Registered No. 05095454

Wales & West Gas Networks (Holdings) Limited

Annual report and consolidated financial statements
for the year ended 31 March 2017

Contents

	Page
Directors and advisers	1
Strategic report	2
Report of the directors	14
Directors' responsibilities statement	16
Independent auditor's report to the members of Wales & West Gas Networks (Holdings) Limited	17
Consolidated profit and loss account	19
Consolidated statement of comprehensive income	20
Consolidated and Company balance sheets	21
Consolidated statement of changes in equity	22
Consolidated cash flow statement	23
Principal accounting policies	24
Notes to the consolidated financial statements	29

Directors and advisers

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
(T) Member of the Treasury Committee of Wales & West Utilities Limited

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

Independent auditor
Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom

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

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.

These consolidated financial statements present the Company's and Group's results for the year ended 31 March 2017 and restated comparative financial statements for results for the 15 month and 1 day period ended 31 March 2016 (henceforth "period ended 31 March 2016") as reported under FRS 102.

The Group reports financial and non-financial key performance measures to the extent necessary for an understanding of the development, performance and position of the Group on pages 6 to 8.

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 is owned and operated by the National Grid plc group.

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 seven regional gas distribution networks are owned by independent operators, with National Grid retaining a minority interest in 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' Licence to:

- provide 24 hour emergency response to all public reported gas escapes in Wales and South West England, irrespective of the cause (the significant majority of which are unrelated to 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 had 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 and smart meter installations. WWU aims to continue undertaking this work, where it is of benefit to WWU. However, it is anticipated that whilst traditional gas meter revenue will reduce the new contract to install smart meters across the UK's population of domestic electricity and gas meters will partially mitigate this over the next few years.

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 £183.4m for the year ended 31 March 2017 (period ended 31 March 2017: £230.5m). After net interest of £270.5m, which includes an index-linked and interest rate swap charge of £182.7m (period ended 31 March 2016 restated: £99.9m, includes an index-linked and interest rate swap credit of £10.7m) the consolidated loss on ordinary activities before taxation for the year ended 31 March 2017 amounted to £87.1m (restated period ended 31 March 2016: profit of £130.6m). The consolidated loss attributable to shareholders amounted to £40.3m (restated period ended 31 March 2016: profit of £129.9m).

Following the transition to FRS 102 the fair value of the Group's derivative portfolio has been brought on to the balance sheet with fair value movements reflected within the profit and loss account. The derivative asset and liability recognised at 31 March 2017 is £42.5m and £977.0m respectively (31 March 2016 restated: £41.0m asset and £781.0m liability). In the year ended 31 March 2017 there was an increase in the fair value liability, resulting in a profit and loss account charge of £182.7m (period ended 31 March 2016 restated: gain of £10.7m). This charge is due to an increase in the forward RPI curve and a reduction to the forward LIBOR curve.

The profit before taxation for the year ended 31 March 2017 excluding the fair value charge of £182.7m on derivatives amounted to £95.6m (restated period ended 31 March 2016: fair value gain of £10.7m profit of £19.9m).

The results of the Group for the year ended 31 March 2017 are set out in the consolidated profit and loss account on page 19.

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

During the year ended 31 March 2017, the Group invested and capitalised £142.4m, against which consumers contributed £15.2m (restated period ended 31 March 2016: £172.8m, against which consumers contributed £18.8m), on expanding and improving the regional gas distribution network.

Included within the capital investment the Group replaced 425kms 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 gross cost of £79.6m during the year ended 31 March 2017, against which consumers contributed £3.0m (period ended 31 March 2016: 536kms at a gross cost of £104.5m, against which consumers contributed £7.2m). Consumer contributions are included within turnover.

The business model (continued)

Results and operating performance (continued)

The replacement work was undertaken either because:

(i) mains were required to be replaced under a programme defined by the Health & Safety Executive where all iron mains up to and including 8" in diameter and within 30 metres of a property are to be replaced with plastic alternatives within a period of 30 years from 2002; or

(ii) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains above 8" and less than 18" in diameter, within 30 metres of a property and in excess of a defined risk threshold are to be replaced within a period of 30 years from 2002; or

(iii) the overall condition of the metallic main warranted replacement; or

(iv) of a request (usually through a local authority as a result of a highways project) to move the gas infrastructure.

Organisational restructure

An early retirement programme was announced by WWU on 15 October 2014 which was open to all staff aged 55 and over, or who would reach 55 within two years of 30 December 2014. As a result WWU offered early retirement to 58 people in December 2014 and accrued £4.0m for expected costs. At 31 March 2017 51 people had left through the early retirement programme at a cost of £3.4m, £1.9m of which was paid during the year ended 31 March 2017 (period ended 31 March 2016: £1.4m). The unutilised accrual of £0.6m was released to the profit and loss account during the year ended 31 March 2017 (31 March 2016: accrual of £2.5m).

On 21 October 2016 WWU announced a further early retirement programme which was open to all staff aged 55 and over, or who will reach 55 within two years, effective from 31 March 2017. As a result the company offered early retirement to 18 people and £1.2m was charged to the profit and loss account and fully utilised during the year ended 31 March 2017.

Business review

The Group's operating performance over the past year has been satisfactory, with all standards of performance being achieved by WWU. 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 by WWU. Other targets include those relating to the achievement of Ofgem outputs and are measured and reported in Ofgem's RIIO-GD1 Annual Reports. In 2016/17 all Ofgem targets have been met by WWU (2015/2016: All targets met). There were 1,708 complaints in the year ended 31 March 2017 (period ended 31 March 2016: 2,497). The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

There was one direct labour lost time injury ("LTI") and one contract labour LTI during the year ended 31 March 2017 (period ended 31 March 2016: two direct labour LTI's and one contract labour LTI).

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 year ended 31 March 2017 with comparatives for the 15 month and 1 day period ended 31 March 2016 and the financial position as at 31 March 2017 and 31 March 2016. They have been prepared using the accounting policies shown on pages 24 to 28, in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom.

The Company will transition from UK GAAP to FRS102 as issued by the Financial Reporting Council for the year ended 31 March 2017 with comparatives restated accordingly. Other than as required by the transition to FRS 102, there were no changes in accounting policies adopted during the year. Details of the transition to FRS 102 are set out in note 31 to the consolidated financial statements.

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. These accounts are available from the Company secretary shown on page 1.

The business model (continued)

Cash flow forecasting

Both short term and long term cash flow forecasts are produced periodically to support liquidity management.

Liquidity, resources and capital expenditure

Net cash inflow from operations for the year ended 31 March 2017 amounted to £231.7m (restated period ended 31 March 20116: £324.4m).

Investing activities absorbed net cash of £133.6m (restated period ended 31 March 2016: £169.9m) and net cash outflow from financing activities amounted to £165.4m. Financing activities, included £200.0m for the repayment of a £200.0m guaranteed bond at par on the redemption date of 2 December 2016 and an European Investment Bank loan of £150.0m drawn down (restated period ended 31 March 2016: £58.6m, which included a triennial swap accretion payment of £83.6m).

Pension Scheme

At 31 March 2017 an FRS 102 pension valuation of £54.9m deficit (restated 31 March 2017: £77.2m deficit) resulted in a charge to the statement of comprehensive income of £0.6m net of deferred tax of £0.1m (restated period ended 31 March 2016: £9.6m charge net of deferred tax of £2.2m). The Group contributed £25.5m (period ended 31 March 2016: £12.6m) of deficit contributions in respect of the defined benefit pension Scheme during the year ended 31 March 2016. Details of the movements in the pension Scheme are set out in note 29.

Shareholder deficit

Shareholder deficit at 31 March 2017 amounted to £90.7m (31 March 2016: restated deficit £5.4m) as a result of a retained loss of £40.3m (restated period ended 31 March 2016: retained profit £129.9m), and an actuarial loss on the pension Scheme net of deferred tax of £0.6m (restated period ended 31 March 2016: £9.6m) and ordinary dividends of £44.4m (period ended 31 March 2016: £44.4m).

Details of the ownership of the Group are included in note 20. There were no movements in the authorised and issued share capital of the Group during the year.

Borrowings and financing

Details of net borrowings of £1,586.1m (31 March 2016: £1,630.1m) are disclosed in notes 13 and 14 and gross borrowings of £1,571.8m (31 March 2016: £1,621.8m) in note 15. Net borrowings include index-linked bond accretion and unamortised discount and debt issues costs. At 31 March 2017 cash at bank of £71.0m was held (31 March 2016: £138.3m - £100m of which was on term deposit).

As at 31 March 2017, the Group held index-linked swap contracts with a notional principal of £1,003.8m (31 March 2016: £1,003.8m) and interest rate swaps with a notional principal of £234.4m (31 March 2016: £274.4m).

The net fair value liability, including accruals, of the interest and index-linked swap contracts held by the Group at 31 March 2017 was £934.5m (31 March 2016: £740.0m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward LIBOR and RPI rates. Note 16 - Financial instruments and risk management provides further detail.

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

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 2017, 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
£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

The business model (continued)

Borrowings and financing (continued)

* 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 two 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.

On 2 December 2016 Wales & West Utilities Limited repaid £200m of the loan to Wales & West Utilities Finance plc. The funds were used to repay the guaranteed bond with a nominal value of £200m which matured on 2 December 2016. The cumulative net proceeds of the issue of these bonds, including the redeemed bond, 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 £16.4m (31 March 2016: £16.0m).

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 £142.4m (restated period ended 31 March 2016: £172.8m).

As permitted by FRS 102, WWU has elected for gas distribution network assets within tangible fixed assets to be measured at its fair value at the date of transition and for that fair value to be used as the deemed cost of the item going forward.

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 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 2017 (31 March 2016: £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 Group does not envisage any material changes in the activity of the Group in the current regulatory period to 31 March 2021. During the year there has been a significant development in respect of the accounting for accrued interest on intercompany loans.

Prior to March 2016, to the extent that accrued interest was not paid, under the terms of the intercompany loan it was capitalised and added to the relevant intercompany loan outstanding on the interest payment date (and such capitalised interest is treated as loan principal thereafter). Following a Board resolution, after March 2016, interest accrued but not paid can be released to a capital reserve and interest receivable but not received can be added to the fixed asset investment as a capital contribution and not capitalised into the loan balance.

Other than those matters referred to above, there were no significant developments within the Group that occurred during the financial year under review and prior to approval of the annual report and consolidated financial statements.

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 measures

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

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

Key performance measures (continued)

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

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with consumers, Ofgem and the public. Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies. 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 Gas Transporters' Licence also requires it to meet certain service targets for connections. Performance against these standards is reported to senior management every month and is reportable to Ofgem on an annual basis. Compensation payments are made to consumers under the Gas (Standards of Performance) Regulations 2005, in the regrettable event that certain service standards are not met. Compensation payments for the year ended 31 March 2017 amounted to £0.1m (restated period ended 31 March 2016: £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.

