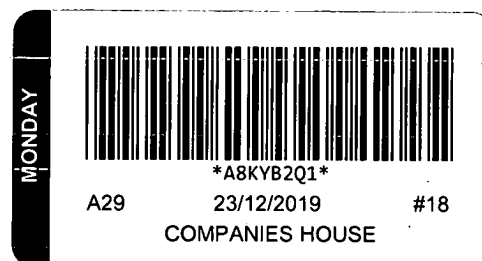


Registered No. 05095454

Wales & West Gas Networks (Holdings) Limited

Annual report and consolidated financial statements
for the year ended 31 March 2019



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Directors and advisers

Directors

Andrew Hunter	Chairman (R)
Graham Edwards	Chief Executive Officer (H)
Dominic Chan	(A, R, H, T)
Edmond Ip	(resigned 6 August 2019)
Hing Lam Kam	(R)
Duncan Macrae	(A, R, H, T)
Charles Tsai	(A, R)

Neil Henson	(Alternate Director to Graham Edwards)
Neil McGee	(Alternate Director to Dominic Chan)
Wendy Tong-Barnes	(Alternate Director to Hing Lam Kam)

- (A) *Member of the Audit Committee 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").

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 2019 and comparative financial statements for results for the year ended 31 March 2018 ("2018") as reported under Financial Reporting Standard 102 ("FRS 102").

The Group reports financial and non-financial key performance measures to the extent necessary for an understanding of the development, performance and position of the Group on pages 7 and 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 ("GDN"). The National Transmission System is owned and operated by National Grid plc group.

The Group operates one of the independently owned regional GDNs comprising the Wales and South West of England local distribution zones. The other seven regional gas distribution networks are owned by independent operators. Together these eight networks 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 Group's GDN 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 the Office of Gas and Electricity Markets ("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.

As a regulated business WWU is subject to price controls set by 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.

Strategic report (continued)

The business model (continued)

Regulatory environment (continued)

During 2018 Ofgem conducted a review of the existing RIIO framework ahead of the RIIO-GD2 price control, which will take effect from April 2021. The next price control period will be for 5 years and many of the existing principles remain. The most recent consultation documents were issued by Ofgem in December 2018, to which we responded. Ofgem published their decisions on methodologies for regulated revenues on 24 May 2019. The final details of the RIIO-GD2 gas distribution price control are subject to ongoing consultation.

The Group remains fully engaged with Ofgem, and the wider industry, to ensure that the RIIO framework remains balanced, sustainable and one that will support investment and customers.

The Group is required to submit a RIIO-GD2 business plan to Ofgem by 9 December 2019 and we are currently engaged with stakeholders to ensure we develop a well justified and stakeholder led business plan. WWU submitted draft plans to the Ofgem RIIO 2 Challenge Group on 1 July 2019 and on 1 October 2019. This group has provided Ofgem and WWU with feedback on our plan. Ofgem will assess GDN business plans in early 2020, then issue initial proposals for RIIO GD2 in July 2020 and final proposals in December 2020. An appeals process is available to parties should there be significant and material issues that cannot be agreed between Ofgem and the network.

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.

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

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

Results and operating performance

The operating profit amounted to £172.9m for the year ended 31 March 2019 (2018: £153.4m). After net interest of £238.9m, which includes an index-linked and interest rate swap charge of £95.1m (2018: net interest of £53.9m, includes an index-linked and interest rate swap credit of £32.4m) the consolidated loss before taxation for the year ended 31 March 2019 amounted to £66.0m (2018: profit of £99.5m). The consolidated loss attributable to shareholders, but before dividends, amounted to £66.0m (2018: profit of £77.6m).

The derivative asset and liability recognised at 31 March 2019 is £32.2m and £935.3m respectively (2018: £32.9m asset and £947.3m liability). In the year ended 31 March 2019 there was a decrease in the fair value liability following the triennial swap accretion payment of £117.1m paid on 29 March 2019 offset by net swap interest receipts of £10.7m and a profit and loss account charge of £95.1m. This charge is due to an increase in the forward RPI curve and a decrease to the forward LIBOR curve (2018: credit of £32.4m; due to a decrease in the forward RPI curve and an increase to the forward LIBOR curve).

The profit before taxation for the year ended 31 March 2019 excluding the fair value charge of £95.1m on derivatives amounted to £29.1m (2018: excluding fair value credit of £32.4m, profit of £67.1m).

The results of the Group for the year ended 31 March 2019 are set out in the consolidated profit and loss account on page 21.

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

During the year ended 31 March 2019, the Group invested and capitalised £147.9m, against which consumers contributed £14.9m (2018: £126.6m, against which consumers contributed £11.1m), on expanding and improving the regional gas distribution network.

Strategic report (continued)

The business model (continued)

Results and operating performance (continued)

Part of network improvement includes replacement work within capital investment. The Group laid 386kms of gas mains and undertook work on the related gas service pipes running from the gas mains to the properties of gas consumers at a gross cost of £79.7m during the year ended 31 March 2019, against which consumers contributed £2.1m (2018: 378kms at a gross cost of £68.5m, against which consumers contributed £1.2m). Consumer contributions are included within turnover.

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.

Business review

The Group's operating performance over the past year has been satisfactory, with all Ofgem's 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 2018/19 all Ofgem targets have been met by WWU (2017/18: all targets met). There were 1,515 complaints in the year ended 31 March 2019 (2018: 1,555). The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

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

Financial review

Basis of accounting

The consolidated financial statements present the Group's results for the year ended 31 March 2019 with comparatives for the year ended 31 March 2018 and the financial position as at 31 March 2019 and 31 March 2018. They have been prepared using the accounting policies shown on pages 26 to 31, in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom.

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 Gas Transporters' Licence within the Annual "A40 - GDN Regulatory Revenue Return" of Wales & West Utilities Limited prepared to 31 March.

Note 2 - Turnover on page 32 provides an analysis of income derived from regulated activities, non-regulated activities and from customer contributions.

Cash flow forecasting

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

Strategic report (continued)

The business model (continued)

Liquidity, resources and capital expenditure

Net cash inflow from operations for the year ended 31 March 2019 amounted to £277.2m (2018: £223.8m).

Investing activities absorbed net cash of £139.2m (2018: £129.9m) and net cash outflow from financing activities amounted to £644.1m (2018: inflow of £516.6m). Financing activities during the year ended 31 March 2019 included: a £300m bond issue and a £50m term loan; offset by £67.0m for the Class B bond buy back, the triennial swap accretion payment of £117.1m and the £542.8m dividend payment (2018: £645.0m received for loan notes issued to affiliated companies, £48.0m par value paid for the Class B bond buy back and £44.6m in dividend payments).

Pension Scheme

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). At 31 March 2019 an FRS 102 pension valuation of £3.7m net deficit (2018: £11.5m net deficit) resulted in a credit to the statement of comprehensive income of £7.7m net of deferred tax of £1.8m (2018: £22.9m credit net of deferred tax of £4.7m). The Group contributed £nil of deficit contributions in respect of the defined benefit pension Scheme during the year ended 31 March 2019 (2018: £18.4m; £14.7m in advance re 2018/19 and £3.7m re 2017/18).

The calculation of the gross pension liability of £543.5m (2018: £560.9m) has a number of areas of judgement, with the key assumptions being the discount rate, inflation rate and assumptions around mortality as stated below:

- Discount rate - 2019: 2.40%, (2018: 2.50%)
- Inflation rate - 2019: 3.25%, (2018: 3.15%)

During the year ended 31 March 2019, the Group updated its assumptions around mortality from the Continuous Mortality Investigation ("CMI") 2017 model to the CMI 2018 model (2018: from the 2015 CMI model to the 2017 CMI model), to reflect the latest available information. The change to the CMI model reduced scheme liabilities by circa 1.8% and has led to a gain of £10.2m (2018: reduced scheme liabilities by circa 2.5% and has led to a gain of £17.4m) recognised in the statement of comprehensive income. The mortality base table assumption is consistent with that used for both the 2016 triennial funding valuation and the 31 March 2018 FRS102 pension valuation.

Details of the movements in the pension Scheme are set out in note 26.

Shareholder deficit

Shareholder deficit at 31 March 2019 amounted to £635.9m (2018: deficit £34.8m) as a result of a retained loss of £66.0m (2018: retained profit £77.6m), and an actuarial gain on the pension Scheme net of deferred tax of £7.7m (2018: net actuarial gain of £22.9m) and ordinary dividends of £542.8m paid as part of a restructuring to simplify the UK Group's internal borrowing arrangements (2018: £44.6m).

There was no movement in the authorised share capital of the Group during the year. On 27 March 2018, the issued share capital of the Company was reduced from £290,272,506 divided into 290,272,506 ordinary shares of £1 each, to £29,027 divided into 290,272,506 ordinary shares of 0.01pence each, reducing the nominal value of each ordinary share to 0.01 pence and cancelling and extinguishing 99.99 pence of liability on each issued ordinary share in the capital of the Company. The amount of reduction was credited to the profit and loss account of the Company as a distributable reserve. Details of the called up share capital and ownership of the Group are included in note 19.

Borrowings and financing

Details of total external borrowings of £2,355.2m (2018: £2,121.7m) and borrowings with senior lenders (i.e. excluding debt owed to shareholder entities) of £1,705.9m (2018: £1,476.9m) are disclosed in notes 13 and 14.

At 31 March 2019, cash at bank of £170.7m was held by the Group (2018: £681.5m which included £645.0m following the issue of loan notes to affiliated companies on 27 March 2018 note 14 (iv) and note 27(e)).

On 4 April 2018, £645.0m of cash was used to repay an equivalent amount of the loan from WWU's immediate parent, Wales & West Utilities Holdings Limited and further intercompany loan repayments were made within the UK Group.

On 4 April 2018, Wales & West Gas Networks (Holdings) Limited, the ultimate parent Company, paid £645.0m comprising repayment of the £96.8m shareholder loan, £5.4m accrued interest thereon and a £542.8m dividend to West Gas Networks Limited and Western Gas Networks Limited; the UK incorporated joint equal shareholders of the UK Group, as part of a restructuring to simplify the UK Group's internal borrowing arrangements.

Strategic report (continued)

The business model (continued)

Borrowings and financing (continued)

As a result of the restructuring and dividend payment a full impairment of the £164.3m investment has been recorded within the Company for the year ended 31 March 2019.

