets

Group	**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 31 December 2014	15.4	5.8	1,775.9	171.4	14.9	**1,983.4**
Additions	-	-	-	-	68.0	**68.0**
Disposals	-	-	(10.9)	(4.9)	-	**(15.8)**
Transfers in period	1.9	0.4	41.0	18.4	(61.7)	**-**
At 31 March 2016	**17.3**	**6.2**	**1,806.0**	**184.9**	**21.2**	**2,035.6**
Accumulated depreciation						
At 31 December 2014	0.8	3.6	516.4	106.6	-	**627.4**
Charge for the period	0.5	0.3	53.2	21.6	-	**75.6**
Disposals	-	-	(9.1)	(4.8)	-	**(13.9)**
At 31 March 2016	**1.3**	**3.9**	**560.5**	**123.4**	-	**689.1**
Net book amount						
At 31 March 2016	**16.0**	**2.3**	**1,245.5**	**61.5**	**21.2**	**1,346.5**
At 30 December 2014	14.6	2.2	1,259.5	64.8	14.9	1,356.0

Company

The Company had no tangible fixed assets at 31 March 2016 or at 30 December 2014.

8. *Fixed asset investments*

Group	Unlisted investments £m
Cost	
At 31 March 2016 and 30 December 2014	0.1
Amounts written off	
At 31 March 2016 and 30 December 2014	-
Net book amount	
At 31 March 2016 and 30 December 2014	**0.1**

The unlisted fixed asset investment of £0.1m (30 December 2014: £0.1m) represents the Group's shareholding in Xoserve Limited. The Group's shareholding represents 10% (30 December 2014: 10%) of the issued share capital of Xoserve Limited.

Company

	Interests in Group undertakings £m
Cost	
At 31 March 2016 and 30 December 2014	-
Amounts written off	
At 31 March 2016 and 30 December 2014	-
Net book value	
At 31 March 2016 and 30 December 2014	-

The Company's direct subsidiary is Wales & West Gas Networks (Junior Finance) Limited and comprises 2 shares of £1 each. The Company owns the entire issued share capital of Wales & West Gas Networks (Junior Finance) Limited.

The Company's principal indirect subsidiary undertakings are Wales & West Utilities Limited and Wales & West Utilities Finance plc; both companies are incorporated in England & Wales. The Group is the beneficial holder of 100% of the issued share capital of Wales & West Utilities Limited and Wales & West Utilities Finance plc.

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

9. Stocks

Group	31 March 2016 £m	30 December 2014 £m
Raw materials and consumables	**3.4**	3.5

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

Company
The Company had no stock at 31 March 2016 or at 30 December 2014.

10. Debtors

	Group 31 March 2016 £m	Group 30 December 2014 £m	Company 31 March 2016 £m	Company 30 December 2014 £m
Amounts falling due within one year:				
Trade debtors	**39.4**	39.8	-	-
Amounts owed by Group undertakings	-	-	**741.6**	695.7
Prepayments and accrued income	**11.9**	4.2	-	-
Deferred tax asset (note 5a)	**2.6**	-	-	-
Corporation tax recoverable	-	0.6	-	-
	53.9	44.6	**741.6**	695.7

11. Current asset investments

	Group 31 March 2016 £m	Group 30 December 2014 £m	Company 31 March 2016 £m	Company 30 December 2014 £m
Cash held on term deposit	**100.0**	-	-	-

The cash held on term deposit is due to mature on 22 August 2016. The term deposits are interest bearing held with approved "A" rated counter-party banks.

12. Creditors

	Note	Group 31 March 2016 £m	Group 30 December 2014 £m	Company 31 March 2016 £m	Company 30 December 2014 £m
(a) Amounts falling due within one year:					
Borrowings	13(b)	**199.7**	-	-	-
Payments received on account		**12.5**	8.9	-	-
Trade creditors		**5.4**	9.0	-	-
Other taxation and social security		**10.0**	12.1	-	-
Other creditors		**4.6**	2.4	-	-
Customer contributions towards the construction of fixed assets		**2.1**	2.5	-	-
Accruals and deferred income		**67.9**	77.0	-	-
Capital grant		**0.1**	0.1	-	-
Amounts due to parent undertakings	29	**5.4**	3.7	**5.4**	3.7
		307.7	115.7	**5.4**	3.7
(b) Amounts falling due after more than one year:					
Loan notes	13(a,b)	**96.8**	96.8	**96.8**	96.8
Borrowings	13(b)	**1,331.5**	1,366.8	-	-
Liability for index-linked swap contracts		-	66.8	-	-
Trade creditors		**0.2**	0.3	-	-
Capital grant		**0.6**	0.8	-	-
Customer capital contributions toward the construction of fixed assets		**106.1**	98.6	-	-
		1,535.2	1,630.1	**96.8**	96.8

13. Borrowings

Company

(a) Loan notes
Loan notes amounting to £96,757,500 at 31 March 2016 were in issue to the Company's shareholders and are listed on the Channel Islands Stock Exchange.