All regulatory standards of performance were achieved by WWU in the year ended 31 March 2017 and the preceding years as shown below. Key operational performance measures were:

	Ofgem Target	**Year ended 31 March 2017**	15 month and 1 day period ended 31 March 2016	364 day period ended 30 December 2014	Year ended 31 December 2013
Responding to gas escapes					
1 hour target for uncontrolled escapes	97.0%	**98.5%**	98.6%	98.6%	98.1%
2 hour target for controlled escapes	97.0%	**99.4%**	99.6%	99.6%	99.4%
Standards of performance					
Issuing quotations	90.0%	**99.0%**	99.2%	98.9%	98.1%
Offer dates for work start and finish	90.0%	**99.9%**	99.9%	99.9%	99.9%
Jobs completed on agreed dates	90.0%	**95.9%**	94.2%	94.0%	95.1%
Responding to complaints	90.0%	**99.9%**	99.8%	99.9%	99.8%
Customer complaints					
Number of complaints		**1,708**	2,497	2,807	2,453
Number of jobs undertaken		**283,089**	282,972	234,185	260,995
Percentage complaints		**0.6%**	0.9%	1.2%	0.9%
Upheld complaints*					
Ombudsman service			-	-	-

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

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

	Year ended 31 March 2017 £m	Restated 15 month and 1 day period ended 31 March 2016 £m
Turnover	**433.9**	529.7
Operating costs	**(250.5)**	(299.2)
Operating profit	**183.4**	230.5

Key performance measures (continued)

	Year ended 31 March 2017 £m	Restated 15 month and 1 day period ended 31 March 2016 £m
Operating profit before depreciation, amortisation one-off items	**271.2**	339.5
(Loss)/profit after tax	**(40.3)**	129.9
Operating cash flows after one-off items	**231.7**	324.4

One-off items are those 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 and disclosed in detail in note 2b.

Principal risks and uncertainties

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

Approach to risk

The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified below. In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Transporters' Licence, standards of service and obligations with the HSE.

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

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

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

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

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

Asset management systems

Failure in the design, implementation and maintenance of each of the Group's asset management systems, including asset health, physical security and integrity (e.g. asset data records), may result in major incidents leading to loss of life, adverse impact on the environment, loss of assets, prosecution under relevant legislation, or failure to meet the relevant applicable licence conditions. The Group's asset management systems have been certified to ISO 55001 by an external assessor. The Asset Management team oversees a process of asset integrity and risk based management. The WWU gas control centre manages gas flows on a day to day and intra-day basis within our gas distribution network and regular emergency exercises and testing are conducted in conjunction with the National Gas Control Centre as part of WWU's crisis management arrangements.
Capital spending and maintenance programmes are maintained by the Group with internal oversight and guidance.

Principal risks and uncertainties (continued)

Network Assets, Health and Safety

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

Mains replacement targets, Health and Safety Executive

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme (see pages 3 and 4) applicable to all gas distribution networks, may not be achieved. Non-compliance with the HSE 30:30 Mains Replacement Programme could result in financial penalties and could cause adverse publicity and impact negatively on the reputation of the Group. WWU undertakes the work through a tri-party agreement with two main contractors and has secured a contract until March 2021. A major third-party project within or close to our geography could result in a loss of skilled labour; or a major incident could result in the workforce being diverted away from the replacement programme for a period of time.

Regulation

The gas industry is subject to extensive regulatory obligations with which the regulated business must comply. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of WWU or in the case of financial or workload misreporting, a potential fine and a negative reputational impact. The prices which can be charged for the use of the WWU gas distribution network are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be allowed over a pre-determined period (historically five years but currently eight years). In addition targeted incentive schemes have been introduced by the Regulator whereby the Group has the opportunity to perform against agreed targets and thereby increase its revenue or incur penalties if performance is below the targets.

WWU engages with the regulatory authority extensively at all levels of seniority to understand future plans and potential impacts on the business.

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

Supply chain

An interruption to the supply of critical materials or services could have a significant impact on the Group's ability to repair, maintain, develop and reinforce the network.

Reliance on skilled employees

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

Employee relations

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

Financial risk management

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

Strategic report (continued)

Principal risks and uncertainties (continued)

Financial risk management (continued)

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

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.

The total gross cost of gas purchased for the year ended 31 March 2017 was £5.0m (restated period ended 31 March 2016: £6.6m). The gas is purchased through contracts renewed annually and these contracts typically fixed the price of gas a day ahead of purchase. Price risk is allowed for under the RIIO-GD1 regime and treated as a cost pass through and is therefore substantially mitigated.

The volume risk is closely monitored and is also mitigated to a certain extent given the relatively stable flows of gas through the network and consequent consumption.
In addition, volatility in commodity prices such as oil could have a significant impact on supplier costs.

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.

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

WWU maintains a policy to comply with senior lender contractual undertakings including financial ratios, and to achieve strong and stable investment grade credit ratings. To assist with the direction and control of financial leverage for the current regulatory control period to 31 March 2021, WWU intends to achieve a senior net debt to RAV ratio by 31 March 2021 within the range of 65% to 70%.

Credit risk

WWU is exposed to the risk that its counterparties, including shippers, may default on the terms of their agreements. 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. Exposure against credit limits is monitored daily and credit limits are reviewed at least annually in the case of credit checks and when any security document expires, an Investment Grade Rating changes or trading levels increase. The amount of credit given to gas shippers is governed by the Uniform Network Code ("UNC") regulations and guideline. These provide for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of prepayment. The UNC criteria allow a maximum credit limit usage of 100% (31 March 2016: 100%) which, if exceeded, allows the Company to apply sanctions.

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

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

Principal risks and uncertainties (continued)

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Volatility in interest rates, real and/or nominal, could result in uncertainty over the Group's future cash flows. This volatility is reduced by a policy of maintaining a fixed nominal or real rate on at least 85% of liabilities on a rolling 5 year basis, 75% of liabilities thereafter, up to the end of the current control period, 31 March 2021. The Company has a policy target for interest rate risk of a minimum of 85% fixed and a maximum of 15% floating.

Inflation risk

In the current control period to 31 March 2021, the Group's allowed revenue and regulated asset value are linked to a rate of inflation measured by the Retail Price Index ("RPI"), and fluctuate with this rate of inflation. In addition, changes in the rate of inflation are also likely to impact on the operating costs and capital expenditure of the Group. The Group has entered into RPI-linked swaps primarily to partially mitigate RPI inflation risk and to support the hedging policy target for interest rate risk as noted above. Ofgem may change the inflationary index and methodology of its application to allowed revenues and to the regulated asset value.

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 into 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 expenditure allowance through regulated revenue.

Taxation

The Group operates entirely within the United Kingdom and is subject to all the main charges which fall under UK legislation. These include Corporation tax, VAT, national insurance, regulatory licence fees, local authority fees (New Roads and Streetworks Act) and relevant rates. The Group has a significant long term capital expenditure programme which generates a charge against taxable profit each year through capital allowances. The timing of the tax relief on these allowances has the effect of delaying the payment of Corporation tax. Deferred Corporation tax charges are recognised as deferred tax liabilities of £187.0m at 31 March 2017 (restated 31 March 2016: £233.9m).

The Group and its subsidiaries are part of a group with a significant element of common ownership through one of the parent companies. A related party has taxable losses which are allowable against future taxable profits but which may also be transferred to other group companies. Certain of these losses have been transferred to the Group under a losses surrender agreement.

Corporate and social responsibility

Health, safety and environment

Process Safety

The Group's objective and obligation is to manage the risk of a major accident or severe gas supply loss. The management of the gas carrying assets is significant and a comprehensive safety management system has been established which is certified to ISO 55001; a Safety Case has been submitted and approved by the Health and Safety Executive. During the year ended 31 March 2017 there were no significant incidents on the gas network (period ended 31 March 2016: none).

Occupational Health and Safety

The Company's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to members of the public. During the year ended 31 March 2017, there was one direct labour LTI and one contract labour LTI (period ended 31 March 2016: two direct labour LTI's and one contract LTI), giving a 12 month frequency rate of 0.03 LTI's/100,000 hours worked (period ended 31 March 2016: 0.07 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.

Corporate and social responsibility (continued)

Occupational Health and Safety

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.
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 2017:-

Number	Male	Female	Total
Executive and directors	16	1	17
Senior managers	29	8	37
Other employees	1,112	225	1,337
Total employees	**1,157**	**234**	**1,391**

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 seven of the WWU internal department heads together with the CEO and Legal Counsel. During the year this ranged from a programme of interactive face to face colleague briefings by our Executive Committee to individual team meetings supported by management infographics.

Corporate and social responsibility (continued)

Employment policies (continued)

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. In 2017 we applied for and achieved Investors in People accreditation at silver level. Investors in People ran the 2017 annual colleague survey on our behalf and achieved a 69% response rate (2016: 61%).

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

The Group's policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes, abilities, values and behaviours in support of the Group's operational requirements. Once employed, a development plan is designed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group's operational requirements. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well-being of the Group's workforce with a wide reaching People and Well Being Strategy, which was relaunched in March 2017.

As part of our ongoing resourcing strategy we offered a voluntary early retirement programme to eligible staff during 2014 and again in 2016. At 31 March 2017 the staff that had left on agreed terms was 68 at a cost of £4.6m.

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 voluntary staff turnover rate of 3.0% during the year ended 31 March 2017 (year ended 31 march 2016: 3.0%), this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average in UK industry during 2015 was 13.6%.

To maintain appropriate retention rates the Group has developed a comprehensive People and Wellbeing Strategy and continues 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. There are three purpose built in-house training centres for the apprentices to develop their practical and technical skills. Recruitment is undertaken on a targeted basis, ensuring that apprentices are recruited to areas of need.

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 & 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 143 (period ended 31 March 2016: 119), meaning that 18% (period ended 31 March 2016: 16%) of the industrial workforce has joined the Company via the WWU Apprenticeship Programme. In 2016 we recruited 24 apprentices and a further 26 apprentices are due to be recruited in 2017.

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

Paul Millar

Company secretary

27 July 2017

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 year ended 31 March 2017 as presented on pages 19 to 61.

Principal activities
The Group is a private group limited by shares. 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").

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 20 to the consolidated financial statements.

Dividends on ordinary shares
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 on 21 June 2016 (31 March 2016: 7.66 pence per £1 ordinary share, totalling £22.2m, which was paid in June 2015).

The Board of Directors approved the payment of an interim dividend in respect of the year ended 31 March 2017 of 7.64 pence per £1 ordinary share, totalling £22.2m which was paid on 21 December 2016 (31 March 2016: 7.64 pence per £1 ordinary share, totalling £22.2m which was paid in December 2015).

Subsequent to the balance sheet date The Board of Directors approved the payment of a final dividend in respect of the year ended 31 March 2017 of 7.64 pence per £1 ordinary share, totalling £22.2m which was paid on 21 June 2017.

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

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

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

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

Directors' interests
There were no significant contracts subsisting during or at the end of the year with the Group in which any director is or was materially interested (other than service contracts).
None of the directors has or has had a beneficial interest in the shares of the Group.

Contributions for political purposes
During the year ended 31 March 2017, there have been no political donations (period ended 31 March 2016: £nil).

Non-adjusting events after the end of the reporting period
There were no non-adjusting events to disclose after the end of the year under review and up to the date of signing the Annual report and financial statements.

Report of the directors (continued)

Future developments
Details of future developments can be found in the Strategic report on page 6 and form part of this report by cross-reference.

Disabled employees
Details of the Company's policy for the employment of disabled employees can be found in the Strategic report on page 13 and form part of this report by cross-reference.

Employee consultation
Details of the Company's employment policies and employee consultation undertaken can be found in the Strategic report on page 12 and form part of this report by cross-reference.

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 8 to 11. The financial position of the Group, its cash flows and liquidity position are set out on pages 4 to 6.

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 calendar year 2017, its forecasts and medium term business plans from 2018 to 2021 including capital expenditure plans, and, taking into account the risks faced by the business and the net current liabilities position 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 ended31 March 2017 will be available from the Company secretary after 31 July 2017.

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

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

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
Company secretary
27 July 2017

Directors' responsibilities statement

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

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

Paul Millar
Company secretary
27 July 2017

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 for the year ended 31 March 2017 which comprise the Consolidated profit and loss account, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of changes in equity statement, the principal accounting policies and the related notes 1 to 31. 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) including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 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 2017 and of the Group's profit for the year 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 based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and the environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Reports of the directors.