On 4 May 2018, WWU borrowed, £50.0m of Class B debt from the National Westminster Bank plc ("NWB") expiring on 4 May 2021. The loans carry a coupon of LIBOR + 1.25% and interest is payable bi-annually in May and November.

On 28 March 2019, WWU, borrowed £100.0m in the form of privately placed notes with Metlife. The notes carry a coupon of 3.06% with £50.0m maturing on 31 March 2026 and £50.0m maturing on 30 September 2026 (note 14).

As at 31 March 2019 the Group held index-linked swap contracts with a notional principal of £1,003.8m (2018: £1,003.8m) and interest rate swaps with a notional principal of £180.4m (2018: £234.4m) following the expiration of £54.0m interest rate swaps in November 2018.

The net fair value liability, including accruals for swap accretion and current swap interest payable and receivable, of the interest and index-linked swap contracts held by the Company at 31 March 2019 was £941.5m (2018: net liability of £955.3m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward LIBOR and RPI rates. Details of the swap maturity dates and break clauses are included within note 15 - Financial instruments and risk management. Details of the Group's approach to financial risk management is set out in the Strategic report on pages 11 and 12.

WWUF was established as a wholly owned subsidiary of WWU in March 2010. WWUF is the funding vehicle for raising funds to support the long term debt financing requirements of the Group. In addition to the NWB and Metlife borrowings set out above further debt from the European Investment Bank ("EIB"), NWB and a loan from affiliated Companies has been raised directly by WWU.

At 31 March 2019 WWUF had in issue a series of bonds, all of which are listed on the London Stock Exchange, with the exception of the £300.0m Guaranteed bond maturing in 2038 which is listed on the Luxembourg Stock Exchange. Details of these issuances are set out below:

Nominal value	Coupon	Class	Issue date	Redemption date
£125m	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
£250m	4.625%	A	4 November 2011	13 December 2023
£150m	5.00%	A	4 November 2011	7 March 2028
£300m	3.00%	A	3 August 2018	3 August 2038

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

The cumulative net proceeds of the issue of these bonds, including the redeemed bond, of £1,204.3m, were lent by WWUF to WWU to repay its existing bank financing and for general corporate purposes. Details of bond transactions throughout the year can be found in note 14 (i) External borrowings – Guaranteed bonds.

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.

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. The current tax credit of £1.3m for the year ended 31 March 2019 (2018: £6.4m current tax charge) is an adjustment in respect of prior years and has arisen following the finalisation of the corporation tax computations for the Group. It represents the revised amount due to the UK Tax Authorities in respect of profits chargeable to corporation tax for 2018.

Deferred corporation net tax charges are recognised as deferred tax net liabilities of £210.2m at 31 March 2019 (2018: £207.1m). The deferred tax is calculated based on enacted rates at the time the asset or liability is expected to unwind.

The corporation tax rate will be reduced to 17% on 1 April 2020.

Strategic report (continued)

Fixed assets

Freehold land and buildings are carried in the consolidated financial statements at depreciated historic cost of £18.7m (2018: £18.0m) for the year ended 31 March 2019.

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 £147.9m for the year ended 31 March 2019 (2018: £126.6m).

Contractual relationships

The Group has contractual relationships with many parties including directors, employees, suppliers, banking groups, debt investors, group companies and affiliated companies (see note 14(iv)). Amongst the suppliers is Xoserve Limited, the sole company which provides gas throughput and billing information to the Group, and which is used by the Group in setting its regulated gas distribution charges to gas transporters. The Group's investment in Xoserve was £0.1m at 31 March 2019 (2018: £0.1m).

Future developments

The Group does not envisage any material changes in the activity of the Group in the current regulatory control period to 31 March 2021.

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.

Ofgem is currently undertaking a review of the existing RIIO framework ahead of the RIIO-GD2 price control, which will take effect from April 2021. The Group is required to submit a RIIO-GD2 business plan to Ofgem in December 2019 and has engaged with stakeholders to ensure we develop a well justified and stakeholder led business plan.

See the regulatory environment section on pages 2 and 3 for further information.

The Group continues to consider the potential impact of Brexit on its business, through the transition period and beyond. For now, existing laws and trading arrangements are unchanged. Based on WWU's assessment of the latest available information, our principal risk continues to be that there could be a sustained period when the Company may not be able to import certain raw materials through Customs, which could curtail planned and unplanned work if inventory levels were depleted. In mitigation, stock levels of critical spares for unplanned leakage repair work have been elevated to a 6 month stock holding at 31 March 2019.

The Company is aware that the results of the forthcoming General Election may have an impact on the Gas Distribution Industry, with talk of nationalisation under a Labour Government.

Key performance measures

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

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

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

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

Strategic report (continued)

Key performance measures (continued)

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 2019 amounted to £0.2m (2018: £0.2m), which included £0.1m of additional compensation as WWU voluntarily chose to double the Ofgem compensation rates since 2017 (2018: £0.1m).

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 2019 and the preceding periods as shown below. Key operational performance measures were:

	Ofgem Target	Year ended 31 March 2019	Year ended 31 March 2018	Year ended 31 March 2017	15 month and 1 day period ended 31 March 2016
Responding to gas escapes					
1 hour target for uncontrolled escapes	97.0%	99.0%	98.0%	98.5%	98.6%
2 hour target for controlled escapes	97.0%	99.8%	98.6%	99.4%	99.6%
Standards of performance					
Issuing quotations	90.0%	99.6%	99.7%	99.0%	99.2%
Offer dates for work start and finish	90.0%	99.9%	99.9%	99.9%	99.9%
Jobs completed on agreed dates	90.0%	97.0%	97.2%	95.9%	94.2%
Responding to complaints	90.0%	99.0%	99.9%	99.9%	99.8%
Customer complaints					
Number of complaints		1,515	1,555	1,708	2,497
Number of jobs undertaken		266,071	272,721	283,089	282,972
Percentage complaints		0.6%	0.6%	0.6%	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 2019 £m	Year ended 31 March 2018 £m
Turnover	444.4	425.2
Operating costs	(271.5)	(271.8)
Operating profit	172.9	153.4
Operating profit before depreciation, amortisation and movement in provisions	265.3	246.5
Financing charges	(238.9)	(53.9)
Tax	-	(21.9)
(Loss)/profit after tax	(66.0)	77.6
Operating cash flows	277.2	223.8

Strategic report (continued)

Principal risks and uncertainties

The business, capital structure 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, which is subject to regular audit.

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

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

Network assets, Health and Safety

There are significant risks associated with network assets where failure could result in loss of supply of gas to customers or a fatality or serious injury occurs involving a colleague, a contractor, 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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Mains replacement targets, Health and Safety Executive

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme (see page 4) applicable to all 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 an 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 and for the next price control period 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.

Ofgem is currently undertaking a review of the existing RIIO framework ahead of the RIIO-GD2 price control, which will take effect from April 2021. WWU remains fully engaged with Ofgem at all levels of seniority, and the wider industry, to ensure that the RIIO framework remains balanced, sustainable and one that will support investment and customers. WWU has a business strategy team to support the RIIO-GD2 price control; understand future plans and the potential impacts on the business. See the regulatory environment section on pages 2 and 3 for further information.

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

Supply chain

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

Reliance on skilled employees

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

Cyber security

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

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

Strategic report (continued)

Principal risks and uncertainties (continued)

Cyber security (continued)

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

Financial risk management

The 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 Group by monitoring levels of debt finance and related finance costs. The Group also uses derivative financial instruments to manage interest rate and inflation risk.

The directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. 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 2019 was £7.1m (2018: £5.9m). The gas is purchased through contracts renewed annually and these contracts typically fix the price of gas a day ahead of purchase. Price risk is allowed for under the RIIO-GD1 regime and treated as a cost pass through using day ahead prices and is therefore substantially mitigated. The volume risk is closely monitored and is also mitigated to a certain extent given the relatively stable flows of gas through the network and consequent consumption volumes.

In addition, volatility in commodity prices such as oil could have a significant impact on supplier costs.

Liquidity risk

The 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.

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

Leverage policy

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

Credit risk

The Group is exposed to the risk that its counterparties, including shippers, may default on the terms of their agreements. The 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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

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% (2018: 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 events to be passed on to consumers.

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

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Volatility in interest rates, real and/or nominal, could result in uncertainty over 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 Group has a policy target for interest rate risk of a minimum of 85% fixed and a maximum of 15% floating.

Financial instruments

Appropriate index-linked swap and interest rate swap contracts are used to achieve the target interest risk profile. FRS 102 requires these swaps to be valued at 'fair value', which is calculated using market based interest rate and inflation information at the year end. As at 31 March 2019, the Company held index-linked swap contracts with a notional principal of £1,003.8m (2018: £1,003.8m) and interest rate swaps with a notional principal of £180.4m (2018: £234.4m) following the expiration of £54.0m of interest rate swaps in November 2018.

At 31 March 2019 the net fair value liability, including accruals for swap accretion and current swap interest payable and receivable, of the interest and index-linked swap contracts held by the Company was £941.5m (2018: £955.3m). 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 15 - Financial instruments and risk management provides further detail.

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 intends to change the inflationary index with effect from 1 April 2021 to CPIH ("Consumer Price Index xx"). The implications of this change will be assessed by the Group prior to April 2021 and changes to risk management policies relating to inflation and interest rate risks may ensue.

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 65% (2018: 60%) of members are either retired or have deferred benefits at 31 March 2019. 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 and Ofgem has confirmed that this position will continue into the RIIO-GD2 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.

Strategic report (continued)

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 2019 there were no significant incidents on the gas network (2018: 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 2019, there were three direct labour lost time injuries ("LTI's") and one contract labour LTI's (2018: three direct labour LTI and two contract LTIs), giving a 12 month frequency rate of 0.10 LTI's/100,000 hours worked for direct labour (2018: 0.10 LTIs/100,000 hours).

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

With a deployed workforce (including contractors) of around 2,000, a multi-million pound replacement programme and the Group's core role of managing the safe and secure delivery of gas; the safety challenge is significant.

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

The 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" ("ISO 14001"). 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 Group 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.

Strategic report (continued)

Corporate and social responsibility (continued)

Gender diversity

The Group employed the following mix of staff:

Number	At 31 March 2019			At 31 March 2018		
	Male	Female	Total	Male	Female	Total
Executive and directors	16	1	17	16	1	17
Senior managers	27	8	35	28	8	36
Other employees	1,243	245	1,488	1,130	237	1,367
Total employees	<u>1,286</u>	<u>254</u>	<u>1,540</u>	<u>1,174</u>	<u>246</u>	<u>1,420</u>

WWU undertakes mains replacement work through an agreement with one main contractor, with a contract secured until March 2021. In addition contractors are engaged to undertake larger capital projects and to provide some resource to back office departments. At 31 March 2019 WWU had over 610 contractors engaged (2018: over 620).