The notes are unsecured, bear interest at LIBOR plus 6 per cent, and are repayable in 2024.

Group

(b) Other borrowings
The maturity profile of the book value of the Group's other borrowings is:-

	Group 31 March 2016 £m	30 December 2014 £m
Repayable as follows:		
In less than one year	**199.7**	-
In more than one year but not more than two years	**-**	198.9
In more than two years but not more than five years	**113.5**	113.0
In more than five years	**1,218.0**	1,054.9
	1,531.2	1,366.8

(i) At 31 March 2016 Wales & West Utilities Finance plc had in issue guaranteed bonds with a nominal value of £1,365.0m (30 December 2014: £1,365.0m) and a book value of £1,371.9m (30 December 2014: £1,367.8m). Included in the book value is £19.7m (30 December 2014: £18.0m) of accrued inflation on index-linked bonds. The guaranteed bonds had legal maturities ranging between December 2016 and December 2036, as outlined in the following table:

Nominal value	Coupon	Class	Issue date	Redemption date	Book amount
£250m	6.25%	A	10 July 2009	30 November 2021	£248.3m
£200m	5.125%	A	2 December 2009	2 December 2016	£199.7m
£300m	5.75%	A	31 March 2010	29 March 2030	£294.5m
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035	£119.2m
£115m	6.75%*	B	31 March 2010	17 December 2018/2036*	£114.1m
£250m	4.625%	A	4 November 2011	13 December 2023	£248.2m
£150m	5.00%	A	4 November 2011	7 March 2028	£147.9m
£1,365m					£1,371.9m

* Legal maturity of the bond is 2036; however, the bond can be redeemed at the Group's sole option in 2018. If not redeemed in December 2018, the coupon for the bond increases to 3 month LIBOR + 9.4%, therefore management intends to refinance these borrowings by 2018 and as a result borrowings are disclosed as maturing within less than five years.

All of the bonds are unconditionally and irrevocably guaranteed by Wales & West Utilities Limited ("WWU") 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 WWU to the extent permitted by the Gas Act and its Gas Transporters' Licence.

13. Borrowings (continued)

(b) Other borrowings (continued)

(i) On 4 December 2014, WWU signed a £160m European Investment Bank ("EIB") term loan capex facility of which £60m is due for repayment on 31 March 2026 and £100m is due for repayment on 31 March 2027. The book value at 31 March 2016 of £159.9m represents), a draw-down of £100m and £60m on 21 August 2015 less unamortised debt fees of £0.1m (30 December 2014: £0.2m debit – unamortised fees). The interest rate on this loan is determined when the facility is calculated on a LIBOR + spread basis. The interest rates at 31 March 2016 on the amounts drawn down of £60m and £100m were 1.182% and 1.179% respectively.

(ii) At 31 March 2016, the Group had borrowed £nil (30 December 2014: £nil) under its revolving credit facilities which mature in December 2018, with a book value at 31 March 2016 of £0.6m debit representing unamortised credit facility fees (30 December 2014: £0.8m debit). The floating interest rates on drawings under these facilities ranged from LIBOR + 0.60% to LIBOR + 1.65%. (30 December 2014: ranged from LIBOR + 0.60% to LIBOR + 1.65%).

14. Gross borrowings

	31 March 2016 £m	30 December 2014 £m
Gross value of other loans	**1,525.0**	1,365.0
Loan notes	**96.8**	96.8
	1,621.8	1,461.8

The maturity profile of the Group's gross borrowings was as follows:

	31 March 2016 £m	30 December 2014 £m
In less than one year	**200.0**	-
In more than one year but not more than two years	-	200.0
In more than two years but not more than five years	**115.0**	115.0
In more than five years	**1,306.8**	1,146.8
	1,621.8	1,461.8

The difference between the gross value of loans as disclosed above and net borrowings as disclosed in notes 12 and 13 reflect the unamortised element of the debt arrangement fees and issue discount of £13.5m (30 December 2014: £16.2m) and the accrued inflation on the index-linked bond of £19.7m (30 December 2014: £18.0m).