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
Statutory Auditor
Cardiff, United Kingdom
28 July 2017

Consolidated profit and loss account for the year ended 31 March 2017

Continuing operations	Note	Year ended 31 March 2017 £m	Restated 15 month and 1 day period ended 31 March 2016 £m
Turnover		**433.9**	529.7
Net operating costs	2(a)	**(250.5)**	(299.2)
Operating profit before depreciation, amortisation and one-off items		**271.2**	339.5
Movement in environmental and holder provision	2(a, bii)	**-**	(1.6)
One-off item - Holiday pay accrual release	2 (a, biii)	**-**	0.5
One-off item - Restructuring provision	2(a, bi)	**0.6**	-
Depreciation and amortisation	2(a),7,8	**(88.4)**	(107.9)
Operating profit		**183.4**	230.5
Operating profit	2	**183.4**	230.5
Interest receivable and similar income	4(a)	**0.7**	1.8
Interest payable and similar charges	4(b)	**(88.5)**	(112.4)
Index–linked and interest rate swap movement	4(c)	**(182.7)**	10.7
(Loss)/profit before taxation		**(87.1)**	130.6
Tax on (loss)/profit	5	**46.8**	(0.7)
(Loss)/profit for the financial year/period attributable to ordinary shareholders	22	**(40.3)**	129.9

Consolidated statement of comprehensive income for the year ended 31 March 2017

Group	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
(Loss)/profit for the financial year/period attributable to ordinary shareholders	**(40.3)**	129.9
Actuarial loss on pension Scheme (note 29)	**(0.7)**	(11.8)
Deferred tax credit on actuarial loss on pension Scheme (note 29)	**0.1**	2.2
Total comprehensive (loss)/income relating to the year/period	**(40.9)**	120.3

Company

The Company has no other recognised gains and losses in the year or the prior period and accordingly a separate statement of comprehensive income has not been presented. Total comprehensive income is equal to profit for the year/period.

Balance sheets at 31 March 2017

	Note	Group 31 March 2017 £m	Group 31 March 2016 £m	Company 31 March 2017 £m	Company 31 March 2016 £m
Fixed assets					
Intangible assets	7	**189.1**	196.4	-	-
Tangible assets	8	**2,480.2**	2,419.2	-	-
Investments	9	**0.1**	0.1	**43.6**	-
		2,669.4	2,615.7	**43.6**	-
Current assets					
Swap fair value asset (excluding accretion) – due after more than one year	16(g)	**42.5**	41.0	-	-
Stocks	10	**3.1**	3.4	-	-
Debtors	11	**45.1**	44.7	**726.3**	741.6
Current asset investments	12	-	100.0	-	-
Cash at bank	26	**71.0**	38.3	-	-
		161.7	227.4	**726.3**	741.6
Current liabilities					
Creditors: amounts falling due within one year	13(a)	**(92.0)**	(305.0)	**(5.4)**	(5.4)
Net current assets/(liabilities)		**69.7**	(77.6)	**720.9**	736.2
Total assets less current (liabilities)/assets		**2,739.1**	2,538.1	**764.5**	736.2
Creditors: amounts falling due after more than one year	13(b)	**(2,563.1)**	(2,212.4)	**(96.8)**	(96.8)
Provisions for liabilities	19	**(211.8)**	(253.9)	-	-
Net (liabilities)/assets before pension liability		**(35.8)**	71.8	**667.7**	639.4
Pension liability	29	**(54.9)**	(77.2)	-	-
Net (liabilities)/assets including pension liability		**(90.7)**	(5.4)	**667.7**	639.4
Capital and reserves					
Called up share capital	20	**290.3**	290.3	**290.3**	290.3
Share premium account	21	-	-	-	-
Profit and loss account	22	**(381.0)**	(295.7)	**377.4**	349.1
Total shareholders' (deficit)/funds		**(90.7)**	(5.4)	**667.7**	639.4

The retained profit for the financial year before dividends dealt with in the financial statements of the parent Company was £72.7m (2016: profit of £88.6m).

The annual report and consolidated financial statements Wales & West Gas Networks (Holdings) Limited (registered number 05095454) on pages 19 to 61 were approved by the Board of Directors and authorised for issue on 27 July 2017 and were signed on its behalf by:

Graham Edwards
Chief Executive Officer

Neil Henson
Director

Consolidated statement of changes in equity for the year ended 31 March 2017

Group

	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 30 December 2014 as previously stated	31p	**290.3**	**(691.9)**	**(401.6)**
Changes on transition to FRS 102	31p	-	320.3	320.3
At 31 December 2014 as restated	31p	**290.3**	**(371.6)**	**(81.3)**
Profit for the period – restated		-	129.9	129.9
Dividends paid	6	-	(44.4)	(44.4)
Remeasurement of net defined benefit liability	29	-	(11.8)	(11.8)
Deferred tax on defined benefit liability	29	-	2.2	2.2
Total comprehensive income		-	**75.9**	**75.9**
At 31 March 2016 as restated		**290.3**	**(295.7)**	**(5.4)**
Loss for the year		-	(40.3)	(40.3)
Dividends paid	6	-	(44.4)	(44.4)
Remeasurement of net defined benefit liability	29	-	(0.7)	(0.7)
Deferred tax on defined benefit liability	29	-	0.1	0.1
Total comprehensive income		-	**(85.3)**	**(85.3)**
At 31 March 2017		**290.3**	**(381.0)**	**(90.7)**

Company

	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 30 December 2014 as previously stated	31p	**290.3**	**304.9**	**595.2**
Changes on transition to FRS 102	31p	-	-	-
At 31 December 2014 as restated	31p	**290.3**	**304.9**	**595.2**
Profit for the period – restated		-	88.6	88.6
Dividends paid	6	-	(44.4)	(44.4)
Total comprehensive income		-	**44.2**	**44.2**
At 31 March 2016 as restated		**290.3**	**349.1**	**639.4**
Profit for the year		-	72.7	72.7
Dividends paid	6	-	(44.4)	(44.4)
Total comprehensive income		-	**28.3**	**28.3**
At 31 March 2017		**290.3**	**377.4**	**667.7**

Consolidated cash flow statement for the year ended 31 March 2017

	Note	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Operating activities			
Net cash inflow from continuing operating activities	23	**257.2**	336.3
Pension deficit contributions		**(25.5)**	(12.6)
Taxation		**-**	0.7
Net cash inflow from operating activities		**231.7**	324.4
Cash flows from investing activities			
Dividends received		**-**	0.4
Purchase of intangible fixed assets		**(6.3)**	(7.6)
Purchase of tangible fixed assets		**(129.7)**	(164.6)
Proceeds of disposal of tangible fixed assets		**1.9**	1.9
Net cash outflow from investing activities		**(133.6)**	(169.9)
Cash flows from financing activities			
Interest received in respect of index-linked swap contracts		**13.4**	14.4
Interest received in respect of interest rate swaps		**6.4**	6.5
Interest received on current asset investments		**1.1**	0.4
Interest received - other		**0.3**	0.3
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		**(76.5)**	(101.1)
Interest paid in respect of loan notes		**(6.6)**	(6.6)
Payments in respect of index-linked swap contracts		**-**	(83.6)
Payments in respect of interest rate swap contracts		**(5.1)**	-
Payments in respect of index-linked swap contracts		**(1.0)**	(1.5)
Bond debt repaid		**(200.0)**	-
Debt drawn down under EIB finance contract		**150.0**	160.0
Interest paid in respect of loan notes		**(6.6)**	(6.6)
Dividends paid		**(44.4)**	(44.4)
Net cash outflow from investing activities		**(165.4)**	(58.6)
Net cash (outflow)/inflow before financing		**(67.3)**	95.9
Cash and cash equivalents at beginning of period	23	**138.3**	42.4
Cash and cash equivalents at end of period	25,26	**71.0**	138.3
Net cash (outflow)/inflow		**(67.3)**	95.9
Analysis of cash and cash equivalents			
Cash at bank	25	**71.0**	38.3
Current asset investments	12,26	**-**	100.0
Total cash and cash equivalents	26	**71.0**	138.3

Principal accounting policies

The consolidated 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.

For the year commenced 1 April 2016 the Group has presented its consolidated financial statements under Financial Reporting Standard 102 ("FRS102") as issued by the Financial Reporting Council and comparative balances have been restated accordingly.

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

General information and basis of accounting
Wales & West Gas Networks (Holdings) Limited (registered number 05095454) is a private company limited by shares incorporated in Wales, United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Report of the directors on page 14.

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 and financial derivatives, and in accordance with FRS 102 issued by the Financial Reporting Council and restated comparative balances accordingly.

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

Wales & West Gas Networks (Holdings) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to the presentation of inter-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

Going concern
The directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these consolidated financial statements as set out in the Report of the directors on page 15.

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. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Uniform accounting policies have been adopted across the Group.

Turnover
Turnover represents the sales value derived from two classes of business, being the distribution of gas together with the sales value derived from the provision of other services to customers during the year. All turnover is generated in the UK. Details of turnover split by type of turnover is presented in the Consolidated Regulatory Accounts of Wales & West Utilities Limited, which are available from the Company Secretary shown on page 1.

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

Principal accounting policies (continued)

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

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

Contributions received from customers towards the construction or diversion of network assets are recognised in turnover within the profit and loss account on job completion or at stages of a project in line with costs.

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

IT software held by Wales & West Utilities Limited has been recognised as a separately identifiable intangible asset, the value of which has been reallocated from tangible assets on transition to FRS 102.

Intangible fixed assets are amortised, on a straight line basis, at rates estimated to write off their book amount over their estimated useful economic lives. In assessing estimated economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The amortisation periods for the principal categories of intangible fixed assets are shown below.

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

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

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

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

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

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

Following a review of asset lives acquired at business acquisition from National Grid in 2005, which was undertaken in 2012, the useful economic life of certain infrastructure assets has been increased but remains within the range stated above.

Principal accounting policies (continued)

Impairment of fixed assets
Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of the income generating unit and their recoverable amounts. Recoverable amount is defined as the higher of fair value less cost of sale or estimated value in use at the date the impairment review is undertaken.

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.

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

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

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

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

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

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

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

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

Financial instruments
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.

Principal accounting policies (continued)

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

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

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

Actuarial gains and losses are recognised in the statement of comprehensive income.

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.

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

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

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

One-off 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.

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

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

Principal accounting policies (continued)

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

Joint venture loans
Amounts owed equally to the two joint venture companies West Gas Networks Limited and Western Gas Network Limited of £102.2m at 31 March 2017 (31 March 2016: £102.2m) – management considers that although the loan is repayable on demand to a joint venture company, West Gas Networks Limited and Western Gas Network Limited, settlement of the loan is not expected within the next financial year.

Amounts owed by the wholly owned subsidiary, Wales & West Gas Networks (Junior Finance) Limited, of £726.3m at 31 March 2017 (31 March 2016: £741.6m) – management considers that although the loan is repayable on demand to the immediate parent company, Wales & West Gas Networks (Holdings) Limited, settlement of the loan is not expected within the next financial year.

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

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

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

The business plan, which is approved on an annual basis by the Board and Executive Committee, is the primary source of information for the determination of value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the Group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

Notes to the consolidated financial statements

1. Company profit and loss account

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included in these consolidated financial statements. The profit after taxation, but before dividends, for the year within in the financial statements of the Company was £72.7m (restated period ended 31 March 2016: profit of £88.6m). The amount transferred to reserves was a profit of £28.3m (period ended 31 March 2016: profit of £44.2m).