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

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

A comprehensive communications programme has been developed and is led by the Executive Team. The Executive Team comprises the seven WWU internal department heads together with the CEO and Legal Counsel. During the year this ranged from a programme of interactive face to face colleague briefings by our Executive Committee to individual team meetings supported by management infographics.

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation; colleague engagement surveys provide the Group with valuable information upon which to base future policy decisions. In 2017 WWU applied for and achieved Investors in People accreditation at silver level. Investors in People ran the 2019 annual colleague survey on our behalf and achieved a 58% response rate (2018: 51%).

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. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group's operational requirements. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well-being of the Group's workforce with a wide reaching Wellbeing Strategy, with focus in the year on supporting psychological health.

Strategic report (continued)

Corporate and social responsibility (continued)

Employment policies (continued)

Training and development

The Group has consistently sought to recruit and retain the best employees in its geography in order to provide the level of service which is expected by customers, and invests appropriately in training to protect and develop key competencies.

The Group measures success in this area through employee retention. The Group had a voluntary staff turnover rate of 7.0% during the year ended 31 March 2019 (2018: 8.0%), this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average in UK industry during 2017 was 16.5%.

To maintain appropriate retention rates the Group has developed a comprehensive People Strategy and continues its focus on wellbeing, succession planning and talent management. This ensures that 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 all our key operational disciplines of "Emergency", "Mechanical Engineering", "Electrical & Instrumentation", "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. Working with our sector skills council, Energy & Utility Skills and other key partners, we are able to effectively and proactively plan for the future. The number of apprentices employed since WWU started trading in 2005 is 176 (2018: 164), meaning that 20% (2018: 22%) of the industrial workforce has joined the Company via the WWU Apprenticeship Programme. During 2018 we recruited 12 apprentices and a further 17 apprentices and 2 graduates have been selected for recruitment in 2019.

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

Company secretary

28 November 2019

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 2019 as presented on pages 21 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 19 to the consolidated financial statements.

Dividends on ordinary shares

On 3 April 2018, the Board of Directors approved the payment of a final dividend in respect of the year ended 31 March 2018 of £1.87 per 0.01p ordinary share, totalling £542.8m, which was paid on 4 April 2018 (2018: 7.69 pence per £1 ordinary share, totalling £22.3m, which was paid in June 2017).

The Board of Directors did not recommend the payment of an interim or final dividend in respect of the year ended 31 March 2019 (2018: 7.68 pence per £1 ordinary share, totalling £22.3m which was paid in December 2017).

Directors

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

The only change in directors during the year under review and up to the date of signature of the annual report and consolidated financial statements was the resignation of Mr Edmund Ip as a director of the Company on 6 August 2019.

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 4(a).

Directors' interests

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

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

Contributions for political purposes

During the year ended 31 March 2019, there have been no political donations (2018: £nil).

Future developments

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

Disabled employees

Details of the Group's policy for the employment of disabled employees can be found in the Strategic report on page 14 and form part of this report by cross-reference.

Report of the directors (continued)

Employee consultation

Details of the Company's employment policies and employee consultation undertaken can be found in the Strategic report on pages 14 and 15 and form part of this report by cross-reference.

Going concern

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

The business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The risks that the business faces in the coming year are set out on pages 9 to 12. The financial position of the Group, its cash flows and liquidity position are set out on pages 3 to 7.

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 and forecasts for calendar year 2020, its medium term business plans to 2023, the risks faced by the Group, the Company's net current liabilities position and shareholder deficit position, and the directors believe that the Group and Company are well placed to manage its business risks successfully. The review included considering undertakings received to defer repayment of the Company's intercompany borrowings for a period of at least twelve months from the approval of the financial statements, forecast Group and Company operating cash flows generated, cash flow implications of the plans, available debt facilities at the year end and raised post year end and comparing these with the Group's and Company's cash resources and committed borrowing facilities and concluded that the Group and Company were 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 for regulatory years ending on 31 March. During 2018, the Ofgem external reporting requirements were enhanced, with the stakeholder in mind; to include an annual Regulatory Financial Performance Reporting pack. Ofgem has therefore removed the requirement to prepare Consolidated Regulatory Accounts. Copies of the final Consolidated Regulatory Accounts for the Group for the regulatory year ended 31 March 2018 are available from the Company secretary and on the Company's website.

Qualifying indemnity

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

Directors' liability insurance

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

Disclosure of information to auditor

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

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

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

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

By order of the Board

Paul Millar
Company secretary
28 November 2019

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.

By order of the Board



Paul Millar
Company secretary
28 November 2019

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

Report on the audit of the consolidated financial statements

Opinion

In our opinion the consolidated financial statements of Wales & West Gas Networks (Holdings) Limited (the 'parent Company') and its subsidiary (the 'Group'):

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 March 2019 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the consolidated financial statements of Wales & West Gas Networks (Holdings) Limited (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated profit and loss account;
- the Consolidated and Company statement of comprehensive income;
- the Consolidated and Company balance sheets;
- the Consolidated and Company statement of changes in equity;
- the Consolidated cash flow statement;
- the principal accounting policies; and
- the related notes 1 to 27.

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated 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 parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Report of the directors.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company consolidated financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's member, 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 member those matters we are required to state to it 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 member, for our audit work, for this report, or for the opinions we have formed.

Delyn Jones

Delyth Jones (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
13 December 2019

Consolidated profit and loss account for the year ended 31 March 2019

		Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Continuing operations	Note		
Turnover	2	444.4	425.2
Net operating costs	3(a)	<u>(271.5)</u>	<u>(271.8)</u>
Operating profit before depreciation, amortisation movement in provisions and one-off items		265.3	246.5
Increase in environmental and holder provision	3(a, b)	-	(1.9)
Increase in insurance provision	3(a, b)	-	(1.6)
Depreciation and amortisation	3(a), 8, 9	<u>(92.4)</u>	<u>(89.6)</u>
Operating profit		172.9	153.4
Operating profit	3	<u>172.9</u>	<u>153.4</u>
Interest receivable and similar income	5(a)	1.5	0.4
Interest payable and similar charges	5(b)	(145.3)	(86.7)
Index-linked and interest rate swap movement	5(c)	<u>(95.1)</u>	<u>32.4</u>
(Loss)/profit before taxation		<u>(66.0)</u>	<u>99.5</u>
Tax on (loss)/profit	6	-	(21.9)
(Loss)/profit for the financial year attributable to ordinary shareholders		<u>(66.0)</u>	<u>77.6</u>

Consolidated and Company statement of comprehensive income for the year ended 31 March 2019

Group	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
(Loss)/profit for the financial year attributable to ordinary shareholders	(66.0)	77.6
Actuarial gain on pension Scheme (note 26)	9.5	27.6
Deferred tax charge on actuarial gain on pension Scheme (note 26)	(1.8)	(4.7)
Total comprehensive (expense)/income relating to the year	<u>(58.3)</u>	<u>100.5</u>

Company

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

Consolidated and Company balance sheets at 31 March 2019

	Note	Group		Company	
		31 March 2019 £m	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m
Fixed assets					
Intangible assets	8	179.2	183.1	-	-
Tangible assets	9	2,581.8	2,522.5	-	-
Investments	10	0.1	0.1	-	78.0
		2,761.1	2,705.7	-	78.0
Current assets					
Swap fair value asset (excluding accretion) – due after more than one year	15(e)	32.2	32.9	-	-
Stocks	11	3.1	3.0	-	-
Debtors	12	40.5	44.1	0.4	725.2
Cash at bank	22, 23	170.7	681.5	-	-
		246.5	761.5	0.4	725.2
Current liabilities					
Creditors: amounts falling due within one year	13(a)	(105.6)	(258.9)	(0.8)	(11.8)
Net current assets/(liabilities)		140.9	502.6	(0.4)	713.4
Total assets less current liabilities		2,902.0	3,208.3	(0.4)	791.4
Creditors: amounts falling due after more than one year					
	13(b)	(3,291.0)	(2,995.2)	-	(96.8)
Provisions for liabilities	18	(243.2)	(236.4)	-	-
Net (liabilities)/assets before pension liability		(632.2)	(23.3)	(0.4)	694.6
Pension liability	26	(3.7)	(11.5)	-	-
Net (liabilities)/assets including pension liability		(635.9)	(34.8)	(0.4)	694.6
Capital and reserves					
Called up share capital	19	-	-	-	-
Profit and loss account		(635.9)	(34.8)	(0.4)	694.6
Total shareholders' (deficit)/funds		(635.9)	(34.8)	(0.4)	694.6

The loss for the financial year of the parent Company was £152.2m (2018: profit of £71.5m).