15. Financial instruments and risk management

Group

(a) Interest rate and index-linked swaps

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 primarily to mitigate the impact of volatility from the index-linked regulated revenues which the Company/Group receives as part of its license obligation under the price control settlement.

Interest rate swaps

As at 31 March 2016, the Group held interest rate swaps with a notional principal of £234.4m (30 December 2014: £234.4m), 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 2016 is floating LIBOR (30 December 2014: floating LIBOR). The maturity dates of these swaps range between November 2018 and March 2030 (30 December 2014: between November 2018 and March 2030).

As at 31 March 2016, the Group also held an interest rate swap with a notional principal of £40.0m (30 December 2014: £40.0m) which fixes the interest rate of floating liabilities held by the Group. The interest rate on this swap at 31 March 2016 was 5.19% (30 December 2014: 5.19%). The maturity date of this swap is in November 2018 (30 December 2014: November 2018).

Index-linked swaps

As at 31 March 2016 the Group held index-linked swaps with a notional principal of £1,003.8m (30 December 2014: £1,003.8m). These swaps enable mitigation of volatility from index-linked regulated revenues and interest r4eats on the pay leg of these swaps at 31 March 2016 ranged between 0.87% and 2.23% (fixed) plus RPI (30 December 2014: 0.87% and 2.23% (fixed) plus RPI). The maturity dates of these swaps range between November 2023 and November 2039 (30 December 2014: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,003.8m, £700.0m (30 December 2014: £700.0m) of these swaps have self-executing break dates and are phased over time with £140.0m notional breaking every two years from 2020 to 2028 (30 December 2014: £140.0m notional breaking every two years from 2020 to 2026) except in 2025 when £23.6m is subject to break clause and 2028 when £116.4m is subject to break clause. The Group intends to continue to extend break dates well in advance of the due dates. The remaining £303.8m (30 December 2014: £303.8m) of index-linked swaps do not have any such break clauses.

Company

The Company had no index-linked or interest rate swap arrangements at 31 March 2016 or at 30 December 2014.

(b) Interest rate composition of gross borrowings

After taking account of the interest rate swaps entered into by the Group, the fixed and floating interest rate profile of the Group's gross borrowings, was:

	31 March 2016 £m	30 December 2014 £m
Fixed rate	**261.0**	261.0
Fixed real rate	**1,104.0**	1,104.0
Floating rate	**256.8**	96.8
Total	**1,621.8**	1,461.8

15. Financial instruments and risk management (continued)

(b) Interest rate composition of gross borrowings (continued)

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (30 December 2014: £100.0m) and £1,004.0m of nominal fixed rate borrowings (30 December 2014: £1,004.0m) 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 the interest rate swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 March 2016 and 30 December 2014, 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	
		31 March 2016	30 December 2014	**31 March 2016**	30 December 2014
Currency		**%**	%	**Years**	Years
Sterling:	Fixed rate	**4.84**	4.84	**9.7**	10.9
	Fixed real rate	**3.75**	3.64	**8.2**	9.5

The fixed real rates exclude the indexation charge applicable to the index-linked bonds and index-linked swaps. The index-linked swaps fix the real interest rate cost. The index-linked swap arrangements fix the real interest rate cost and create an index-linked nominal pay leg which mitigates RPI volatility from index-linked regulated revenues. The variable inflation is charged to interest payable and is accrued during the period.

(d) Maturity profile of financial instruments

			Weighted average period until maturity	
	31 March 2016	30 December 2014	**31 March 2016**	30 December 2014
	£m	£m	**Years**	Years
Accrual for inflation on index-linked swap contracts	**-**	66.8	**-**	1.3
Accrual for inflation on index-linked bonds	**19.7**	18.0	**19.4**	20.7
	19.7	84.8		

The accrual for inflation on index-linked swap contracts represents the accrued inflation on the notional amount of those instruments. At 31 March 2016 the accrued inflation on all index-linked swaps held by the Group was £nil (30 December 2014: £66.8m); due to the payment on 31 March 2016 of £83.6m in respect of the period from 1 April 2013 to 31 March 2016. The contracted payment date for accrued inflation on index-linked swaps for the three year period ended 31 March 2019 is 31 March 2019 (30 December 2014: three year period ended 31 March 2016 was 31 March 2016.

The index-linked bond liability represents the accrued inflation and is repayable at maturity in August 2035.