2. Operating profit

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

	Note	**Year ended 31 March 2017 £m**	Restated period ended 31 March 2016 £m
Continuing operations:			
Staff costs	3(b)	**80.1**	96.9
Own work capitalised		**(39.0)**	(48.0)
Depreciation: Own assets	8	**73.7**	90.5
Depreciation: Leased assets	8	**1.1**	1.4
Depreciation: Intangible assets	7	**13.6**	16.0
Less amortised grants		**(0.7)**	(0.1)
Profit on disposal of fixed assets		**(2.2)**	-
Rentals under operating leases:			
Hire of plant and equipment		**0.7**	0.6
Other		**0.4**	0.6
Cost of stock recognised as an expense		**7.7**	10.3
One-off items ~ restructuring costs	2(b i)	**(0.6)**	-
One-off items ~ net increase in provisions	2(b ii),19	-	1.6
One-off items ~ holiday pay on overtime	2(b iii),	-	(0.5)

Own work capitalised includes direct labour and ancillary costs.

(b) One–off items

The one–off 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 offered early retirement to 58 staff and £4.0m was accrued within the consolidated financial statements as an exceptional item during the period ended 30 December 2014. At 31 March 2017, 51 staff had left through the early retirement programme at a cost of £3.4m; £1.9m of which was paid during the year ended 31 March 2017 (period ended 31 March 2016: £1.4m). The unutilised accrual of £0.6m was released during the year ended 31 March 2017 and has been treated as a one-off item consistent with the treatment of the cost of the original provision.

ii) the environmental and holder demolition provision. A review of costs incurred and the timing of work carried out during the period ended 31 March 2016, gave rise to a £1.6m increase in the provision following the identification of a new site (note 19).

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.

2. Operating profit (continued)

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

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

	Year ended 31 March 2017 £000	Restated period ended 31 March 2016 £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 Group's auditor and its associates for other services:		
the audit of the Company's subsidiaries	**135.0**	74.4
Total audit fees	**140.0**	79.4
assurance services related to group reporting	**46.1**	72.6
assurance services related to regulatory reporting	**32.5**	67.7
taxation compliance services	**10.5**	45.3
other taxation advisory services	**110.7**	195.3
other assurance services	**65.6**	22.9
Total non-audit fees	**265.4**	403.8

	Year ended 31 March 2017 £000	Restated period ended 31 March 2016 £000
Fees in respect of the pension scheme:		
Audit of pension scheme	**20.0**	15.9

The Company's audit and tax fees were paid by Wales & West Utilities Limited, a group company.

3. Directors and employees

(a) Directors' emoluments and interests

	Year ended 31 March 2017 £000	Restated period ended 31 March 2016 £000
Fees payable to non - executive directors	**85.0**	106.3
Salary payments (including benefits in kind)	**441.5**	541.9
Performance related bonus (see below)	**445.4**	428.8
Pension contributions	**-**	26.9
Contributions in lieu of pension	**102.5**	128.1
	1,074.4	1,232.0

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 subject to the achievement of certain targets. These targets include safety, standards of service, customer satisfaction and financial.

The amount disclosed in respect of the period ended 31 March 2017 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2016. Bonuses are reviewed and paid in respect of a calendar year.

The performance bonus is apportioned between an amount due as a lump sum payable after the year end, and the balance payable under a long term incentive plan. The amount due under the long term incentive plan is payable three years after the year in which the award arose. The performance bonus is conditional on the director remaining in office on the payment date. At 31 March 2017 £0.9m was accrued in respect of amounts payable under the long term incentive plan (2016: £0.8m)

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

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

Highest paid director:

	Year ended 31 March 2017 £000	Restated period ended 31 March 2016 £000
Salary payments (including benefits in kind)	**441.5**	541.9
Performance related bonus (see above)	**445.4**	428.8
Pension contributions	**-**	26.9
Contributions in lieu of pension	**102.5**	128.1
	989.4	1,125.7
Accrued group pension (Defined contribution)	**139.9**	139.9

3. Directors and employees (continued)

(b) Staff costs

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Wages and salaries	**59.9**	73.1
Social security costs	**6.6**	7.7
Pension costs (note 29)	**13.6**	16.1
	80.1	96.9

Of the above, £28.1m (restated period ended 31 March 2016: £38.0m) has been capitalised.

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

	Year ended 31 March 2017 Number	Restated period ended 31 March 2016 Number
Regulated gas distribution activities	**1,379**	1,335
Other activities	**2**	2
	1,381	1,337

4. Interest

(a) Interest receivable and similar income

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Income from fixed asset investments	**-**	0.4
Interest receivable on bank deposits	**0.7**	0.8
	0.7	1.8

(b) Interest payable and similar charges

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
On external debt	**75.8**	95.0
On loans from parent undertakings	**6.6**	8.3
Amortised debt issue costs and bond discount	**2.0**	2.7
On unwinding of discounts and change in discount rate on provisions (note 19)	**1.2**	3.2
Other finance charges –net pension (note 29)	**2.5**	2.7
Finance lease interest	**0.2**	0.1
Other	**0.2**	0.4
	88.5	112.4

Interest on external debt for the year ended 31 March 2017 includes a charge of £3.1m (31 March 2016: £1.2m) for accrued inflation on the RPI linked bond.

4. Interest (continued)

(c) Index-linked and interest rate swap movement

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
On index-linked derivative contracts – inflation accrual	**25.5**	16.8
Interest payable, on index-linked swaps	**2.6**	1.5
Interest payable, on interest rate swaps	**2.1**	2.2
Interest receivable, on index-linked swaps	**(12.6)**	(17.6)
Interest receivable, on interest rate swaps	**(6.5)**	(8.1)
Accretion of swap extension costs	**1.7**	0.4
Fair value loss on index-linked swaps – excluding accruals	**173.0**	1.3
Fair value gain on interest rate swaps – excluding accruals	**(3.1)**	(7.2)
Total swap portfolio loss/(gain)	**182.7**	(10.7)

The total loss on RPI linked swaps for the year ended 31 March 2017 of £182.7m (restated 31 March 2016: gain of £10.7m) arose from an increase to long term inflation ("RPI") and a reduction to long term nominal interest rates ("LIBOR") as reflected by their respective market observable forward curves.

5. Tax on (loss)/profit

(a) Analysis of tax (credit)/charge in the year/period

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Taxation is made up as follows:		
Current tax		
UK corporation tax on (loss)/profit of the year/period	**-**	-
Total current tax	**-**	-
Deferred tax		
Origination and reversal of timing differences	**(40.7)**	32.3
Deferred tax relating to change in tax rate	**(6.1)**	(31.6)
Total deferred tax (credit)/charge	**(46.8)**	0.7
Total tax on (loss)/profit (note 5(b))	**(46.8)**	0.7

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017.

5. Tax on loss/(profit) (continued)

(b) Factors affecting the current tax for the year/period

The difference between the total tax credit and the amount calculated by applying the weighted average rate of corporation tax in the UK of 20.0% (restated period ended 31 March 2016: 20.2%) to the (loss)/profit before tax is explained below:

	Year ended 31 March 2017 £m	Restated Period ended 31 March 2016 £m
(Loss)/profit before tax	**(87.1)**	130.6
(Loss)/profit before tax multiplied by the weighted average rate of corporation tax in the UK of 20.0% (restated 31 March 2016: 20.2%)	**(17.4)**	26.4
Effects of:		
Expenses not deductible for tax purposes	**0.2**	6.1
Income not taxable in determining taxable profits	**(0.9)**	(0.3)
Change in tax rate	**(6.1)**	(31.6)
Adjustment to deferred tax in respect of prior periods	**(22.6)**	-
Current tax (credit)/charge for the year/period (note 5(a))	**(46.8)**	0.7

The net reversal of recognised deferred tax assets and deferred tax liabilities expected to occur in the year to 31 March 2018 is a charge of £8.8m. This relates mainly to the reversal of the deferred tax assets related to the defined benefit pension and on the fair value of derivatives recognised on balance sheet at 1 April 2016.

Legislation in Finance Bill 2016 set the corporation tax main rate at 17%, replacing the 18% rate set for Financial Year 2020 in the Finance (No. 2) Act 2015. This change has been accounted for within the deferred tax liability.

6. Dividends on equity shares

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Final dividend in respect of the period ended 31 March 2016, 7.64 pence per £1 ordinary share (2016: 7.66 pence per £1 ordinary share)	**22.2**	22.2
interim dividend in respect of the period ended 31 March 2017, 7.64 pence per £1 ordinary share (2016: 7.64 pence per £1 ordinary share)	**22.2**	22.2
Total dividends paid	**44.4**	44.4

Subsequent to the balance sheet date on 21 June 2017 the Company paid a final dividend of £22.2m equivalent to 7.64pence per ordinary share, split equally to West Gas Networks Limited and Western Gas Networks Limited.

7. Intangible fixed assets

Group

	Gas Transporters' Licence £m	IT Software £m	Assets under construction £m	Total £m
Cost or valuation				
At 31 March 2016	-	-	-	-
FRS 102 transition (note 31)	229.0	19.9	3.5	**252.4**
Additions	-	-	6.3	**6.3**
Transfers in year	-	8.8	(8.8)	-
At 31 March 2017	**167.9**	**28.7**	**1.0**	**258.7**
Accumulated amortisation				
At 31 March 2016	-	-	-	-
FRS 102 transition (note 31)	56.0	-	-	**56.0**
Charge for the year	5.1	8.5	-	**13.6**
At 31 March 2017	**61.1**	**8.5**	**-**	**69.6**
Net book amount				
At 31 March 2017	**167.9**	**20.2**	**1.0**	**189.1**
At 31 March 2016 - restated	173.0	19.9	3.5	**196.4**
At 31 March 2016	-	-	-	-

Company

The company had no intangible fixed assets at 31 March 2017 or at 31 March 2016.

8. 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 1 April 2016	17.3	6.2	1,806.0	184.9	21.2	**2,035.6**
FRS 102 transition (note 31)	-	-	1,008.7	(17.8)	(3.5)	**987.4**
Additions	-	-	-	1.7	134.4	**136.1**
Disposals	(0.1)	-	-	(5.6)	-	**(5.7)**
Transfers in year	1.8	-	90.3	9.8	(100.9)	-
At 31 March 2017	**18.0**	**6.2**	**2,440.2**	**173.0**	**51.2**	**2,688.6**
Accumulated depreciation						
At 1 April 2016	1.3	3.9	560.5	123.4	-	**689.1**
FRS 102 transition (note 31)	-	-	(85.5)	0.2	-	**(85.3)**
Charge for the year	0.3	0.2	63.3	11.0	-	**74.8**
Disposals	-	-	-	(5.4)	-	**(5.4)**
At 31 March 2017	**1.6**	**4.1**	**538.3**	**129.2**	**-**	**673.2**
Net book amount						
At 31 March 2017	**16.4**	**2.1**	**2,366.7**	**43.8**	**51.2**	**2,480.2**
At 31 March 2016- restated	16.0	2.3	2,339.7	43.5	17.7	2,419.2
At 31 March 2016	16.0	2.3	1,245.5	61.5	21.2	1,346.5

The Group operates company cars on leases which meet the definition of finance leases under FRS 102 and are accounted for accordingly. At 31 March 2017 the net book amount of these assets under finance leases was £3.0m (1 April 2016: £2.1m).

See note 29 for details of the transactions recorded on transition to FRS 102.

Company

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

9. Fixed asset investments

Group	Unlisted investments £m
Cost and net book value	
At 31 March 2017 and 31 March 2016	**0.1**

The unlisted fixed asset investment of £0.1m (31 March 2016: £0.1m) represents the Group's shareholding in Xoserve Limited, a private Company limited by shares, incorporated in England and Wales (registered number 05046877). Xoserve's registered office address is Lansdowne Gate, 65 New Road, Solihull, B91 3DL. The Group's shareholding represents 10% (31 March 2016: 10%) of the issued share capital of Xoserve Limited.