The annual report and consolidated financial statements Wales & West Gas Networks (Holdings) Limited (registered number 05095454) on pages 21 to 61 were approved by the Board of Directors and authorised for issue on 28 November 2019 and were signed on its behalf by:


Graham Edwards
Chief Executive Officer


Neil Henson
Director

Consolidated and Company statement of changes in equity for the year ended 31 March 2019

Group	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 31 March 2017		290.3	(381.0)	(90.7)
Profit for the year		-	77.6	77.6
Dividends paid	7	-	(44.6)	(44.6)
Remeasurement of net defined benefit liability	26	-	27.6	27.6
Deferred tax on net defined benefit liability	26	-	(4.7)	(4.7)
Share capital reduction	19, 21	(290.3)	290.3	-
Total comprehensive income		(290.3)	346.2	55.9
At 31 March 2018		-	(34.8)	(34.8)
Loss for the year		-	(66.0)	(66.0)
Dividends paid	7	-	(542.8)	(542.8)
Remeasurement of net defined benefit liability	26	-	9.5	9.5
Deferred tax on net defined benefit liability	26	-	(1.8)	(1.8)
Total comprehensive expense		-	(601.1)	(601.1)
At 31 March 2019		-	(635.9)	(635.9)

Company	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 31 March 2017		290.3	377.4	667.7
Profit for the year		-	71.5	71.5
Dividends paid	7	-	(44.6)	(44.6)
Share capital reduction	19, 21	(290.3)	290.3	-
Total comprehensive income		(290.3)	317.2	26.9
At 31 March 2018		-	694.6	694.6
Loss for the year		-	(152.2)	(152.2)
Dividends paid	7	-	(542.8)	(542.8)
Total comprehensive expense		-	(695.0)	(695.0)
At 31 March 2019		-	(0.4)	(0.4)

Consolidated cash flow statement for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Operating activities			
Net cash inflow from continuing operating activities	20	277.2	242.2
Pension deficit contributions	26	-	(18.4)
Tax paid		(4.7)	-
Net cash inflow from operating activities		272.5	223.8
Cash flows from investing activities			
Purchase of intangible fixed assets		(8.9)	(3.8)
Purchase of tangible fixed assets		(130.7)	(127.3)
Proceeds of disposal of tangible fixed assets		0.4	1.2
Net cash outflow from investing activities		(139.2)	(129.9)
Cash flows from financing activities			
Interest received in respect of index-linked swap contracts		9.5	10.7
Interest received in respect of interest rate swaps		6.5	7.0
Interest received – other		1.5	0.4
Interest paid in respect of index-linked swap contracts		(5.3)	(5.5)
Interest paid - other external debt		(63.4)	(69.9)
Interest paid on loan from affiliate/parent undertaking		(39.5)	(6.4)
Accretion paid on index-linked swap		(117.1)	-
Premium paid over par on repayment of Class A bond		(19.9)	-
Payments in respect of finance lease obligations		(1.3)	(1.5)
Net bond debt issued proceeds		296.9	-
Bond debt repaid		(192.0)	(48.0)
Net loan notes issued proceeds		99.7	-
Loan notes repaid		(96.8)	-
Net bank debt drawn down		19.9	30.0
Loan notes issued to affiliates		-	645.0
Debt issue fees		-	(0.6)
Dividends paid		(542.8)	(44.6)
Net cash (outflow)/inflow from financing activities		(644.1)	516.6
Net cash (outflow)/inflow after financing		(510.8)	610.5
Cash and cash equivalents at beginning of period	22	681.5	71.0
Cash and cash equivalents at end of period	22,23	170.7	681.5
Net cash (outflow)/inflow		(510.8)	610.5
Analysis of cash and cash equivalents			
Cash at bank	22,23	170.7	681.5
Total cash and cash equivalents	22,23	170.7	681.5

Principal accounting policies

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

Changes in accounting policy

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

General information and basis of accounting

Wales & West Gas Networks (Holdings) Limited (registered number 05095454) ("the Company") 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 16.

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

The functional currency of the Company 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.

The Company 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 17.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method.

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

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 note 2 - Turnover.

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

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

No liability 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.

Principal accounting policies (continued)

Turnover (continued)

Contributions received from customers towards the construction or diversion of network assets are recognised in turnover within the profit and loss account on job completion or at stages of a project in line with costs. The costs are recorded within the Gas Distribution Network fixed assets and depreciated over the life of the asset.

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

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

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

Tangible fixed assets and depreciation

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

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

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

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

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

Impairment of fixed assets

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

Value in use represents the present value of expected future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the income generating unit, for which the estimates of future cash flows have not been adjusted.

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

Principal accounting policies (continued)

Leased assets

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

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

Grants and infrastructure charges

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

Investments

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

Stocks

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

Decommissioning and environmental costs

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

Provisions for liabilities

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

Financial instruments

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

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

i) Financial assets and liabilities

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

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

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

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

Principal accounting policies (continued)

Financial instruments (continued)

i) Financial assets and liabilities (continued)

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

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

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

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

ii) Derivative financial instruments

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

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

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 held separately from those of the Group and 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. Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

Principal accounting policies (continued)

Taxation (continued)

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgement 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.

- **Fair value measurements and valuation process**

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

Principal accounting policies (continued)

Key source of estimation uncertainty

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

- **Key source of estimation uncertainty – Fair value measurements and valuation process**

The Group's derivative financial instruments are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a Treasury committee, to determine the policy for appropriate valuation techniques and inputs for fair value measurements.

- In estimating the fair value of the derivative asset or a liability, the Group uses market-observable data to the extent it is available. The valuations at 31 March 2019 are based on a valuation methodology that is materially unchanged from the prior year. Fair values are based on market observable inputs wherever appropriate, as required by FRS 102, and are produced by discounting expected future cash flows under the swap contracts. These expected future cash flows are generated from market forward rates for RPI and LIBOR. Fair values are checked against counterparty bank confirmations and differences are investigated where these are above threshold limits.

- **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.

- **Key source of estimation uncertainty – Discount rate and mortality assumptions used to determine the carrying amount of the Group's defined benefit obligation**

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Judgement is required when selecting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The mortality assumption is set based on the most recent mortality tables "SAPS2" with an adjustment for the CMI 2018 model.

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 loss after taxation, but before dividends, for the year within the financial statements of the Company was £152.2m (2018: profit of £71.5m). The amount transferred to reserves was a retained loss of £695.0m (2018: retained profit of £26.9m).

2. Turnover

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Income from regulated activities	422.1	406.9
Income from non - regulated activities	7.4	7.2
Customer contributions towards the construction of assets	14.9	11.1
	444.4	425.2

Within customer contributions £2.1m (2018: £1.2m) was received by WWU in relation to replacement capital expenditure.

3. Operating profit

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

		Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
<u>Continuing operations:</u>			
Staff costs	4(b)	85.8	81.3
Own work capitalised		(46.0)	(40.4)
Depreciation: Own assets	9	78.5	74.4
Depreciation: Leased assets	9	1.1	1.2
Depreciation: Intangible assets	8	12.8	14.0
Profit on disposal of fixed assets		(0.3)	(2.4)
Rentals under operating leases:			
Hire of plant and equipment		0.9	0.8
Other		0.3	0.4
Cost of stock recognised as an expense		6.8	6.8
Net increase in provisions	3(b), 18	-	3.5

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

(b) Net increase in provisions

There were no movements in provisions during the year ended 31 March 2019. During the year ended 31 March 2018 there was a £3.5m increase in provisions; a £1.9m increase in the environmental and holder demolition provision following a review of historical costs incurred and the timing of work carried out (note 18(b)); and an increase in the number of mesothelioma claims expected over the next few years gave rise to a £1.6m; increase in the insurance provision (note 18(a)).

Notes to the consolidated financial statements (continued)

3. Operating profit (continued)

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

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

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £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	143.2	147.2
the audit of the joint venture	6.7	6.5
Total audit fees	154.9	158.7
assurance services related to group reporting	48.2	47.0
assurance services related to regulatory reporting	30.0	33.2
assurance services related to FRS 102 transition	-	45.5
assurance services related to IFRS transition	21.0	17.5
other assurance services	17.6	17.2
Total non-audit fees	116.8	160.4

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<u>Fees in respect of the pension scheme:</u>		
Audit of pension scheme	17.0	17.0

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

Notes to the consolidated financial statements (continued)

4. Directors and employees

(a) Directors' emoluments and interests

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Fees payable to non - executive directors	85.0	85.0
Salary payments (including benefits in kind)	469.4	451.2
Performance related bonus (see below)	481.6	465.0
Pension contributions	10.0	10.0
Contributions in lieu of pension	115.3	113.0
	1,161.3	1,124.2

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

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

The amount disclosed in respect of the period ended 31 March 2019 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2018. 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 2019, £1.0m was accrued in respect of amounts payable under the long term incentive plan (2018: £1.0m).

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 2019 £000	Year ended 31 March 2018 £000
Salary payments (including benefits in kind)	469.4	451.2
Performance related bonus (see above)	481.6	465.0
Pension contributions	10.0	10.0
Contributions in lieu of pension	115.3	113.0
	1,076.3	1,039.2
Accrued group pension (Defined contribution)	211.8	191.6

Notes to the consolidated financial statements (continued)

4. Directors and employees (continued)

(b) Staff costs

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Wages and salaries	64.7	59.9
Social security costs	7.7	7.1
Pension costs (note 26)	13.4	14.3
	85.8	81.3

Staff costs are allocated to business activities based on time taken per employee to undertake. On this basis £33.5m of the above staff costs have been capitalised during the year ended 31 March 2019 (2018: £29.4m).

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

	Year ended 31 March 2019 Number	Year ended 31 March 2018 Number
Regulated gas distribution activities	1,497	1,404
Other activities	2	2
	1,499	1,406

5. Interest

(a) Interest receivable and similar income

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest receivable on bank deposits	1.5	0.4
	1.5	0.4

(b) Interest payable and similar charges

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
On external debt	69.7	73.4
On loans from parent undertakings	-	6.4
On loan notes with affiliates	52.1	0.6
Premium over par on Class A (2018: Class B) bond buy - back	19.9	2.0
Amortised debt issue costs and bond discount	1.9	1.7
On unwinding of discounts on provisions (note 18)	1.2	1.1
Other finance charges – net pension (note 26)	0.2	1.1
Finance lease interest	0.1	0.2
Other	0.2	0.2
	145.3	86.7

Interest on external debt for the year ended 31 March 2019 includes a charge of £3.5m (2018: £5.0m) for accrued inflation on the RPI linked bond.

Notes to the consolidated financial statements (continued)

5. Interest (continued)

(c) Index-linked and interest rate swap movement

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
On index-linked derivative contracts – inflation accrual	43.3	48.3
Interest payable, on index-linked swaps	5.1	5.6
Interest payable, on interest rate swaps	-	-
Interest receivable, on index-linked swaps	(9.0)	(10.2)
Interest receivable, on interest rate swaps	(5.8)	(6.9)
Accretion of swap extension costs	2.7	2.6
Fair value loss/(gain) on index-linked swaps – excluding accruals	58.8	(81.3)
Fair value loss on interest rate swaps – excluding accruals	-	9.5
Total swap portfolio loss/(gain)	95.1	(32.4)

The total loss on RPI linked swaps for the year ended 31 March 2019 of £95.1m arose from an increase to medium term inflation ("RPI") and a reduction in nominal interest rates ("LIBOR") as reflected by their respective market observable forward curves (2018: gain of £32.4m arose from a decrease to RPI and an increase in LIBOR as reflected by their respective market observable forward curves).