15. Financial instruments and risk management (continued)

(e) Borrowing facilities

Undrawn committed borrowing facilities were:

	31 March 2016 £m	30 December 2014 £m
Committed borrowing facilities	**310.0**	310.0
Drawn	**(160.0)**	-
Undrawn committed facilities	**150.0**	310.0

The £150m of undrawn facilities at 31 March 2016 comprised revolver facilities for £150m (30 December 2014: £150m revolver facilities and £160m EIB term loan capex facility). In addition there are standby liquidity facilities of £90.0m (30 December 2014: £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.

(f) Fair values of financial instruments

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and in hand and bank loans approximates to book values due to the short maturity of these instruments after reflecting £0.7m (30 December 2014: £1.0m) of unamortised debt fees.

The loan notes were listed on the Channel Islands Stock Exchange on 27 January 2011. As the loan notes have not traded, the fair value at 31 March 2016 is deemed to be the issue price of £96.8m (30 December 2014: £96.8m).

All of the guaranteed bonds are listed on the London Stock Exchange. The fair value of the guaranteed bonds has been calculated using the 31 March 2016 quoted prices.

The fair values of the derivative financial instruments represent the present value of expected future cash flows from those instruments, discounted at LIBOR. These fair values are expected to convert to cash over the life of the instruments, although earlier termination would accelerate cash flow settlement. The fair values do not represent a termination cost as at 31 March 2016.

	31 March 2016	
	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:		
Loan notes	(96.8)	(96.8)
Guaranteed bonds	(1,371.9)	(1,624.0)
Bank loans	(159.3)	(160.0)
Cash held on term deposit	100.0	100.0
Cash at bank and in hand	38.3	38.3
	(1,489.7)	(1,742.5)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:		
Index-linked swaps	(10.2)	(793.8)
Interest rate swaps	1.5	36.8
	(1,498.4)	(2,499.5)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,628.0m (30 December 2014: £1,463.6m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,880.8m (30 December 2014: £1,738.1m), which is the redemption value of those borrowings.

15. Financial instruments and risk management (continued)

(f) Fair values of financial instruments (continued)

The difference between the book value of primary financial statements as disclosed above and gross borrowings as disclosed in note 14 reflect the unamortised element of the debt arrangement fees and issue discount of £13.5m (30 December 2014: £19.7m), the accrued inflation on the index-linked bond of £19.7m (30 December 2014: £18.0m) and cash of £138.3m (30 December 2014: £42.4m).

(g) Unrealised losses on derivative financial instruments

Whilst accrued inflation and other accruals in respect of these instruments are recorded within the consolidated financial statements the fair value of unrealised losses on derivative financial instruments is not recognised in the consolidated financial statements. These instruments are primarily held to manage the Group's inflation exposures principally arising from index-linked regulated revenues.

The table below analyses the composition of the unrealised fair value losses (note 15(f)).

	Total losses £m
At 30 December 2014	**(815.2)**
Movement in fair value	**58.2**
At 31 March 2016	**(757.0)**
Of which:	
Losses not expected to be recognised in 2016/17 or later years	**(750.5)**
	(750.5)

The difference between the total losses and the losses not expected to be included in 2016 or later years is the amount accrued in the consolidated financial statements of £6.5m (30 December 2014: £78.1m) in respect of liability for index-linked swap and interest rate swap contracts.

The total fair value of £750.5m may differ materially from the ultimate cost of settling the derivative instruments in cash and remains sensitive to movements in forward LIBOR and RPI rates.

16. Capital commitments

Group

	31 March 2016 £m	30 December 2014 £m
Capital purchases contracted for but not provided in the consolidated financial statements	**21.9**	7.1

In order to meet regulatory and service standards, the Group 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 commenced 1 April 2013 and ends 31 March 2021 includes capital and replacement investment of £1,006.0m (in 2009/10 prices).

Company

The Company had no capital commitments at 31 March 2016 or at 30 December 2014.

17. Leasing commitments

At 31 March 2016 and 30 December 2014 there were commitments, in the ordinary course of business in the next year, to the payment of rentals on non-cancellable operating leases expiring:

Group

	Land and buildings		Others	
	31 March 2016 £m	30 December 2014 £m	**31 March 2016 £m**	30 December 2014 £m
Within one year	**0.1**	0.1	**0.5**	0.4
Between two and five years	**0.2**	0.2	**0.7**	0.9
After five years	**0.1**	0.2	**-**	-
	0.4	0.5	**1.2**	1.3

Company
The Company had no operating lease commitments at 31 March 2016 or at 30 December 2014.