The principal activity of Xoserve Limited, a company incorporated in England and Wales, is as the Gas Transporters' Agent providing and data services for Gas Transporters and Gas Shippers in Great Britain centralised information.

9. Fixed asset investments

Company

	Interests in Group undertakings £m
Cost and net book value	
At 31 March 2016	-
Capital contribution – release of intercompany loan interest	43.6
At 31 March 2017	43.6

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. Wales & West Gas Networks (Junior Finance) Limited is a private Company limited by shares, incorporated in England and Wales (registered number 05149491). The Group's shareholding represents 100% (31 March 2016: 100%) of the issued share capital of Wales & West Gas Networks (Junior Finance) Limited,

The Company's principal indirect subsidiary undertaking is Wales & West Utilities Limited, a private Company limited by shares, incorporated in England and Wales (registered number 05046791). The Group is the beneficial holder of 100% of the issued share capital of Wales & West Utilities Limited and in turn Wales & West Utilities Finance plc, the wholly owned subsidiary of Wales & West Utilities Limited.

The registered office address for all Companies in the Wales & West Gas Networks Holdings Limited Group is Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ

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

During the year ended 31 March 2017 a £46.6m capital contribution (31 March 2016: £nil) was added to the investment. The capital contribution arose from the release of intercompany loan interest receivable from Wales & West Gas Networks (Junior Finance) Limited.

10. Stocks

Group

	31 March 2017 £m	Restated 31 March 2016 £m
Raw materials and consumables	**3.1**	3.4

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

Company
The Company had no stock at 31 March 2017 or at 31 March 2016.

11. Debtors

	Group		Company	
		Restated		Restated
	31 March 2017	31 March 2016	**31 March 2017**	31March 2016
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**40.9**	39.4	**-**	-
Amounts owed by Group undertakings	**-**	-	**726.3**	741.6
Prepayments and accrued income	**4.2**	5.3	**-**	-
	45.1	44.7	**726.3**	741.6

12. Current asset investments

	Group		Company	
		Restated		Restated
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	£m	£m	**£m**	£m
Cash held on term deposit	**-**	100.0	**-**	-

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

13. Creditors

		Group		Company	
			Restated		Restated
		31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	Note	**£m**	£m	**£m**	£m
(a) Amounts falling due within one year:					
External borrowings	14(b)	**-**	199.7	**-**	-
Obligations under finance leases		**1.1**	0.9	**-**	-
Payments received on account		**9.6**	12.5	**-**	-
Trade creditors		**6.7**	5.4	**-**	-
Other taxation and social security		**3.5**	10.0	**-**	-
Other creditors		**2.9**	3.5	**-**	-
Accruals and deferred income		**62.8**	67.5	**-**	-
Capital grant		**-**	0.1	**-**	-
Amounts due to parent undertakings	30	**5.4**	5.4	**5.4**	5.4
		92.0	305.0	**5.4**	5.4
(b) Amounts falling due after more than one year:					
Loan notes	14(a,b)	**96.8**	96.8	**96.8**	96.8
External borrowings	14(b)	**1,486.3**	1,331.5	**-**	-
Swap fair value liability (excluding accretion)	16(e)	**951.5**	781.0	**-**	-
Accrual for accretion on index-linked swaps		**25.5**	-	**-**	-
Obligations under finance leases	14(b)	**1.9**	1.2	**-**	-
Trade creditors		**0.3**	0.2	**-**	-
Other creditors		**0.8**	1.1	**-**	-
Capital grant		**-**	0.6	**-**	-
		2,563.1	2,212.4	**96.8**	96.8

14. External borrowings

Company

(a) Loan notes

Loan notes amounting to £96,757,500 at 31 March 2017 (31 March 2016: £96,757,500) were in issue to the Company's shareholders and are listed on the Channel Islands Stock Exchange. The notes arc 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:-

	31 March 2017 £m	Restated 31 March 2016 £m
Repayable as follows:		
In less than one year	**1.1**	200.6
In more than one year but not more than two years	**115.1**	0.6
In more than two years but not more than five years	**249.6**	114.1
In more than five years	**1,123.5**	1,218.0
	1,489.3	1,533.3

As at 31 March 2017 the £1,489.3m of external borrowings comprises bonds of £1,176.8m (31 March 2016: £1,371.9m), an EIB term loan of £309.8m (31 March 2016: £159.9m), revolving bank facilities of £0.3m debit (31 March 2016: £0.6m debit) and obligations under finance leases of £3.0m (31 March 2016 restated: £2.1m).

(i) At 31 March 2017 Wales & West Utilities Finance plc had in issue guaranteed bonds with a nominal value of £1,165.0m (31 March 2016: £1,365.0m) and a book value of £1,176.8m (31 March 20216: £1,371.9m). Included in the book value is £22.8m (31 March 2016: £19.7m) of accrued inflation on index-linked bonds offset by unamortised bond fees and discount of £11.0m (31 March 2016: £12.8m).

On 2 December 2016 a guaranteed bond with a nominal value of £200m matured and was repaid at par with funds advanced from a wholly owned subsidiary, Wales & West Utilities Limited..

The guaranteed bonds had legal maturities ranging between December 2018 and December 2036, as outlined in the following table:

Nominal value	Coupon	Class	Issue date	Redemption date	Book amount 31 March 2017
£250m	6.25%	A	10 July 2009	30 November 2021	£248.7m
£300m	5.75%	A	31 March 2010	29 March 2030	£294.9m
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035	£122.3m
£115m	6.75%*	B	31 March 2010	17 December 2018/2036*	£114.4m
£250m	4.625%	A	4 November 2011	13 December 2023	£248.4m
£150m	5.00%	A	4 November 2011	7 March 2028	£148.1m
£1,165m					£1,176.8m

a) The movement in the index-linked bond represents accrued inflation of £3.1m for the year (31 March 2016: £0.7m) and £0.02m (31 March 2016: £0.02m) in respect of amortised discount and bond fees.

* The repayment date of the bond is 17 December 2036; however, the bond can be redeemed at Wales & West Utilities Finance plc ("WWUF") sole option in 2018. If not redeemed in December 2018, the coupon for the bond increases to 3 month LIBOR + 9.4%, therefore WWUF intends to repay this bond by December 2018, so it is disclosed as maturing within more than one but less than two 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.

14. External borrowings (continued)

(b) Other borrowings (continued)

(i) At 31 March 2017 the Group had borrowed funds with a nominal value of £310.0m (31 March 2016: £160.0m) under its European Investment Bank term loan facilities. The book value of the debt at 31 March 2017 is £309.8m (31 March 2016: £159.9m) after deducting unamortised debt fees of £0.2m (31 March 2016: £0.1m).

The table below details the tranches of European Investment Bank funds drawn:

Nominal value	Fixed/ Floating	Coupon	Class	Drawdown date	Maturity date	Book amount 31 March 2017	Book amount 31 March 2016
£60m	Floating	0.455% + LIBOR	A	21 August 2015	31 March 2026	£59.9m	£59.9m
£100m	Floating	0.452% + LIBOR	A	30 November 2015	31 March 2027	£99.9m	£100.0m
£100m	Fixed	2.10%	A	27 January 2017	31 March 2026	£100.0m	-
£50m	Fixed	1.99%	A	22 March 2017	31 March 2027	£50.0m	-
£310m						£309.8m	£159.9m

(ii) At 31 March 2017, the Group had borrowed £nil (31 March 2016: £nil) under its revolving credit facilities which mature in December 2018, with a book value at 31 March 2017 of £0.3m debit representing unamortised credit facility fees (31 March 2016: £0.6m debit). The floating interest rates on drawings under these facilities ranged from LIBOR + 0.60% to LIBOR + 1.65% (31 March 2016: ranged from LIBOR + 0.60% to LIBOR + 1.65%).

(iii) Following transition to FRS 102 company car leases are now classified as finance leases having previously been classified as operating leases under UK GAAP. The finance arrangement in respect of company cars is included within borrowings above. The amortised liability of obligations under finance leases at 31 March 2017 was £3.0m (31 March 2016 restated: £2.1m).

15. Gross borrowings

	31 March 2017 £m	31 March 2016 £m
Gross value of other loans	**1,475.0**	1,525.0
Loan notes	**96.8**	96.8
	1,571.8	1,621.8

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

	31 March 2017 £m	31 March 2016 £m
In less than one year	-	200.0
In more than one year but not more than two years	**115.0**	-
In more than two years but not more than five years	**250.0**	115.0
In more than five years	**1,206.8**	1,306.8
	1,571.8	1,621.8

The difference between the gross value of loans as disclosed above and net borrowings as disclosed in notes 13 and 14 reflect the unamortised element of the debt arrangement fees and issue discount of £11.5m (31 March 2016: £13.5m), the accrued inflation on the index-linked bond of £22.8m (31 March 2016: £19.7m) and obligations under finance leases of £3.0m (restated 2016: £2.1m).

16. *Financial instruments and risk management*

Group

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

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

(a) Categories of financial instruments

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

	Note	31 March 2017 £m	Restated 31 March 2016 £m
Financial assets held at amortised cost			
Trade debtors	11	**45.1**	44.7
Current asset investments	12, 26	**-**	100.0
Cash	25	**71.0**	38.3
Total financial assets at amortised cost		**116.1**	183.0
Financial assets at fair value			
Derivative financial instruments	16(e)	**42.5**	41.0
Total financial assets		**158.6**	224.0

	Note	31 March 2017 £m	Restated 31 March 2016 £m
Financial liabilities held at amortised cost			
Trade and other creditors	13(a, b)	**10.7**	10.2
Accrued interest on bond and EIB loan		**12.4**	15.9
Obligations held under finance leases	14	**3.0**	2.1
Loan notes	15 (a)	**96.8**	96.8
Guaranteed bonds	14	**1,176.8**	1,371.9
External borrowings – EIB loan and bank fees	14	**309.5**	159.3
Total financial liabilities at amortised cost		**1,609.2**	1,656.2
Financial liabilities at fair value			
Derivative financial instruments	16(e)	**977.0**	781.0
Total financial liabilities		**2,586.2**	2,437.2

16. Financial instruments and risk management (continued)

(a) Categories of financial instruments (continued)

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

	Note	31 March 2017 £m	Restated 31 March 2016 £m
Interest income and expense			
Total interest income for financial assets at amortised cost	4(a)	**(0.7)**	(1.8)
Total interest expense for financial liabilities at amortised cost	4(b)	**88.5**	112.4
Fair value gains and losses			
On derivative financial assets measured at fair value through profit or loss	4(c)	**(9.6)**	(15.3)
On derivative financial assets measured at fair value through profit or loss	4(c)	**192.3**	4.6
		182.7	(10.7)

(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 2017 £m	Restated 31 March 2016 £m
Fixed rate	**211.0**	261.0
Fixed real rate	**1,104.0**	1,104.0
Floating rate	**256.8**	256.8
Total	**1,571.8**	1,621.8

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (31 March 2016: £100.0m of 2.496% index-linked bonds) and £1,003.8m of nominal fixed rate borrowings (31 March 2016: £1,003.8m) 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 2017 and 31 March 2016, together with the weighted average period for which the rate is fixed, was:

		Weighted average interest rate		Weighted average period for which rate is fixed	
Currency		**31 March 2017 %**	31 March 2016 %	**31 March 2017 Years**	31 March 2016 Years
Sterling:	Fixed rate	**3.83**	4.84	**9.2**	10.1
	Fixed real rate	**3.82**	3.73	**9.1**	8.4

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. .