6. Tax on (loss)/profit

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Taxation is made up as follows:		
Current tax		
UK corporation tax on (loss)/profit of the year	-	6.4
Adjustments in respect of prior years	(1.3)	-
Total current tax	(1.3)	6.4
Deferred tax		
Origination and reversal of timing differences	(1.6)	14.2
Deferred tax relating to change in tax rate	2.9	1.3
Total deferred tax charge	1.3	15.5
Total tax on (loss)/profit (note 6(b))	-	21.9

The standard rate of UK corporation tax applied to reported profit is 19% (2018: 19%). The applicable tax rate changed from 20% to 19% with effect from 1 April 2017.

The current tax credit of £1.3m (2018: tax charge of £6.4m) is an adjustment in respect of prior years and has arisen following the finalisation of the corporation tax computations for the Group. It represents the revised amount due to the UK Tax Authorities in respect of profits chargeable to corporation tax for 2018.

The deferred tax charge relating to the change of tax rate of £2.9m (2018: £1.3m) has arisen as a result of the differential tax rates at which deferred tax assets and liabilities are expected to unwind. The deferred tax assets and liabilities that make up the closing net deferred tax liability of £210.2m (2018: £207.1m) are set out in note 18 (d).

Notes to the consolidated financial statements (continued)

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

(b) Factors affecting the current tax for the year

The difference between the total tax charge/(credit) and the amount calculated by applying the weighted average rate of corporation tax in the UK of 19.0% (2018: 19.0%) to the loss before tax is explained below:

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
(Loss)/profit before tax	(66.0)	99.5
(Loss)/profit before tax multiplied by the weighted average rate of corporation tax in the UK of 19.0% (2018: 19.0%)	(12.5)	18.9
Effects of:		
Expenses not deductible for tax purposes	13.3	0.2
Income not taxable in determining taxable profits	(3.4)	(0.5)
Change in tax rate	2.9	1.3
Adjustment to deferred tax in respect of prior periods	1.1	2.0
Adjustment to current tax in respect of prior periods	(1.4)	-
Current tax charge for the year (note 6(a))	-	21.9

The actual tax charge for the year ended 31 March 2019 of £nil (2018: £21.9m) is higher than the expected tax credit at the statutory rate of £12.5m (2018: tax charge of £18.9m) mainly as a result of the disallowance of interest on shareholder loans of £52.1m.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This change has been reflected within the calculation of the deferred tax liability.

During the year beginning 1 April 2019, the net reversal of deferred tax assets and liabilities expected unwind to 31 March 2020 is a net charge of £15.5m. This relates mainly to the reversal of deferred tax assets in respect of the fair value of derivatives recognised on balance sheet at 1 April 2016.

Notes to the consolidated financial statements (continued)

7. Dividends on equity shares

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Final dividend in respect of the year ended 31 March 2018, 187.69 pence per 0.01p ordinary share (2017: 7.69 pence per £1 ordinary share)	542.8	22.3
Interim dividend in respect of the year ended 31 March 2019, nil pence per 0.01p ordinary share (2018: 7.68 pence per £1 ordinary share)	-	22.3
Total dividends paid	542.8	44.6

8. Intangible fixed assets

Group

	Gas Transporters' Licence £m	IT Software £m	Assets under construction £m	Total £m
Cost or valuation				
At 1 April 2018	229.0	32.2	5.5	266.7
Additions	-	-	8.9	8.9
Transfers in year	-	1.4	(1.4)	-
At 31 March 2019	229.0	33.6	13.0	275.6
Accumulated amortisation				
At 1 April 2018	66.2	17.4	-	83.6
Charge for the year	5.1	7.7	-	12.8
At 31 March 2019	71.3	25.1	-	96.4
Net book amount				
At 31 March 2019	157.7	8.5	13.0	179.2
At 31 March 2018	162.8	14.8	5.5	183.1

Company

The company had no intangible fixed assets at 31 March 2019 or at 31 March 2018.

Notes to the consolidated financial statements (continued)

9. 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 2018	20.0	6.2	3,016.6	177.4	48.7	3,268.9
Additions	-	-	5.8	0.2	133.0	139.0
Disposals	-	-	-	(2.6)	-	(2.6)
Transfers in year	1.1	0.3	145.9	8.0	(155.3)	-
At 31 March 2019	21.1	6.5	3,168.3	183.0	26.4	3,405.3
Accumulated depreciation						
At 1 April 2018	2.0	4.3	602.1	138.0	-	746.4
Charge for the year	0.4	0.4	67.9	10.9	-	79.6
Disposals	-	-	-	(2.5)	-	(2.5)
At 31 March 2019	2.4	4.7	670.0	146.4	-	823.5
Net book amount						
At 31 March 2019	18.7	1.8	2,498.3	36.6	26.4	2,581.8
At 31 March 2018	18.0	1.9	2,414.5	39.4	48.7	2,522.5

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 2019 the net book amount of these assets held under finance leases was £1.3m (2018: £2.2m).

Included within the freehold land and buildings net book amount at 31 March 2019 is £2.4m (2018: £2.2m) in respect of land which is not depreciated.

Company

The Company had no tangible fixed assets at 31 March 2019 or at 31 March 2018.

10. Fixed asset investments

Group	Unlisted investments £m
Cost and net book amount	
At 31 March 2019 and 31 March 2018	0.1

The unlisted fixed asset investment of £0.1m (2018: £0.1m) represents the Group's shareholding in Xoserve Limited, a private Company limited by shares, incorporated in England and Wales (registered number 05046877). The Group's shareholding represents 10% (2018: 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 centralised information and data services for Gas Transporters and Gas Shippers in Great Britain. Xoserve's registered office address is Lansdowne Gate, 65 New Road, Solihull, B91 3DL.

Notes to the consolidated financial statements (continued)

10. Fixed asset investments (continued)

Company	Interests in Group undertakings £m
Cost and net book value	
At 1 April 2018	78.0
Capital contribution – release of intercompany loan interest	86.3
	<u>164.3</u>
Impairment of investment	<u>(164.3)</u>
At 31 March 2019	<u>-</u>

During the year ended 31 March 2019 a £86.3m capital contribution (2018: 34.4m) 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.

On 4 April 2018, £645.0m of cash was used to repay an equivalent amount of the loan from WWU's immediate parent, Wales & West Utilities Holdings Limited and further intercompany loan repayments were made within the UK Group.

On 4 April 2018, Wales & West Gas Networks (Holdings) Limited, the ultimate parent Company, paid £645.0m comprising repayment of the £96.8m shareholder loan, £5.4m accrued interest thereon and a £542.8m dividend to West Gas Networks Limited and Western Gas Networks Limited; the UK incorporated joint equal shareholders of the UK Group, as part of a restructuring to simplify the UK Group's internal borrowing arrangements.

As a result of the restructuring and dividend payment a full impairment of the £164.3m investment has been recorded within the Company for the year ended 31 March 2019.

Interests in Group undertakings

Details of the subsidiary undertakings at the end of the year, which are directly or indirectly wholly-owned by the Company, are as follows:

Name of subsidiary	Company number	Description of shares held	Principal activities
Wales & West Gas Networks (Junior Finance) Limited (direct 100% owned subsidiary)	05149491	2 ordinary shares of £1 each	Holding company
<i>which owns 100% of</i> Wales & West Gas Networks (Senior Finance) Limited	05149493	2 ordinary shares of £1 each	Holding company
<i>which owns 100% of</i> Wales & West Utilities Holdings Limited	07092596	3 ordinary shares of £1 each	Holding company
<i>which owns 100% of</i> Wales & West Utilities Limited	05046791	30,675,000 ordinary shares of £1 each	Management of gas transportation assets throughout Wales and the South West of England
<i>which owns 100% of</i> Wales & West Utilities Finance plc	06766848	50,000 ordinary shares of £1 each	Special purpose vehicle providing long term funding for Wales & West Utilities Limited
<i>and</i> Wales & West Utilities Pension Scheme Trustees Limited	05750643	2 ordinary shares of £1 each	Trustee of the Wales & West Utilities Pension Scheme

All Companies are private Companies limited by shares and incorporated in England and Wales, United Kingdom ("UK"). 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.

Notes to the consolidated financial statements (continued)

11. Stocks

Group	31 March 2019 £m	31 March 2018 £m
Raw materials and consumables	3.1	3.0

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

Company

The Company had no stock at 31 March 2019 or at 31 March 2018.

12. Debtors

	Group 31 March 2019 £m	31 March 2018 £m	Company 31 March 2019 £m	31 March 2018 £m
Amounts falling due within one year:				
Trade debtors	37.2	41.7	-	-
Amounts owed by Group undertakings	-	-	-	725.2
Corporation tax	0.4	-	0.4	-
Prepayments and accrued income	2.9	2.4	-	-
	40.5	44.1	0.4	725.2

13. Creditors

		Group 31 March 2019 £m	31 March 2018 £m	Company 31 March 2019 £m	31 March 2018 £m
(a) Amounts falling due within one year:	Note				
External borrowings	14(a)	-	96.8	-	-
Accrual for index-linked swaps		-	73.8	-	-
Obligations under finance leases	14 (b vi)	0.7	1.0	-	-
Payments received on account		13.4	10.9	-	-
Trade creditors		7.2	6.5	-	-
Other taxation and social security		12.3	5.4	-	-
Corporation tax		0.8	5.7	-	5.7
Other creditors		2.2	3.2	-	-
Accruals and deferred income		69.0	49.5	-	-
Amounts due to parent undertakings	27	-	6.1	0.8	6.1
		105.6	258.9	0.8	11.8
(b) Amounts falling due after more than one year:					
Loan notes with joint venture	14(a)	-	96.8	-	96.8
External borrowings	14(b)	1,704.6	1,377.9	-	-
Loan notes with affiliates	14(b v), 27(e)	649.3	644.8	-	-
Swap fair value liability (excluding accretion)	15 (e)	935.3	873.5	-	-
Accrual for accretion on index-linked swaps		-	-	-	-
Obligations under finance leases	14(b vi)	0.6	1.2	-	-
Trade creditors		0.6	0.6	-	-
Other creditors		0.6	0.4	-	-
		3,291.0	2,995.2	-	96.8

Notes to the consolidated financial statements (continued)

14. External borrowings

Company

(a) Loan notes

Loan notes amounting to £96,757,500 were repaid at par on 4 April 2018 (2018: £96,757,500). The notes had been listed on the Channel Islands Stock Exchange, were unsecured, bearing interest at LIBOR plus 6 per cent, and were repayable in 2024, see note 19 – Called up share capital.