18. Provisions for liabilities

Group

	Note	31 March 2016 £m	30 December 2014 £m
Insurance provision	(a)	**1.5**	1.5
Environmental and holder demolition provision	(b)	**12.4**	11.7
Onerous interest rate swap contracts provision	(c)	**12.1**	12.8
Wayleaves provision	(d)	**6.1**	5.4
		32.1	31.4

Company
The Company had no provisions at 31 March 2016 or at 30 December 2014.

(a) Insurance provision

	31 March 2016 £m	30 December 2014 £m
At 31 December / 1 January	**1.5**	1.8
Unwinding of discount (note 4(b))	**0.1**	0.2
Utilised in the period	**(0.1)**	(0.5)
At 31 March/30 December	**1.5**	1.5

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.

18. *Provisions for liabilities (continued)*

(b) Environmental and holder demolition provision

	31 March 2016 £m	30 December 2014 £m
At 31 December / 1 January	**11.7**	15.9
Unwinding of discount (note 4(b))	**1.0**	1.1
Change in WACC in the period	**1.1**	-
Charged/(released) in the period	**1.6**	(2.0)
Utilised in the period	**(3.0)**	(3.3)
At 31 March/30 December	**12.4**	11.7

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 the year the Group has reassessed the provision following the identification of a new site. The provision has been discounted to its estimated net present value. The anticipated timing of the cashflows for statutory decontamination is expected to be incurred over the period until 2050.

(c) Onerous interest rate swap contract provision

	31 March 2016 £m	30 December 2014 £m
At 31 December / 1 January	**12.8**	13.4
Utilisation in the period	**(0.7)**	(0.6)
At 31 March/30 December	**12.1**	12.8

On acquisition of Wales & West Utilities Limited, the Wales & West Gas Networks (Holdings) Limited group acquired an interest rate swap contract with a notional value of £924m from the National Grid group recorded in the accounts at a negative fair value of £42.4m. Contracts with a notional value of £472m have been extended to maturities ranging between November 2035 and November 2039. The provision is being amortised on a straight line basis over the contract life.

(d) Wayleaves provision

	31 March 2016 £m	30 December 2014 £m
At 31 December / 1 January	**5.4**	5.3
Unwinding of discount (note 4(b))	**0.5**	0.4
Change in WACC in the period	**0.5**	-
Utilised in the period	**(0.3)**	(0.3)
At 31 March/30 December	**6.1**	5.4

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 is expected to be utilised over the period until 2020.

19. Called up share capital

	31 March 2016 £m	30 December 2014 £m
Authorised:		
800,000,000 Ordinary shares of £1 each	**800.0**	800.0
Allotted, called up and fully paid:		
290,272,506 Ordinary shares of £1 each	**290.3**	290.3

The interests of the shareholders in the shares and loan notes of the company as at 31 March 2016 were:

	Shareholding %	Share Capital £	Loan Notes £
West Gas Networks Limited	**50%**	**145,136,253**	**48,378,750**
Western Gas Networks Limited	**50%**	**145,136,253**	**48,378,750**
	100%	**290,272,506**	**96,757,500**

The group has no controlling party as it is owned by the above consortium members. The shares in 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 Cheung Kong (Holdings) Limited (Hong Kong) (30%), Cheung Kong Infrastructure Holdings Limited (Bermuda) (30%), Power Assets Holdings Limited (Hong Kong) (30%) and Li Ka Shing Foundation (Hong Kong) (10%).

20. Share premium account

	Group £m	Company £m
At 31 March 2016 and 30 December 2014	**-**	**-**

21. Profit and loss account

	Group £m	Company £m
At 30 December 2014	**(691.9)**	**304.9**
Profit for the financial period	**55.3**	**88.6**
Ordinary dividends	**(44.4)**	**(44.4)**
Actuarial losses on pension Scheme (note 28)	**(16.5)**	**-**
At 31 March 2016	**(697.5)**	**349.1**
Actuarial loss recorded in reserves - net	**150.7**	**-**
Profit and loss reserves excluding actuarial losses - net	**(546.8)**	**349.1**

22. Net cash inflow from operating activities

	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Continuing operations:		
Operating profit	**149.7**	130.5
Depreciation of tangible fixed assets	**75.6**	61.8
Amortisation of customer contributions	**(3.1)**	(2.5)
Amortisation of grants	**(0.1)**	(0.1)
Profit on disposal of fixed assets	**(1.3)**	(0.6)
Net decrease in stocks	**0.1**	0.1
Net (increase)/decrease in debtors	**(1.9)**	2.9
Net increase in creditors	**0.5**	11.8
Restructuring payments	**(1.6)**	(0.2)
Difference between pension charge and cash contributions	**(8.0)**	(8.0)
Movements in provisions for liabilities	**(3.8)**	(4.3)
Net cash inflow from operating activities	**206.1**	191.4