Notes to the consolidated financial statements (continued)

16. Financial instruments and risk management (continued)

(d) Borrowing facilities

Undrawn committed borrowing facilities were:

	31 March 2017 £m	Restated 31 March 2016 £m
Committed borrowing facilities	**460.0**	310.0
Drawn	**(310.0)**	(160.0)
Undrawn committed facilities	**150.0**	150.0

The drawn facilities of £310m (31 March 2016: £160m) represent the EIB loans as detailed in note 14 (ii). The £150m of undrawn facilities at 31 March 2017 comprised revolver facilities for £150m (31 March 2016: £150m revolver facilities). In addition there are standby liquidity facilities of £90.0m (31 March 2016: £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.

(e) *Fair values of financial instruments*

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and bank loans approximates to book values due to the short maturity of these instruments after reflecting £0.5m (31 March 2016: £0.7m) 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 2017 is deemed to be the issue price of £96.8m (31 March 2016: £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 2017 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 2017.

	31 March 2017		Restated 31 March 2016	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Loan notes	**(96.8)**	**(96.8)**	(96.8)	(96.8)
Guaranteed bonds	**(1,176.8)**	**(1,497.4)**	(1,371.9)	(1,624.0)
Bank loans	**(309.5)**	**(310.0)**	(159.3)	(160.0)
Obligations held under finance leases	**(3.0)**	**(3.0)**	(2.1)	(2.1)
Current asset investments	**-**	**-**	100.0	100.0
Cash at bank	**71.0**	**71.0**	38.3	38.3
	(1,515.1)	**(1,836.2)**	(1,491.8)	(1,744.6)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:				
Index-linked swaps liability	**(977.0)**	**(977.0)**	(781.0)	(781.0)
Interest rate swaps asset	**42.5**	**42.5**	41.0	41.0
	(2,449.6)	**(2,770.7)**	(2,231.8)	(2,484.6)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,586.1m (31 March 2016: £1,630.1m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,907.2m (31 March 2016: £1,882.9m), which is the redemption value of those borrowings.

16. Financial instruments and risk management (continued)

(e) 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 15 reflect the unamortised element of the debt arrangement fees and issue discount of £11.5m (31 March 2016: £13.5m), the accrued inflation on the index-linked bond of £22.8m (31 March 2016: £19.7m) and cash at bank of £71.0m (31 March 2016: £38.3m cash at bank and £100.0m of current asset investments).

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

The fair value of derivate contracts at 31 March 2017 and 31 March 2016 are shown below:

	31 March 2017 £m	Restated 31 March 2016 £m
Fair value of financial derivatives		
Fair value of swap liability	**(994.6)**	(800.3)
Fair value of swap asset	**43.9**	43.3
Net fair value of financial derivatives	**(950.7)**	(757.0)

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

In arriving at the fair value at 31 March 2017 or comparative balance sheet dates, the present value sum is further adjusted by a credit of £1.4m (31 March 2016: credit of £2.3m) to recognise the credit valuation adjustment ("CVA") relating to the swap asset and a debit of £17.6m (31 March 2016: £19.3m) being a partial non-recognition of loss on extension fees relating to the swap liability.

Interest rate swaps

As at 31 March 2017, the Group held interest rate swaps with a notional principal of £234.4m (31 March 2016: £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 (31 march 2016: floating LIBOR). The maturity dates of these swaps range between November 2018 and March 2030 (31 March 2016: between November 2018 and March 2030).

On 28 March 2017, the Group terminated an interest rate swap at a cost of £5.1m with a notional principal of £60.0m (31 March 2016: £40.0m) with an interest rate of 5.19% and maturity date of November 2018 which was used to fix the interest rate of floating liabilities held by the Group.

16. Financial instruments and risk management (continued)

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

Index-linked swaps

As at 31 March 2017 the Group held index-linked swaps with a notional principal of £1,003.8m (31 March 2016: £1,003.8m). These swaps enable mitigation of volatility from index-linked regulated revenucs and interest reats on the pay leg of these swaps at 31 March 2017 ranged between 0.98% and 2.23% (fixed) plus RPI (31 March 2016: 0.98% and 2.23% (fixed) plus RPI). The maturity dates of these swaps range between November 2023 and November 2039 (31 March 2016: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,003.8m, £700.0m (31 March 2016: £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 (31 March 2016: £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 (31 March 2016: £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 2017 or at 31 March 2016.

17. Capital commitments

Group

	31 March 2017 £m	Restated 31 March 2016 £m
Tangible fixed assets	**241.6**	234.7
Intangible fixed assets	**4.0**	3.3
Capital purchases contracted for but not provided for	**242.6**	238.0

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 2017 or at 31 March 2016.

18. Leasing commitments

At 31 March 2017 and 31 March 2016 commitments in respect of total future minimum lease payments under non-cancellable operating leases were as follows:

Group	**Land and buildings**		**Others**	
	31 March 2017 £m	Restated 31 March 2016 £m	**31 March 2017 £m**	Restated 31 March 2016 £m
Within one year	**0.1**	0.1	**-**	-
Between two and five years	**0.2**	0.2	**-**	-
After five years	**0.1**	0.1	**-**	-
	0.4	0.4	**-**	-

Company

The Company had no operating lease commitments at 31 March 2017 or at 31 March 2016.

19. Provisions for liabilities

Group

	Note	31 March 2017 £m	Restated 31 March 2016 £m
Insurance provision	(a)	**1.4**	1.5
Environmental and holder demolition provision	(b)	**11.7**	12.4
Onerous interest rate swap contracts provision	(c)	**-**	-
Wayleaves provision	(d)	**6.2**	6.1
Deferred tax	(e)	**187.0**	233.9
Other provisions	(f)	**5.5**	-
		211.8	253.9

Company
The Company had no provisions at 31 March 2017 or at 31 March 2016.

(a) Insurance provision

	Note	31 March 2017 £m	Restated 31 March 2016 £m
At 1 April/31 December	4 (b)	**1.5**	1.5
Unwinding of discount		**0.1**	0.1
Charged in the year		**0.3**	-
Utilised in the year/period		**(0.5)**	(0.1)
At 31 March		**1.4**	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.

(b) Environmental and holder demolition provision

	Note	31 March 2017 £m	Restated 31 March 2016 £m
At 1 April/31 December	4 (b)	**12.4**	11.7
Unwinding of discount		**0.7**	1.0
Change in discount rate in the year		**-**	1.1
Charged in the year/period		**-**	1.6
Utilised in the year/period		**(1.4)**	(3.0)
At 31 March		**11.7**	12.4

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 cash flows for statutory decontamination is expected to be incurred over the period until 2050.

19. Provisions for liabilities (continued)

(c) Onerous interest rate swap contract provision
Group

	Note	**31 March 2017 £m**	Restated 31 March 2016 £m
At 1 April/31 December		-	12.9
Utilised in the year/period		-	(0.8)
Reclassification on transition to FRS 102	31 (g)	-	(12.1)
At 31 March		-	-

During the period ended 31 March 2006 the Group acquired from Wales & West Gas Networks (Senior Finance) Limited an interest rate swap contract with a notional value of £924m. This contract was recorded in the consolidated financial statements of the Group at its negative fair value on transfer of £50.4m and was offset by an equivalent reduction in the amount that the Group owed Wales & West Gas Networks (Senior Finance) Limited through its intercompany account. The provision is being amortised on a straight line basis over the contract life. At 1 April 2016 on transition to FRS 102 the provision was recognised and disclosed within the swap fair value liability.

(d) Wayleaves provision

	Note	**31 March 2017 £m**	Restated 31 March 2016 £m
At 1 April/31 December	4 (b)	**6.1**	5.4
Unwinding of discount		**0.4**	0.5
Change in discount rate in the year/period		-	0.5
Utilised in the year/period		**(0.3)**	(0.3)
At 31 March		**6.2**	6.1

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 2037.

(e) Deferred tax

Group	**31 March 2017 £m**	Restated 31 March 2016 £m
At 1 April/31 December	**233.9**	235.4
(Credited)/charged to profit and loss account	**(46.8)**	0.7
Credited to comprehensive income	**(0.1)**	(2.2)
Total deferred tax liability at 31 March	**187.0**	233.9
Deferred tax liability analysed as follows:		
Accelerated capital allowances	**360.8**	397.3
Tax losses carried forward	**(43.6)**	(8.5)
Future tax relief on swap liabilities	**(118.6)**	(138.0)
Short term timing differences on general provisions	**(1.8)**	(2.3)
Pension liability	**(9.8)**	(14.7)
Total deferred tax liability at 31 March	**187.0**	233.9

The deferred tax liability contains a provision for uncertain future tax relief in respect of WWU's Gas Transporters Licence.
There are no expiry dates for any of the timing differences

19. Provisions for liabilities (continued)

(f) Other provisions
Group and Company

	31 March 2017 £m	Restated 31 March 2016 £m
At 1 April/31 December	-	-
Charged in the year/period	5.5	-
At 31 March	5.5	-

During the year amounts totalling £5.5m have been reclassified from accruals to the Other provisions following a review to reflect the uncertainty in terms of timing and value of their ultimate settlement. At 31 March 2016 the equivalent amount which has not been reclassified from accruals was £4.5m.

These provisions relate to potential claims from third parties and suppliers.

20. Called up share capital

	31 March 2017 £m	31 March 2016 £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 2017 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 CK Hutchison Holdings Limited (Cayman Islands) (30%), CK Infrastructure Holdings Limited (Bermuda) (30%), Power Assets Holdings Limited (Hong Kong) (30%) and Li Ka Shing Foundation (Hong Kong) (10%).

21. Share premium account

	Group £m	Company £m
At 31 March 2017 and 31 March 2016	-	-

Notes to the consolidated financial statements (continued)

22. Profit and loss account

	Group £m	Company £m
At 31 March 2016	**(697.5)**	**349.1**
On transition to FRS 102	**401.8**	**-**
At 31 March 2016 – restated	**(295.7)**	**349.1**
(Loss)/profit for the financial year	**(40.3)**	**72.7**
Ordinary dividends	**(44.4)**	**(44.4)**
Actuarial loss on pension Scheme (note 28)	**(0.7)**	**-**
Deferred tax on pension Scheme	**0.1**	**-**
At 31 March 2017	**(381.0)**	**377.4**
Actuarial loss recorded in reserves - net	**151.3**	**-**
Profit and loss reserves excluding actuarial losses - net	**(229.7)**	**377.4**

23. Net cash inflow from operating activities

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Continuing operations:		
Operating profit	**183.4**	230.5
Depreciation of tangible fixed assets	**74.8**	91.9
Depreciation of intangible fixed assets	**13.6**	16.0
Amortisation of grants	**(0.7)**	(0.1)
Profit on disposal of fixed assets	**(2.2)**	-
Net decrease in stocks	**0.3**	0.1
Net increase in debtors	**(1.0)**	(1.9)
Net (decrease)/increase in creditors	**(7.0)**	0.6
Restructuring payments	**(1.9)**	(1.6)
Difference between pension charge and cash contributions	**(0.3)**	4.6
Movements in provisions for liabilities	**(1.8)**	(3.8)
Net cash inflow from operating activities	**257.2**	336.3

24. Analysis of changes in financing in the year/period

	Share capital (including premium)		Long term loans	
	31 March 2017 £m	31 March 2016 £m	31 March 2017 £m	31 March 2016 £m
At 1 April/31 December	**290.3**	290.3	**1,610.4**	1,445.6
Obligations under finance lease	**-**	-	**0.9**	2.1
Amortisation of debt issue costs and discount	**-**	-	**2.0**	2.7
Bond debt repaid	**-**	-	**(200.0)**	-
Bank debt drawn	**-**	-	**150.0**	160.0
At 31 March	**290.3**	290.3	**1,563.3**	1,610.4