Group

(b) Borrowings

The maturity profile of the book value of the Group's borrowings is:-

	31 March 2019 £m	31 March 2018 £m
Repayable as follows:		
In less than one year	0.7	97.8
In more than one year but not more than two years	0.5	0.7
In more than two years but not more than five years	373.6	249.1
In more than five years	1,980.4	1,774.1
	2,355.2	2,121.7
Less: amounts owed to affiliated entities (note 27e)	(649.3)	(644.8)
	1,705.9	1,476.9

As at 31 March 2019 the £2,355.2m (2018: £2,121.7m) of external borrowings comprised bonds of £1,245.3m (2018: £1,135.2m), loan notes issued to affiliated companies of £649.3m (2018: £644.8m), an EIB term loan of £309.9m (2018: £309.9m), a private placement of Class B notes with Metlife of £99.7m (2018: £nil), a National Westminster Bank plc loan of £50.0m (2018: £nil), revolving bank facilities of £0.3m debit (2018: £29.6m credit) and obligations under finance leases of £1.3m (2018: £2.2m).

Guaranteed bonds

- (i) At 31 March 2019 WWUF had in issue guaranteed bonds with a nominal value of £1,225.0m (2018: £1,117.0m) and a book value of £1,245.3m (2018: £1,135.2m). Included in the guaranteed bonds book value is £31.3m (2018: £27.8m) of accrued inflation on the index-linked bond and unamortised bond fees and discount of £7.9m (2018: £9.6m).

As at 31 March 2019 the guaranteed bonds have legal maturities ranging between November 2021 and August 2038, as outlined in the following table:

Nominal value £m	Coupon %	Class	Issue date	Redemption date	Note	Book value £m 31 March 2019	Book value £m 31 March 2018
125	6.25%	A	10 July 2009	30 November 2021	(d)	124.6	249.0
300	5.75%	A	31 March 2010	29 March 2030		295.6	295.3
100	2.496%	A	31 March 2010	22 August 2035	(a)	130.9	127.3
250	4.625%	A	4 November 2011	13 December 2023		248.9	248.6
150	5.00%	A	4 November 2011	7 March 2028		148.4	148.2
300	3.00%	A	3 August 2018	3 August 2038	(c)	296.9	-
-	6.75%	B	31 March 2010	17 December 2018/2036	(b)	-	66.8
1,225						1,245.3	1,135.2

- a) The movement in the £100m nominal index-linked bond represents accrued inflation of £3.5m on the index-linked bond for the period (2018: £5.0m) and £0.1m (2018: £0.1m) in respect of amortised discount and bond fees. Included in the book value of the index-linked bond is £31.3m of accrued inflation (2018: £27.8m).

Notes to the consolidated financial statements (continued)

14. External borrowings (continued)

(b) Borrowings - Guaranteed bonds (continued)

- b) On 27 March 2018, WWU purchased, through a tender offer, £48.0m nominal value of the 6.75% £115.0m Class B bonds maturing on 17 December 2036. The bonds were purchased at 104.13% of their par value, and included accrued interest of £0.9m. The total consideration paid was £50.9m. A charge of £2.0m was made in the consolidated profit and loss account of WWU, representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day, WWUF acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by WWU to it.

On 17 December 2018, WWU exercised a call option in relation to the remainder of the £67.0m Class B bonds. The bonds were redeemed at a par value of £67.0m. On the same day, WWUF acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by WWU to it.

- c) On 3 August 2018 the cumulative net proceeds of £296.8m from a £300m nominal guaranteed bond issue on that date were advanced to WWUF's immediate parent company, WWU.
- d) On 7 August 2018 WWU purchased, through a tender offer, £125.0m of WWUF's £250.0m 6.25% Class A nominal bond maturing on 30 November 2021. The bonds were purchased at 115.94% of their par value, and included accrued interest of £5.4m. The total consideration paid was £150.3m. A charge of £19.9m was made in the consolidated profit and loss account of WWU, representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day WWUF acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by WWU to it.

All of the bonds are unconditionally and irrevocably guaranteed by WWU and the Company, 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.

- (ii) At 31 March 2019 the Group had borrowed funds with a nominal value of £360.0m (2018: £310.0m) under its EIB term loan facilities and from NWB. The book value of the debt at 31 March 2019 is £359.9m (2018: £309.9m) after deducting unamortised debt fees of £0.1m (2018: £0.1m).

The table below details the tranches of funds drawn:

Nominal value £m	Bank	Fixed/ Floating	Coupon	Class	Drawdown date	Maturity date	Book value in £m at	
							31 March 2019	31 March 2018
60.0	EIB	Floating	0.455% + LIBOR	A	21 August 2015	31 March 2026	60.0	60.0
100.0	EIB	Floating	0.452% + LIBOR	A	30 November 2015	31 March 2027	100.0	100.0
100.0	EIB	Fixed	2.10%	A	27 January 2017	31 March 2026	99.9	99.9
50.0	EIB	Fixed	1.99%	A	22 March 2017	31 March 2027	50.0	50.0
50.0	NWB	Fixed	3.06%	B	4 May 2018	4 May 2021	50.0	-
<u>360.0</u>							<u>359.9</u>	<u>309.9</u>

- (iii) At 31 March 2019, the Group had borrowed nil (2018: £30.0m) under its revolving credit facilities with a book value at 31 March 2019 of £0.3m debit representing unamortised credit facility fees of £0.3m (2018: £29.6m including unamortised credit facility fees of £0.4m). These facilities mature in February 2021. The floating interest rates on drawings under these facilities range from LIBOR + 0.35% to LIBOR + 1.50% (2018: range from LIBOR + 0.35% to LIBOR + 1.50%).
- (iv) On 27 March 2018, WWU issued, for cash, £645.0m of 20 year subordinated loan notes expiring on 26 March 2038 to affiliated companies resident and incorporated in Hong Kong and controlled by the 4 members of the Hong Kong based consortium that jointly own West Gas Networks Limited (UK) and Western Gas Networks Limited (UK) (see note 27 - Immediate and ultimate parent companies and 28(d) related party transactions). The loan notes carry a coupon of LIBOR + 6.5% and interest is payable bi-annually in June and December. The loan notes are registered on the Official List of the International Stock Exchange in Jersey.

14. External borrowings (continued)

Notes to the consolidated financial statements (continued)

(b) Borrowings (continued)

At 31 March 2019, WWU had borrowed £645.0m (2018: £645.0) in the form of loan notes from affiliated companies. The book value of the debt at 31 March 2019 is £649.3m (2018: £644.8m) after deducting unamortised debt fees of £0.2m (2018: £0.2m). The table below details the loan notes balances with those affiliated companies at 31 March 2019:

	% Share	Nominal value Loan notes	Book value 31 March 2019	Book value 31 March 2018
	£	£m	£m	£m
Affiliated entity	30%	193.5	194.8	193.4
Affiliated entity	30%	193.5	194.8	193.4
Affiliated entity	30%	193.5	194.8	193.5
Affiliated entity	10%	64.5	64.9	64.5
	100%	645.0	649.3	644.8

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

- (v) The finance lease obligation in respect of company cars is included within borrowings above. The liability of obligations under finance leases at 31 March 2019 was £1.3m (2018: £2.2m).
- (vi) On 4 April 2018, Wales & West Gas Networks (Junior Finance) Limited repaid £645.0m of its intercompany loan from its immediate parent, Wales & West Gas Networks (Holdings) Limited. On 4 March 2019 the remaining balance of the loan was cleared.
- (vii) On 4 May 2018, WWU borrowed £50.0m of Class B debt from the NWB maturing on 3 May 2021. The loans carry a coupon of LIBOR + 1.25% and interest is payable bi-annually in May and November.
- (viii) On 28 March 2019, WWU borrowed £100.0m in the form of privately placed notes with Metlife. The notes carry a coupon of 3.06% with £50.0m maturing on 31 March 2026 and £50.0m maturing on 30 September 2026.

Notes to the consolidated financial statements (continued)

15. 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:

Group	Note	31 March 2019 £m	31 March 2018 £m
Financial assets held at amortised cost			
Trade debtors	12	40.5	44.1
Cash	22,23	170.7	681.5
Total financial assets at amortised cost		211.2	725.6
Financial assets at fair value			
Derivative financial instruments	15(e)	32.2	32.9
Total financial assets		243.4	758.5

The cash balance at 31 March 2018 included the proceeds from the issue of £645.0m of 20 year subordinated loan notes issued on 27 March 2018 to affiliated companies). On 4 April 2018, £645.0m of cash was used by WWU to repay the loan from the Company's ultimate parent Wales & West Gas Networks (Holdings) Limited as part of a restructuring to simplify the UK Group's internal borrowing arrangements.

Company

The company held financial assets of £0.4m in the form of a corporation tax debtor at 31 March 2019 (2018: £nil).

Group	Note	31 March 2019 £m	31 March 2018 £m
Financial liabilities held at amortised cost			
Trade and other creditors	13(a, b)	10.7	10.7
Accrued interest on bonds, EIB loans and loans with affiliates		29.9	13.6
Obligations held under finance leases	14	1.3	2.2
Loan notes	14 (a)	-	96.8
Guaranteed bonds	14 (b)	1,245.3	1,135.2
External borrowings – bank loans and fees	14 (b)	359.7	339.5
External borrowings – other loan notes		99.6	-
Loans with affiliates	27 (e)	649.3	644.8
Total financial liabilities at amortised cost		2,395.8	2,242.8
Financial liabilities at fair value			
Derivative financial instruments	15(e)	935.3	947.3
Total financial liabilities		3,331.1	3,190.1

Company

The company held financial liabilities at amortised cost in the form of loan notes of £nil (2018: £96.8m) at 31 March 2019 – see note 14 (a) - External borrowings.

Notes to the consolidated financial statements (continued)

15. 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:

		Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
	Note		
Interest income and expense			
Total interest income for financial assets at amortised cost	5(a)	(1.5)	(0.4)
Total interest expense for financial liabilities at amortised cost	5(b)	145.3	86.7
Fair value gains and losses			
On derivative financial assets measured at fair value through profit or loss	5(c)	2.0	2.6
On derivative financial assets measured at fair value through profit or loss	5(c)	93.1	(35.0)
		95.1	(32.4)

(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, excluding intra-group indebtedness and loan notes issued to affiliates, was:

	31 March 2019 £m	31 March 2018 £m
Fixed rate	686.0	363.0
Fixed real rate	999.0	1,064.0
Floating rate	-	126.8
Total	1,685.0	1,553.8

Fixed nominal rate

Within fixed nominal rate debt at 31 March 2019 is £150.0m (2018: £150.0m) of fixed rate debt drawn with the EIB, £436.0m (2018: £213.0m) of fixed rate bonds and £100.0m (2018: £nil) of privately placed loan notes with Metlife.