23. Analysis of changes in financing in the period

	Share capital (including premium)		Long term loans	
	31 March 2016 £m	30 December 2014 £m	31 March 2016 £m	30 December 2014 £m
At 30 December	**290.3**	290.3	**1,445.6**	1,483.7
Debt issue costs	-	-	-	(0.2)
Amortisation of issue costs and discount	-	-	**2.7**	2.1
Bank debt repaid	-	-	-	(40.0)
Bank debt drawn	-	-	**160.0**	-
At 31 March /30 December	**290.3**	290.3	**1,608.3**	1,445.6

24. Analysis of changes in cash in the period

	Note	31 March 2016 £m	30 December 2014 £m
At 30 December	24	**42.4**	41.2
Net cash (outflow)/inflow	24	**(4.1)**	1.2
At 31 March/30 December	24	**38.3**	42.4

25. Analysis of cash and cash deposits

	Note	31 March 2016 £m	30 December 2014 £m	31 March 2016 Change in period £m	30 December 2014 Change in period £m
Cash at bank and in hand	23	**38.3**	42.4	**(4.1)**	1.2
Current asset investments – cash on term deposit	11	**100.0**	-	**100.0**	-
		138.3	42.4	**95.9**	1.2

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

	31 March 2016 £m	30 December 2014 £m
(Decrease)/increase in cash as per cash flow statement	**(4.1)**	1.2
Debt costs	**-**	0.2
Amortisation of issue costs and discount	**(2.7)**	(2.1)
Cash transferred to term deposit	**100.0**	-
Bank debt repaid	**-**	40.0
Debt drawn	**(160.0)**	-
(Increase)/decrease in net debt	**(66.8)**	39.3
At 31 December/ 1 January	**(1,403.2)**	(1,442.5)
At 31 March/30 December	**(1,470.0)**	(1,403.2)

	Note	31 March 2016 £m	30 December 2014 £m
Loan Notes	11(b),12	**(96.8)**	(96.8)
Borrowings	11,12	**(1,531.2)**	(1,366.8)
Less: accrual for inflation on index-linked bond	14(d)	**19.7**	18.0
Debt	23	**(1,608.3)**	(1,445.6)
Current asset investments	11,24	**100.0**	42.4
Cash at bank and in hand	24	**38.3**	42.4
Net debt		**(1,470.0)**	(1,403.2)

27. Directors' and officers' loans and transactions

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

The only transactions with directors during the period were payments of directors' remuneration, as disclosed in note 3.

28. Pension Scheme

The Group operates one pension Scheme which has defined benefit and defined contribution sections.

Defined benefit section

The Group operates a funded defined benefit pension Scheme, the Wales & West Utilities Pension Scheme ("the 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.

A full actuarial valuation as at 31 March 2013 was completed by Lane Clark & Peacock and showed a deficit of £92.1m. 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 FRS17. As required by FRS17, the value of the defined benefit liabilities were measured using the projected unit method.

The next triennial evaluation of the Scheme is due at 31 March 2016, and remains in progress.

The key FRS17 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 FRS17 liabilities and the net deficit of assets below the FRS17 liabilities (which equals the gross pension liability).

Financial assumptions	**31 March 2016**	30 December 2014
Inflation assumption	**3.05% pa**	3.10% pa
Discount rate	**3.50% pa**	3.60% pa
Rate of increase in pensions in payment	**3.05% pa**	3.10% pa
Rate of increase in salaries	**3.80% pa**	3.85% pa
Mortality assumptions		
Life expectancy of a male aged 60	**28**	28
Life expectancy of a male currently age 40 from age 60	**30**	30

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 2016 and 30 December 2014 were:

Asset distribution and expected return	**31 March 2016**		30 December 2014	
	Expected return % pa	**Fair value £m**	Expected return % pa	Fair value £m
Equities	**6.70**	**128.8**	7.00	151.7
Government bonds	**2.20**	**45.3**	2.50	152.1
Direct lending	**5.90**	**25.5**	-	-
Property	**4.50**	**21.4**	5.00	18.9
LDI fund	**2.20**	**102.6**	-	-
Diversified Growth fund	**5.70**	**100.0**	6.00	94.8
Cash	**0.50**	**23.6**	0.50	1.7
Total market value of assets		**447.2**		419.2

Notes to the consolidated financial statements

28. Pension Scheme (continued)

The expected long term rate of return on net assets has been derived so as to be consistent with market yields at the accounting date and previous years' accounting disclosures.