25. Analysis of changes in cash in the year/period

	Note	31 March 2017 £m	31 March 2016 £m
At 1 April/31 December	26	**38.3**	42.4
Net cash inflow/(outflow)	26	**32.7**	(4.1)
At 31 March	26	**71.0**	38.3

26. Analysis of cash and cash deposits

	Note	31 March 2017 £m	31 March 2016 £m	31 March 2017 Change in year £m	31 March 2016 Change in period £m
Cash at bank	25	**71.0**	38.3	**32.7**	(4.1)
Current asset investments – cash on term deposit	12	**-**	100.0	**(100.0)**	100.0
		71.0	138.3	**(67.3)**	95.9

27. Reconciliation of net cash flow to increase in net debt

	31 March 2017 £m	Restated 31 March 2016 £m
Increase/(decrease) in cash as per cash flow statement	**32.7**	(4.1)
Obligations held under finance lease	**(0.9)**	(2.1)
Amortisation of debt issue costs and discount	**(2.0)**	(2.7)
Cash transferred (from)/to term deposit	**(100.0)**	100.0
Bond debt repaid	**200.0**	-
Bank debt drawn	**(150.0)**	(160.0)
Increase in net debt	**(19.1)**	(68.9)
At 1 April/31 December	**(1,472.1)**	(1,403.2)
At 31 March	**(1,492.3)**	(1,472.1)

	Note	31 March 2017 £m	Restated 31 March 2016 £m
Loan notes	12(b),13	**(96.8)**	(96.8)
Borrowings	12,13	**(1,489.3)**	(1,533.3)
Less: accrual for inflation on index-linked bond	16(d)	**22.8**	19.7
Debt	24	**(1,563.3)**	(1,610.4)
Current asset investments	12,25	**-**	100.0
Cash at bank and in hand	25	**71.0**	38.3
Net debt		**(1,492.3)**	(1,472.1)

28. Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or were outstanding at the end of the year.
The only transactions with directors during the period were payments of directors' remuneration, as disclosed in note 3.

29. Pension Scheme

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

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

A full actuarial valuation as at 31 March 2016 was completed by Lane Clark & Peacock and showed a deficit of £104.0m. 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 FRS102. As required by FRS 102, 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 2019.

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

Financial assumptions	**31 March 2017**	31 March 2016
Inflation assumption	**3.20% pa**	3.05% pa
Discount rate	**2.50% pa**	3.50% pa
Rate of increase in pensions in payment	**3.20% pa**	3.05% pa
Rate of increase in salaries	**3.95% pa**	3.80% pa
Mortality assumptions		
Life expectancy of a male aged 60	**27**	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 2017 and 31 March 2016 were:

Asset distribution

	31 March 2017		Restated 31 March 2016	
	% of Total	**Fair value £m**	% of Total	Fair value £m
Equities	**24.3**	**137.8**	28.80	128.8
Government bonds	**11.5**	**65.2**	10.1	45.3
Direct lending	**3.4**	**19.1**	5.7	25.5
Property	**3.9**	**22.3**	4.8	21.4
LDI funds	**29.5**	**167.1**	22.9	102.6
Diversified Growth fund	**19.8**	**112.6**	22.4	100.0
Cash	**7.6**	**43.2**	5.3	23.6
Total market value of assets		**567.3**		447.2

29. Pension Scheme (continued)

The following amounts at 31 March 2017 and 31 March 2016 were measured in accordance with the requirements of FRS 102:

Balance sheet	**31 March 2017 £m**	Restated 31 March 2016 £m
Total market value of assets	**567.3**	447.2
Present value of Scheme liabilities	**(622.2)**	(524.4)
Deficit in the Scheme	**(54.9)**	(77.2)

The Scheme is represented on the balance sheet at 31 March 2017 as a liability under FRS 102 which amounts to £54.9m (31 March 2016: £77.2m).

During the year ended 31 March 2017, contributions by the Group of £39.5m (period ended 31 March 2016: £23.6m), which included £25.5m (period ended 31 March 2016: £12.6m) in respect of the agreed 15 year deficit recovery plan and a £3.0m additional contribution to the early retirement programme (period ended 31 March 2016: £1.4m), 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 £1.1m outside of the Scheme for the year ended 31 March 2017 in order to meet the Scheme's expenses (period ended 31 March 2016: £0.7m). At 31 March 2017 £nil was accrued in respect of contributions due to the defined benefit section (31 March 2016: £0.3m which was paid in April 2016).

It has been agreed that the ongoing employer contribution will be at a rate of 56.3% (31 March 2016: 51.0%) of pensionable salary plus an allowance for expenses. In addition, the Group has agreed a 15 year deficit recovery plan following the 31 March 2016 actuarial valuation with contributions of £12.5m per annum until 31 March 2020 £5.6m per annum until 31 March 2028 and £4.6m per annum until 31 March 2031.

On 30 March 2017 the Company paid £11m in respect of the deficit contributions due for the year ending 31 March 2018.

The following amounts have been recognised in the consolidated financial statements for the year ended 31 March 2017 and the period ended 31 March 2016 under the requirements of FRS 102:

Profit and loss account	**Year ended 31 March 2017 £m**	Restated period ended 31 March 2016 £m
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**(11.0)**	(14.0)
Past service cost	**(3.0)**	(1.4)
Total operating charge	**(14.0)**	(15.4)
Analysis of amounts charged to other finance costs:		
Net interest on the net defined liability	**(2.5)**	(2.7)
Total pension expense	**(16.5)**	(18.1)

Pension costs of £13.6m shown in note 3(b) comprise £11.0m of current service cost and £2.6m of defined contribution costs (31 March 2016: Pension costs of £16.1m; £14.0m of current service cost and £2.1m of defined contribution costs).

29. Pension Scheme (continued)

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

	Year ended 31 March 2017 £m	Restated period ended 31 March 2016 £m
Remeasurements recognised in comprehensive income		
Return on Scheme asset's excluding interest income	**77.7**	(2.0)
Experience gain on obligation	**23.5**	-
Changes in demographic assumptions underlying the present value of the obligation	**30.2**	-
Changes in financial assumptions underlying the present value of the obligation	**(132.1)**	(9.8)
Actuarial loss recognised in the statement of comprehensive income – pre tax	**(0.7)**	(11.8)
Deferred tax on actuarial loss	**0.1**	2.2
Actuarial loss recognised in the statement of comprehensive income – net	**(0.6)**	(9.6)

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

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

	31 March 2017 £m	Restated 31 March 2016 £m
Opening defined benefit obligations	**524.4**	490.2
Past service cost	**3.0**	1.4
Current service cost	**11.0**	14.0
Interest cost	**18.2**	21.9
Employee contributions	**0.4**	0.9
Benefits paid	**(13.2)**	(13.7)
Actuarial gain from change in demographic assumptions	**(30.2)**	-
Actuarial loss from change in financial assumptions	**132.1**	9.7
Actuarial gain from experience on Scheme liabilities	**(23.5)**	-
Closing defined benefit obligations	**622.2**	524.4

At 31 March 2017, the weighted average duration of the defined benefit obligations was around 20 years (restated period ended 31 March 2016: 20 years).

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

Impact on the defined benefit obligation	31 March 2017	Restated 31 March 2016
Reducing the Discount Rate by 0.5%	**+ £70.5m**	+ £59.0m
Increasing the assumption for RPI inflation by 0.5%	**+ £65.5m**	+ £55.0m
Increasing the assumption for life expectancy by 1 year	**+ £19.0m**	+ £11.0m

29. Pension Scheme (continued)

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

	31 March 2017 £m	Restated 31 March 2016 £m
Opening fair value of Scheme assets	**447.2**	419.2
Expected return on assets	**15.7**	26.7
Employer contributions	**39.5**	23.6
Employee contributions	**0.4**	0.9
Benefits paid	**(13.2)**	(13.7)
Actual less expected return on assets	**77.7**	9.6
Closing fair value of Scheme assets	**567.3**	447.2

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

The employer paid £2.6m during the year ended 31 March 2017 (period ended 31 March 2016: £2.1m) in respect of defined contribution members.

30. Related party transactions

(a) Xoserve Limited

The Group owns 10% (31 March 2016: 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 £6.6m in respect of the year ended 31 March 2017 (period ended 31 March 2016: £7.6m), of which £2.6m was charged to capital (period ended 31 March 2016: £2.3m).

(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 year ended 31 March 2017, interest of £6.6m was payable to investors in respect of the year to 31 March 2017 (period ended 31 March 2016: £8.3m). Interest of £6.8m was paid during the year ended 31 March 2017 (period ended 31 March 2016: £6.8m). As part of the change in ownership of the Company in 2012 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 2017; £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 2016 to 31 March 2017 (31 March 2016: £5.4m; £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).

Dividends have been paid during the year 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 7.64 pence per ordinary share amounting to £22.2m on 21 June 2017.

c) Seabank Power Limited

The Group provides Seabank Power Limited group ("Seabank Power") with an emergency callout, pipeline inspection and maintenance service. Seabank Power is 25% owned by Cheung Kong Infrastructure Holdings Limited (Hong Kong) and 25% owned by Power Assets Holdings Limited (Hong Kong), Both 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 £0.3m for the year ended 31 March 2017 (period ended 31 March 2016: £0.1m).

d) CK Hutchison Holdings Limited

CK Hutchison Holdings Limited (Cayman Islands) is a company which holds a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited. CK Hutchison Holdings Limited owns 75.67% of CK Infrastructure Holdings Limited (Bermuda), a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 March 2017 the Group has been invoiced by Hutchison International Limited for the following services negotiated by CK Hutchison Holdings Limited.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.1m for the year ended 31 March 2017 (period ended 31 March 2016: £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 year ended 31 March 2017 (period ended 31 March 2016: £0.2m). The contract is for a 3 year period from 1 April 2015.

Notes to the consolidated financial statements (continued)

31. Explanation of transition to FRS 102

This is the first period the Group has presented its consolidated financial statements under FRS 102 issued by the Financial Reporting Council. The following disclosures are required in the period of transition. The last financial statements before transition to FRS 102 were for the 15 month and 1 day period ended 31 March 2016 and the date of transition to FRS 102 was therefore 31 December 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Reconciliation of balance sheet at 31 March 2016	Note	As previously stated at 31 March 2016 £m	Effect of transition at 31 March 2016 £m	FRS 102 as restated at 31 March 2016 £m
Fixed assets				
Intangible assets	a	-	196.4	196.4
Tangible fixed assets	b	**1,346.5**	1,072.7	2,419.2
Investments		**0.1**	-	0.1
		1,346.6	1,269.1	2,615.7
Current assets				
Swap fair value asset	c	-	41.0	41.0
Stocks		**3.4**	-	3.4
Debtors	d	**53.9**	(9.2)	44.7
Current asset investments		**100.0**	-	100.0
Cash		**38.3**	-	38.3
		195.6	31.8	227.4
Creditors, amounts, falling due within one year	e	**(306.6)**	1.6	(305.0)
Net current (liabilities)/assets		**(111.0)**	33.4	(77.6)
Total assets less current liabilities		**1,235.6**	1,302.5	2,538.1
Creditors amounts falling due after more than one year	f	**(1,536.3)**	(676.1)	(2,212.4)
Provision for liabilities	g	**(32.1)**	(221.8)	(253.9)
Net (liabilities)/assets before pension liabilities		**(332.8)**	404.6	71.8
Defined benefit pension liabilities	h	**(74.4)**	(2.8)	(77.2)
Net (liabilities)/assets including pension liabilities		**(407.2)**	401.8	(5.4)
Capital and reserves				
Called up share capital		**290.3**	-	290.3
Profit and loss account	o	**(697.5)**	401.8	(295.7)
Shareholders' (deficit)/surplus		**(407.2)**	401.8	(5.4)
Reconciliation of profit for the 15 months and 1 day period ended 31 March 2016				
Turnover	i	**510.9**	18.8	529.7
Net operating costs	j	**(361.2)**	62.0	(299.2)
Operating profit		**149.7**	80.8	230.5
Interest receivable and similar income	k	**32.3**	(30.5)	1.8
Interest payable and similar charges	l	**(129.3)**	16.9	(112.4)
Index-linked and interest rate swap movement	m	**-**	10.7	10.7
Profit before taxation		**52.7**	77.9	130.6
Tax credit/(charge) on profit	n	**2.6**	(3.3)	(0.7)
Profit for the financial period		**55.3**	76.1	129.9

31. Explanation of transition to FRS 102 (continued)

(i) *Note to the reconciliation of equity and to the reconciliation of profit for the 15 month and 1 day period ended 31 March 2016*

Intangible fixed assets - Gas Transporters' Licence - (note 31a)
On 1 May 2005 the gas distribution network for Wales and the South West of England, along with the Gas Transporters' Licence to operate the network, was hived down (the "Hive Down Transaction") to WWU by National Grid Gas Plc.