Fixed real rate

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (2018: £100.0m of 2.496% index-linked bonds) and £899.0m of fixed nominal rate and floating rate borrowings (2018: £964.0m) matched with index-linked swaps which together mitigate RPI volatility from regulated revenues.

Floating rate

The floating rate debt of £nil at 31 March 2019 (2018: £126.8m) represents £nil (2018: £30.0m) of short term debt drawn under the revolving credit facility and £nil (2018: £96.8m) in respect of shareholder loan notes as shown in note 14 (a) - External borrowings.

Notes to the consolidated financial statements (continued)

15. Financial instruments and risk management (continued)

(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 2019 and 31 March 2018, excluding intra-group indebtedness and loan notes issued to affiliates, together with the weighted average period for which the rate is fixed, was:

Currency	Weighted average interest rate		Weighted average period for which rate is fixed	
	31 March 2019 %	31 March 2018 %	31 March 2019 Years	31 March 2018 Years
Sterling: Fixed rate	3.13	3.72	12.1	8.5
Fixed real rate	3.48	3.78	8.5	8.4

(d) Borrowing facilities

Undrawn committed borrowing facilities were:

	31 March 2019 £m	31 March 2018 £m
Committed borrowing facilities	485.0	435.0
Drawn	(360.0)	(340.0)
Undrawn committed facilities	125.0	95.0

The drawn facilities at 31 March 2019 of £360.0m represent £310.0m of EIB loans and from 4 May 2018, £50.0m of Class B debt from the NWB expiring on 3 May 2021 as detailed in note 14 (2018: £340.0m drawn representing £310.0m of EIB loans and £30.0m of revolver facility drawn at 31 March 2018).

The £125.0m of undrawn facilities at 31 March 2019 comprised revolver facilities (2018: £95.0m revolver facilities). In addition, there are standby liquidity facilities of £90.0m (2018: £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.

Notes to the consolidated financial statements (continued)

15. Financial instruments and risk management (continued)

(e) Fair values of financial instruments

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and bank loans approximates to book values due to the short maturity of these instruments after reflecting £0.4m (2018: £0.7m) of unamortised debt fees.

The loan notes were listed on the Channel Islands Stock Exchange on 27 January 2011. On 4 April 2018, the Company repaid its £96.8m shareholder loan at par and £5.4m of accrued interest thereon, split equally to West Gas Networks Limited and Western Gas Networks Limited as part of the simplification of the Group's internal borrowing arrangements date. As the loan notes were not traded, the fair value at 31 March 2018 was deemed to be the issue price of £96.8m.

All of the guaranteed bonds are listed on the London Stock Exchange, with the exception of the £300.0m Guaranteed bond maturing in 2038 which is listed on the Luxembourg Stock Exchange. The fair value of the guaranteed bonds has been calculated using the 31 March 2019 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 2019.

Group	31 March 2019		31 March 2018	
	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)
Guaranteed bonds	(1,245.3)	(1,488.0)	(1,135.2)	(1,377.4)
Loans with affiliates	(649.3)	(645.0)	(644.8)	(645.0)
Bank loans	(359.4)	(360.0)	(339.5)	(340.0)
Other loan	(99.6)	(100.0)	-	-
Obligations under finance leases	(1.3)	(1.3)	(2.2)	(2.2)
Cash at bank	170.7	170.7	681.5	681.5
	(2,184.2)	(2,423.6)	(1,537.0)	(1,779.9)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:				
Index-linked swaps liability	(935.3)	(974.5)	(947.3)	(989.1)
Interest rate swaps asset	32.2	33.0	32.9	33.8
	(3,087.3)	(3,365.1)	(2,451.4)	(2,735.2)

Company	31 March 2019		31 March 2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Company's operations:				
Loan notes	-	-	(96.8)	(96.8)
	-	-	(96.8)	(96.8)

Notes to the consolidated financial statements (continued)

15. Financial instruments and risk management (continued)

(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 RPI index-linked regulated revenues.

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.

The fair value of derivative contracts at 31 March 2019 and 31 March 2018 are shown below:

	31 March 2019 £m	31 March 2018 £m
Fair value of financial derivatives		
Fair value of swap liability	(974.5)	(989.1)
Fair value of swap asset	33.0	33.8
Net fair value of financial derivatives	(941.5)	(955.3)

The difference between the book value of derivative financial instruments disclosed above and the fair value of derivative financial instruments as disclosed in note 15(e) reflect the unamortised element of swap extension fees of £39.2m (2018: £41.9m) less the credit adjustment on the swap asset of £0.8m (2018: £0.9m).

Index-linked swaps

As at 31 March 2019 the Group held index-linked swaps with a notional principal of £1,003.8m (2018: £1,003.8m). These swaps enable mitigation of volatility from index-linked regulated revenues and interest rates on the pay leg of these swaps at 31 March 2019 ranged between 1.72% and 2.61% (2018: 1.41% and 2.95%). The maturity dates of these swaps range between November 2023 and November 2039 (2018: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,003.8m, £700.0m (2018: £700.0m) of these swaps have self-executing break dates and are phased as follows:

Year of break clause	31 March 2019 £m	31 March 2018 £m
2020	3.4	3.4
2022	62.8	86.4
2024	140.0	140.0
2025	23.6	23.6
2026	140.0	140.0
2027	145.9	134.1
2029	85.9	85.9
2030	39.4	39.4
2031	11.8	-
2032	47.2	47.2
	700.0	700.0

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

The remaining £303.8m (2018 £303.8m) of index-linked swaps do not have any such break clauses and mature in 2023 (2018: 2023).

Notes to the consolidated financial statements (continued)

15. Financial instruments and risk management (continued)

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

Interest rate swaps

As at 31 March 2019, the Group held interest rate swaps with a notional principal of £180.4m (2018: £234.4m), which offset the floating LIBOR receive legs on the index-linked swaps. In November 2018 an interest rate swap with a notional value of £54.0m expired (2018: £nil). The interest rate on the pay legs of these swaps at 31 March 2019 is floating LIBOR (2018: floating LIBOR). The maturity dates of these swaps range between November 2023 and March 2030 (2018: between November 2018 and March 2030).

Company

The Company had no index-linked or interest rate swap arrangements at 31 March 2019 or at 31 March 2018.

16. Capital commitments

Group

	31 March 2019 £m	31 March 2018 £m
Tangible fixed assets	136.8	191.9
Intangible fixed assets	12.8	4.8
Capital purchases contracted for but not provided for	149.6	196.7

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 2019 or at 31 March 2018.

17. Leasing commitments

At 31 March 2019 and 31 March 2018 commitments in respect of total future minimum lease payments under non-cancellable operating leases were as follows:

Group

	Land and buildings	
	31 March 2019 £m	31 March 2018 £m
Within one year	-	0.1
Between two and five years	0.1	0.2
After five years	0.1	0.1
	0.2	0.4

Company

The Company had no operating lease commitments at 31 March 2019 or at 31 March 2018.

Notes to the consolidated financial statements (continued)

18. Provisions for liabilities

Group

	Note	31 March 2019 £m	31 March 2018 £m
Insurance provision	18 (a)	2.4	2.4
Environmental and holder demolition provision	18 (b)	14.8	14.2
Wayleaves provision	18 (c)	6.6	6.4
Deferred tax	18 (d)	210.2	207.1
Other provisions	18 (e)	9.2	6.3
		243.2	236.4

Company

The Company had no provisions at 31 March 2019 or at 31 March 2018.

(a) Insurance provision

	Note	31 March 2019 £m	31 March 2018 £m
At 1 April		2.4	1.4
Unwinding of discount	5 (b)	0.1	0.1
Charged in the year	3 (b)	-	1.6
Utilised in the year		(0.1)	(0.7)
At 31 March		2.4	2.4

The insurance provision is the estimate of liabilities in respect of past events incurred by the business. In accordance with insurance industry practice, these estimates were based on experience from previous years and there is, therefore, no identifiable payment date. The provision has been discounted to its estimated net present value. A review of historic costs incurred and the volume of claims received up to 31 March 2018, led to an increase in the number of mesothelioma claims expected over the next few years; as a result the provision was increased by £1.6m. There has been no movement in the provision during the year ended 31 March 2019.

(b) Environmental and holder demolition provision

	Note	31 March 2019 £m	31 March 2018 £m
At 1 April		14.2	11.7
Unwinding of discount	5 (b)	0.8	0.7
Charged in the year	3 (b)	-	1.9
Utilised in the year		(0.2)	(0.1)
At 31 March		14.8	14.2

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 2018 the Group reassessed the provision as part of the preparation for RIIO-GD2, including a review of expected future cost and the timing of work, resulting in a £1.9m increase in the provision. The provision has been discounted to its estimated net present value. The anticipated timing of the cash flows for statutory remediation is expected to be incurred over the period until 2050. There has been no movement in the provision during the year ended 31 March 2019.

Notes to the consolidated financial statements (continued)

18. Provisions for liabilities (continued)

(c) Wayleaves provision

	Note	31 March 2019 £m	31 March 2018 £m
At 1 April		6.4	6.2
Unwinding of discount	5 (b)	0.3	0.3
Utilised in the year		(0.1)	(0.1)
At 31 March		<u>6.6</u>	<u>6.4</u>

The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves. The provision has been discounted to its estimated net present value. The provision is expected to be utilised over the period until 2037.

(d) Deferred tax

Group	Note	31 March 2019 £m	31 March 2018 £m
At 1 April		207.1	187.0
Charged to profit and loss account	6	1.3	15.5
Charged to comprehensive income	26	1.8	4.7
Total net deferred tax liability at 31 March		<u>210.2</u>	<u>207.1</u>

Deferred tax liability analysed as follows:

Accelerated capital allowances	346.6	353.5
Tax losses carried forward	(43.9)	(41.4)
Future tax relief on swap liabilities	(89.4)	(100.9)
Short term timing differences on general provisions	(2.5)	(2.2)
Pension liability	(0.6)	(1.9)
Total net deferred tax liability at 31 March	<u>210.2</u>	<u>207.1</u>

A deferred tax asset has not been recognised for WWU's Gas Transporters' Licence due to uncertainty on future tax relief.