Equities – As at 31 March 2016 it is assumed that equities will return 4.5% above the return on long duration Government bonds.

Government bonds – As at 31 March 2016 it is assumed that Government bonds will achieve a return in line with the annualised gross redemption yield on UK Gilts all stocks over 15 year index.

Direct lending – As at 31 March 2016 it is assumed that the Direct lending will achieve a return 3.7% above the return on long duration Government bonds.

Property – As at 31 March 2016 it is assumed that property will return 2.5% above the long duration Government bonds.

LDI fund – As at 31 March 2016 it is assumed that the LDI fund will achieve a return in line with the return on long duration Government bonds.

Diversified Growth fund – As at 31 March 2016 it is assumed that the diversified growth fund will achieve a return of 3.5% above the return on long duration Government bonds.

Cash – As at 31 March 2016 it is assumed that cash will achieve a return equal to the Bank of England Base Rate.

The following amounts at 31 March 2016 and 30 December 2014 were measured in accordance with the requirements of FRS17:

Balance Sheet	**31 March 2016 £m**	30 December 2014 £m
Total fair value of assets	**447.2**	419.2
FRS17 value of liabilities	**(524.4)**	(490.2)
Deficit in the Scheme	**(77.2)**	(71.0)
Deferred tax asset	**2.8**	-
Deficit in the Scheme post tax	**(74.4)**	(71.0)

The Scheme is represented on the balance sheet at 31 March 2016 as a liability under FRS17 which amounts to £74.4m (30 December 2014: £71.0m) net of a deferred tax asset of £2.8m (30 December 2014: £nil).

During the period ended 31 March 2016, contributions by the Group of £23.6m (period ended 30 December 2014: £18.5m), which included £12.6m (period ended 30 December 2014: £10.1m) in respect of the agreed 15 year deficit recovery plan and a £1.4m additional contribution to the early retirement programme (period ended 30 December 2014: £nil), were made in respect of members of the defined benefit section.

Scheme expenses are met by the Scheme with WWU reimbursing the Scheme. The Group has set aside £0.7m outside of the Scheme for the period ended 31 March 20016 in order to meet the Scheme's expenses (period ended 30 December 2014: £0.6m). At 31 March 2016 £0.3m was accrued in respect of contributions due to the defined benefit section which was paid in April 2016 (30 December 2014: £nil).

A deferred tax asset in respect of pension deficit contributions of £14.0m in the year to 31 March 2017 with a tax value of £2.8m (30 December 2014: £nil) has been recognised as it is expected to be recoverable against taxable profits in the tear to 31 March 2017. No deferred tax asset has been recognised for the remainder of the pension liability of £63.2m as there is insufficient evidence that the asset will be recoverable against future profits.

28. Pension Scheme (continued)

It has been agreed that the ongoing employer contribution will be at a rate of 51.0% (30 December 2014: 37.7%) of pensionable salary plus an allowance for expenses. In addition, the Group has agreed a 15 year deficit recovery plan following the 31 March 2013 actuarial valuation with contributions of £12.5m per annum until 31 March 2020, and £5.6m per annum until 31 March 2028.

The following amounts have been recognised in the consolidated financial statements for the period ended 31 March 2016 and the period ended 30 December 2014 under the requirements of FRS17:

	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Profit and loss account		
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**14.0**	10.5
Past service cost (exceptional item)	**1.4**	-
Total operating charge	**15.4**	10.5
Analysis of amounts (credited)/charged to other finance costs:		
Expected return on pension Scheme assets	**26.7**	23.1
Interest on post retirement liabilities	**(21.9)**	(18.5)
Net income to finance charges	**4.8**	4.6

Pension costs of £16.1m shown in note 3b comprise £14.0m of current service cost and £2.1m of defined contribution costs (30 December 2014: Pension costs of £12.1m; £10.5m of current service cost and £1.6m of defined contribution costs).