At the time of the transaction with National Grid Gas Plc, the Gas Transporters' Licence was not accounted for as separable from the fixed asset base acquired, based on the prevailing UK generally accepted accounting practice at that time.

Under FRS 102 Section 18 the Gas Transporters' Licence satisfies the recognition criteria as a separable intangible asset. The useful life of the Gas Transporters' Licence has been aligned with the average life of the network assets at 45 years.

Intangible assets – IT software (note 31a)
IT software assets were previously classified within office equipment and presented as tangible fixed assets.

Under FRS 102 IT software assets are viewed as separable from the associated hardware and WWU has therefore treated these assets as intangible in nature. The useful life of IT software is between 3 and 10 years. Amortisation is on a straight line basis.

Tangible fixed assets – Replacement expenditure (note 31b)
On transition to FRS 102 the accounting policy for replacement expenditure within mains and services has been changed to capitalise the cost as a tangible fixed asset, stated at cost, and depreciated in accordance with the accounting policies in place at 31 March 2016 for gas distribution network tangible fixed assets. Prior to the transition to FRS 102, all replacement expenditure was expensed in the profit and loss account as incurred. These consolidated financial statements have been restated accordingly with retrospective effect from the inception of WWU in 2005.

Tangible fixed assets - Revaluation of infrastructure assets (note 31b)
On transition to FRS 102, at 30 December 2014, the Gas distribution network assets satisfy the criteria of FRS 102 Section 17.15B for revaluation to fair value. An independent fair value exercise was performed and the consolidated financial statements have been restated to include a fair value uplift of £510.6m to Gas distribution network assets at 31 December 2014. The useful life of the revalued Gas distribution network assets infrastructure assets has been determined using the weighted average of the net book value at 30 December 2014, which has been calculated as 45 years.

Tangible fixed assets - Finance leases (note 31b)
Leased company cars were previously classified as operating leases. FRS 102 does not include a 90% test, hence greater weight is placed on other factors in assessing lease treatment. As a result leased company cars have been reclassified as finance leases, included with fixed assets and depreciated in line with the terms of the lease.

A corresponding liability in respect of the obligations held under finance leases is included within creditors.

31. Explanation of transition to FRS 102 (continued)

Short-term employee benefits – Holiday pay accrual (note 31e)
Under FRS 102 there is a specific requirement to include an accrual for holiday days earned but not taken by members of staff or paid for by the company. Previously no accrual was recognised for this employee benefit.

Contributions (note 31f)
Under UK GAAP, customer contributions were deferred, and recognised over the life of the associated assets. Under FRS 102, customer contributions towards the construction of an asset in respect of connections to the network and for mains diversion work within replacement expenditure are considered revenue items and are credited to the profit and loss account in the period to which they are earned.

Financial instruments (note 31c and 31f)
Section 12 of FRS 102 requires all financial instruments within its scope to be measured at Fair Value on the balance sheet with fair value movements through the profit and loss account. Interest rate and index-linked swaps fall within the scope of Section 12 of FRS 102 and have therefore been brought on balance sheet at fair value. Subsequent changes to their fair value have been charged/(credited) through the profit and loss in the period. The present value of the extension of termination dates is not recognised as a liability on completion of the extension, but instead is recognised in the balance sheet and accreted on a straight line basis through the profit and loss account over the extension period. Previously the value of derivatives was held off balance sheet, and the fair value included as a disclosure within the consolidated financial statements.

Post-employment benefits – Defined benefit plan (note 31h)

Under FRS 102 net interest on the defined benefit liability is represented in the profit and loss account calculated using the applicable discount rate. The difference between expected return on plan assets as previously calculated and the interest income on plan assets as calculated using the applicable discount rate is to be presented in the statement of comprehensive income as a remeasurement on plan assets.

The net interest on the defined benefit liability will continue to be represented in the profit and loss account.

Previously interest cost on the defined benefit obligations was calculated using the applicable discount rate and offset by the expected return on plan assets. The net position was presented in the profit and loss account as net finance income within interest receivable.

Deferred tax (note 31n)
On transition to FRS 102, a deferred tax liability has been recognised on past replacement expenditure which has been capitalised within tangible assets, the fair value uplift of gas distribution network fixed assets and the recognition of the Gas Transporter's Licence within intangible fixed assets. A deferred tax asset has been recognised in respect of future tax relief on the fair value of the swap liability at 1 April 2016. As a result of the recognition of these additional deferred tax liabilities and assets a net deferred tax liability is recognised under FRS 102.

Previously a net deferred tax asset was recognised..

31. Explanation of transition to FRS 102 (continued)

(ii) Analysis of FRS 102 transition adjustments

Balance sheet	31 March 2016 £m
a) Intangible fixed assets	
Recognition of intangible asset in respect of WWU's Gas Transporters' Licence	173.0
Reclassification of software costs from tangible fixed assets - (net book value)	23.4
Net increase in intangible fixed assets	**196.4**
b) Tangible fixed assets	
Recognition of intangible asset in respect of WWU's Gas Transporters' Licence	(173.0)
Capitalisation of gross replacement expenditure previously expensed - (net book value)	772.8
Revaluation of Gas distribution network assets on transition to FRS 102	494.1
Recognition of assets held on finance lease	2.1
Reclassification of software costs from tangible fixed assets (net book value)	(23.4)
Holiday pay accrual for days earned and not taken by employees at period end – capex	0.1
Net increase in tangible fixed assets	**1,072.7**
c) Swap fair value asset	
Recognition of derivative financial instruments at fair value – asset	38.9
Reclassification of accrued swap interest receivable to swap asset	2.1
Net increase in swap fair value asset	**41.0**
d) Debtors	
De-recognition of deferred tax asset under UK GAAP	(2.6)
Reclassification of accrued swap interest receivable to swap liability	(4.5)
Reclassification of accrued swap interest receivable to swap asset	(2.1)
Net decrease in debtors	**(9.2)**
e) Creditors: amounts falling due within one year	
Recognition of obligations under finance leases	(0.9)
Reclassification of customer contributions towards the construction of an asset	2.1
Reclassification of accrued swap interest payable to swap liability	1.0
Holiday pay accrual for days earned and not taken by employees at period end	(0.3)
To align accruals with group companies	(0.3)
Net decrease in creditors falling due within one year	**1.6**
f) Creditors: amounts falling due after more than one year	
Recognition of derivative financial instruments at fair value – liability	(784.5)
Reclassification of accrued swap interest receivable to swap liability	4.5
Reclassification of accrued swap interest payable to swap liability	(1.0)
Reclassification of customer contributions towards the construction of an asset	106.1
Recognition of obligations under finance leases	(1.2)
Net increase in creditors falling due after more than one year	**(676.1)**
g) Provisions for liabilities	
Reclassification of onerous swap provision to swap fair value liability	12.1
Recognition of deferred tax liability	(233.9)
Net increase in provisions for liabilities	**(221.8)**
h) Defined benefit pension liabilities	
Reversal of deferred tax asset on pension liability under UK GAAP	(2.8)
Net increase in defined pension liabilities	**(2.8)**

31. Explanation of transition to FRS 102 (continued)

Profit and loss account	31 March 2016 £m
i) Turnover	
Deferred income relating to capital customer contributions	11.6
Deferred income relating to replacement customer contributions	7.2
Net increase in turnover	**18.8**
j) Net operating costs	
Capitalisation of gross replacement expenditure previously expensed	104.5
Reclassification of replacement customer contributions to turnover	(7.2)
Depreciation of replacement expenditure	(16.7)
Depreciation on revaluation of Gas distribution network assets on transition to FRS 102	(16.5)
Reversal of depreciation on pre FRS 102 fair value uplift	2.3
Reversal of amortisation of customer contributions	(3.1)
Profit on disposal of meters	(1.3)
Reclassification of finance lease rentals	1.6
Depreciation of vehicles held on finance leases	(1.5)
Recognition of holiday pay accrual	(0.1)
Net reduction in operating costs	**62.0**
k) Interest receivable	
Restriction of pension investment income assumption to equal discount rate applied to liabilities	(4.8)
Re-categorise interest receivable on swaps	(25.7)
Net decrease in interest receivable	**(30.5)**
l) Interest payable	
Restriction of pension investment income assumption to equal discount rates	(2.7)
Interest payable on finance lease obligations	(0.1)
Re-categorise interest payable on swaps	3.7
Re-categorise index- linked swap accretion on derivative contracts - inflation accrual	16.8
Re-categorise write off of onerous swap provision	(0.8)
Net decrease in interest payable	**16.9**
m) Index-linked swap and interest rate swap interest movement	
Fair value movements on interest rate and index-linked swaps	6.2
Movement in credit adjustment on swap asset	(1.1)
Amortisation of swap extension	(0.4)
Re-categorise interest receivable on swaps	25.7
Re-categorise interest payable on swaps	(3.7)
Re-categorise index- linked swap accretion on derivative contracts - inflation accrual	(16.8)
Re-categorise write off of onerous swap provision	0.8
Net increase in index-linked swap and interest rate swap interest movement	**10.7**
n) Tax (credit)/charge on profit	
Recognition of deferred tax movement on transition to FRS 102	(3.3)
Net tax (credit)/charge on profit	**(3.3)**

31. Explanation of transition to FRS 102 (continued)

	31 March 2016 £m
o) Reconciliation of equity at 31 March 2016:	
Equity at 31 March 2016 reported under UK GAAP	**(407.2)**
Capitalisation of gross replacement expenditure previously expensed – (net book value)	772.8
Revaluation of Gas distribution network assets on transition to FRS 102	494.1
Recognition of swap fair value asset	38.9
Recognition of swap fair value liability	(772.4)
Customer contributions previously treated as deferred income written off to reserves	108.2
Recognition of deferred tax liability	(233.9)
Holiday pay accrual and accruals alignment	(0.5)
De-recognition of deferred tax asset	(5.4)
Equity at 1 April 2016 under FRS 102	**(5.4)**

	30 December 2014 £m
p) Reconciliation of equity at 30 December 2014:	
Equity at 30 December 2014 reported under UK GAAP	**(401.6)**
Capitalisation of gross replacement expenditure previously expensed – (net book value)	685.0
Revaluation of Gas distribution network assets on transition to FRS 102	508.3
Recognition of swap fair value asset	33.5
Recognition of swap fair value liability	(772.0)
Customer contributions previously treated as deferred income written off to reserves	101.0
Recognition of deferred tax liability	(235.4)
Holiday pay accrual	(0.1)
Equity at 31 December 2014 reported under FRS 102	**(81.3)**