The Scheme is closed to new entrants and, under the method used to calculate pension costs in accordance with FRS17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

The following amounts have been recognised within the statement of total recognised gains and losses under FRS17:

	Period ended 31 March 2016 £m	Period ended 30 December 2014 £m
Actual return less expected return on Scheme assets	**(9.6)**	17.3
Changes in assumptions underlying the present value of the obligation	**(9.7)**	(48.7)
Actuarial loss recognised in the statement of total recognised gains and losses – pre tax	**(19.3)**	(31.4)
Deferred tax asset on pension liability	**2.8**	-
Actuarial loss recognised in the statement of total recognised gains and losses – net	**(16.5)**	(31.4)
Cumulative actuarial loss recognised in the statement of total recognised gains and losses - net	**(150.7)**	(134.2)

28. Pension Scheme (continued)

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

	31 March 2016 £m	30 December 2014 £m
Opening defined benefit obligations	**490.2**	419.0
Past service cost	**1.4**	-
Current service cost	**14.0**	10.5
Interest cost	**21.9**	18.5
Employee contributions	**0.9**	0.9
Benefits paid	**(13.7)**	(7.7)
Actuarial loss	**9.7**	49.0
Closing defined benefit obligations	**524.4**	490.2

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

	31 March 2016 £m	30 December 2014 £m
Opening fair value of Scheme assets	**419.2**	367.1
Expected return on assets	**26.7**	23.1
Employer contributions	**23.6**	18.5
Employee contributions	**0.9**	0.9
Benefits paid	**(13.7)**	(7.7)
Actual less expected return on assets	**9.6**	17.3
Closing fair value of Scheme assets	**447.2**	419.2

Amounts for the last five period ends are as follows:

	31 March 2016 £m	30 December 2014 £m	31 December 2013 £m	31 December 2012 £m	31 March 2012 £m
Defined benefit obligations	**(524.4)**	(490.2)	(419.0)	(367.7)	(329.1)
Total assets	**447.2**	419.2	367.1	330.8	297.0
Deficit	**(77.2)**	(71.0)	(51.9)	(36.9)	(32.1)
Experience adjustments on the obligation	-	-	2.2	(3.6)	0.4
Experience adjustments on Scheme assets	**(9.6)**	17.3	16.2	(2.8)	2.8

Defined contribution scheme

The Group also operates a defined contribution section of the scheme for staff.

The employer paid £2.1m during the period ended 31 March 2016 (period ended 30 December 2014: £1.6m) in respect of defined contribution members.

29. Related party transactions

(a) Xoserve Limited

The Group owns 10% (30 December 2014: 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.

Xoserve provides gas throughput (meter reading) and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas transporters. The cost to the Group of Xoserve providing these services was £7.6m in respect of the period ended 31 March 2016 (period ended 30 December 2014: £5.2m), of which £2.3m was charged to capital (period ended 31 December 2014: £1.1m).

(b) Loan interest and dividend payments

The investors in the Company as at the balance sheet date (set out in note 19) are entitled to accrued interest income in relation to loan notes which the Company has issued to them.

For the period ended 31 March 2016, interest of £8.3m was payable to investors in respect of the 15 month and 1 day period from 31 December 2014 to 31 March 2016 (period ended 30 December 2014: £6.5m). Interest of £6.8m was paid during the period ended 31 March 2016 (period ended 30 December 2014: £6.5m covering the period from 10 October 2012 to 31 December 2016). As part of the change in ownership of the Company the new investors acquired the right to the accrued interest of £3.8m. As a result, the investors are entitled to accrued loan interest of £5.4m at 31 March 2016; £3.8m related to the change in ownership of the Company and £1.6m of accrued loan note interest covering the period from 31 December 2015 to 31 March 2016 (30 December 2014: £3.8m related to the change in ownership of the Company).

Dividends have been paid during the period as disclosed in note 6, dividends on equity shares.

Subsequent to the balance sheet date, the Company paid an interim dividend split equally to West Gas Networks Limited and Western Gas Networks Limited of 3.8pence per ordinary share amounting to £11.1m on 21 June 2016.

c) Seabank Power Limited

The Group provides Seabank Power Limited ("Seabank Power") group 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 companies hold a 30% interest in the Company. 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 period ended 31 March 2016 (period ended 30 December 2014: £0.1m).

d) Hutchison Whampoa Limited

Cheung Kong (Holdings) Limited (Hong Kong), a company which holds a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited, owns 49.97% of Hutchison Whampoa Limited ("HWL"). Hutchison Whampoa Limited ("HWL") owns 78.16% of Cheung Kong Infrastructure Holdings Limited (Bermuda), a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the period ended 31 March 2016 the Group has been invoiced by Hutchison International Limited for the following services negotiated by HWL.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.1m for the period ended 31 March 2016 (period ended 30 December 2014: £0.1m). The contract is for a 5 year period from 1 April 2016.

Microsoft EA Licencing agreement – cost to the Group £0.2m for the period ended 31 March 2016 (period ended 30 December 2014: £0.1m. The contract is for a 3 year period from 1 April 2015.