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

(e) Other provisions

Group	31 March 2019 £m	31 March 2018 £m
At 1 April	6.3	5.5
Reclassified from accruals	1.6	-
Charged in the year	5.0	0.8
Released in the year	(3.6)	-
Utilised in the year	(0.1)	-
At 31 March	<u>9.2</u>	<u>6.3</u>

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

Notes to the consolidated financial statements (continued)

19. Called up share capital

	31 March 2019 £m	31 March 2018 £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 at 1 April	-	290.3
Share capital reduction 290,272,506 Ordinary shares of £0.01p each	-	(290.3)
	-	-

On 27 March 2018, the issued share capital of the Company was reduced from £290,272,506 divided into 290,272,506 ordinary shares of £1 each, to £29,027 divided into 290,272,506 ordinary shares of 0.01pence each, reducing the nominal value of each ordinary share to 0.01 pence and cancelling and extinguishing 99.99 pence of liability on each issued ordinary share in the capital of the Company. The amount of reduction was credited to the profit and loss account of the Company as a distributable reserve during the year ended 31 March 2018 (see page 24 – Consolidated and Company statement of changes in equity).

The interests of the shareholders in the shares and loan notes of the company as at 31 March 2019 were:

	Shareholding %	Share Capital £	31 March 2019 Loan Notes £	30 March 2018 Loan Notes £
West Gas Networks Limited	50%	14,513	-	48,378,750
Western Gas Networks Limited	50%	14,513	-	48,378,750
	100%	29,027	-	96,757,500

On 4 April 2018, the Company repaid its £96.8m shareholder loan and £5.4m of accrued interest thereon, equally to West Gas Networks Limited and Western Gas Networks Limited as part of the simplification of the Group's internal borrowing arrangements.

The group has no controlling party as it is owned by the above consortium members. The shares in Wales & West Gas Networks (Holdings) Limited (UK) are owned equally by West Gas Networks Limited (UK) and Western Gas Networks Limited (UK). These two companies are ultimately owned by a consortium comprising CK Hutchison Holdings Limited (30%), CK Infrastructure Holdings Limited (30%), Power Assets Holdings Limited (30%) and Li Ka Shing Foundation (10%).

20. Net cash inflow from operating activities

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
<u>Continuing operations:</u>		
Operating profit	172.9	153.4
Depreciation of tangible fixed assets	79.6	75.6
Depreciation of intangible fixed assets	12.8	14.0
Profit on disposal of fixed assets	(0.3)	(0.5)
Net (increase)/decrease in stocks	(0.1)	0.1
Net decrease in debtors	4.0	0.8
Net increase/(decrease) in creditors	6.9	(5.2)
Difference between pension charge and cash contributions	0.9	1.5
Movements in provisions for liabilities	0.5	2.5
Net cash inflow from operating activities	277.2	242.2

Notes to the consolidated financial statements (continued)

21. Analysis of changes in financing in the year

	Share capital		Long term loans	
	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m
At 1 April	-	290.3	2,190.7	1,563.3
Share capital reduction (note 19)	-	(290.3)	-	-
Obligations under finance lease	-	-	(0.9)	(0.8)
Amortisation of debt issue costs and discount	-	-	1.9	1.7
Debt and financing issue costs	-	-	-	(0.5)
Net bond debt issued	-	-	297.0	-
Net bond debt repaid/retired early	-	-	(192.0)	(48.0)
Net loan note issue proceeds	-	-	99.7	-
Loan notes repaid	-	-	(96.8)	-
Loans with affiliates	-	-	4.3	645.0
Bank debt drawn	-	-	20.0	30.0
At 31 March	-	-	2,323.9	2190.7

22. Analysis of changes in cash in the year

	Note	31 March 2019 £m	31 March 2018 £m
At 1 April	23	681.5	71.0
Net cash(outflow)/inflow	23	(510.8)	610.5
At 31 March	23	170.7	681.5

23. Analysis of cash and cash deposits

	Note	Change in year	
		31 March 2019 £m	31 March 2018 £m
Cash at bank	22	170.7	681.5

Notes to the consolidated financial statements (continued)

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

	Note	31 March 2019 £m	31 March 2018 £m
(Decrease)/increase in cash as per cash flow statement	22	(510.8)	610.5
Obligations held under finance lease		0.9	0.8
Amortisation of debt issue costs and discount		(1.9)	(1.7)
Debt issue and financing costs		-	0.5
Net bond debt issued proceeds		(297.0)	-
Net bond debt repaid/retired early		192.0	48.0
Net loan note issue proceeds		(99.7)	-
Loan notes repaid		96.8	-
Loans with affiliates		(4.3)	(645.0)
Net bank debt drawn		(20.0)	(30.0)
Increase in net debt		(644.0)	(16.9)
At 1 April		(1,509.2)	(1,492.3)
At 31 March		(2,153.2)	(1,509.2)

	Note	31 March 2019 £m	31 March 2018 £m
Loan notes	13(b),14(a)	-	(96.8)
Borrowings	13,14	(2,355.2)	(2121.7)
Less: accrual for inflation on index-linked bond		31.3	27.8
Debt	21	(2,323.9)	(2190.7)
Cash at bank and in hand	22, 23	170.7	681.5
Net debt		(2,153.2)	(1,509.2)

25. Directors' and officers' loans and transactions

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

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

Notes to the consolidated financial statements (continued)

26. 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 £103.9m. The calculations carried out to produce the results of that valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities were measured using the projected unit method.

The next triennial valuation of the Scheme is due as at 31 March 2019 and is currently in progress.

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 2019	31 March 2018
Inflation assumption	3.25% pa	3.15% pa
Discount rate	2.40% pa	2.50% pa
Rate of increase in pensions in payment	3.25% pa	3.15% pa
Rate of increase in salaries	4.00% pa	3.90% pa
Mortality assumptions		
Life expectancy of a male aged 60	26	27
Life expectancy of a male currently age 40 from age 60	28	29

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 2019 and 31 March 2018 were:

Asset distribution

	31 March 2019		31 March 2018	
	% of Total	Fair value £m	% of Total	Fair value £m
Equities	0.9	4.8	17.6	96.6
Government bonds	14.7	79.5	11.4	62.8
Direct lending	9.1	48.9	6.2	34.2
Property	5.7	30.5	5.4	29.4
LDI funds	33.1	178.7	29.2	160.3
Diversified Growth fund	12.0	64.7	20.8	114.1
Diversified Growth fund	18.1	97.6	-	-
Cash	6.4	35.1	9.4	52.0
Total market value of assets		<u>539.8</u>		<u>549.4</u>

Notes to the consolidated financial statements (continued)

26. Pension Scheme (continued)

The following amounts at 31 March 2019 and 31 March 2018 were measured in accordance with the requirements of FRS 102:

Balance sheet	31 March 2019 £m	31 March 2018 £m
Total market value of assets	539.8	549.4
Present value of Scheme liabilities	(543.5)	(560.9)
Net deficit in the Scheme	(3.7)	(11.5)

The Scheme is represented on the balance sheet at 31 March 2019 as a net deficit under FRS 102 which amounts to £3.7m (2018 £11.5m net deficit).

During the year ended 31 March 2019, contributions by the Group of £8.3m (2018: £28.2m, which included £14.7m in respect of the agreed 15 year deficit recovery plan ending 31 March 2031) and a £0.6m additional contribution in respect of GMP equalisation (2018: £nil), were made in respect of members of the defined benefit section.

Scheme expenses are met by the Scheme with WWU reimbursing the Scheme. The Group has set aside £1.4m outside of the Scheme for the year ended 31 March 2019 in order to meet the Scheme's expenses (2018: £1.5m). At 31 March 2019 there were no contributions due to the defined benefit section (2018: £nil).

It has been agreed that the ongoing employer contribution will be at a rate of 56.3% (2018: 56.3%) 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 29 March 2018 the Company paid £14.7m in respect of the deficit contributions due for the year ending 31 March 2019. No further deficit contributions were paid during the 2018/19 financial year.

The following amounts have been recognised in the consolidated financial statements for the year ended 31 March 2019 and the year ended 31 March 2018 under the requirements of FRS 102:

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Profit and loss account		
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	(9.2)	(11.3)
Past service cost – GMP equalisation*	(0.6)	-
Total operating charge	(9.8)	(11.3)
Analysis of amounts charged to other finance costs:		
Net interest on the net defined liability (note 5(b))	(0.2)	(1.1)
Total pension expense	(10.0)	(12.4)

Pension costs of £13.4m shown in note 4(b) comprise £9.2m of current service cost, £0.6m of past service cost* and £3.6m of defined contribution costs (2018: £14.3m; £11.3m of current service cost and £3.0m of defined contribution costs).

* On 26 October 2018, a judgement was made in the High Court in relation to UK defined benefit pension schemes. The judgement concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits ("GMP equalisation"). An estimate of the extent to which the judgement crystallises additional liabilities for the Scheme is £0.6m, which has been recognised as a past service cost for the year to 31 March 2019.

Notes to the consolidated financial statements (continued)

26. Pension Scheme (continued)

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Remeasurements recognised in comprehensive income		
Return on Scheme's assets excluding interest income	21.2	4.4
Changes in demographic assumptions underlying the present value of the obligation	10.2	17.4
Changes in financial assumptions underlying the present value of the obligation	(21.9)	5.8
Actuarial gain recognised in the statement of comprehensive income – pre tax	9.5	27.6
Deferred tax charge on actuarial gain (note 18 (d))	(1.8)	(4.7)
Actuarial gain recognised in the statement of comprehensive (expense)/income – net	7.7	22.9

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 2019 £m	31 March 2018 £m
Opening defined benefit obligations	560.9	622.2
Past service cost – GMP equalisation	0.6	-
Current service cost	9.2	11.3
Interest cost	13.4	14.8
Employee contributions	0.2	0.3
Benefits paid	(52.5)	(64.5)
Actuarial gain from change in demographic assumptions	(10.2)	(17.4)
Actuarial loss/(gain) from change in financial assumptions	21.9	(5.8)
Closing defined benefit obligations	543.5	560.9

At 31 March 2019, the weighted average duration of the defined benefit obligations was around 20 years (2018: 20 years).

Notes to the consolidated financial statements (continued)

26. Pension Scheme (continued)

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

Impact on the defined benefit obligation	31 March 2019	31 March 2018
Reducing the Discount Rate by 0.5%	+ £58.8m	+ £60.9m
Increasing the assumption for RPI inflation by 0.5%	+ £53.8m	+ £56.6m
Increasing the assumption for life expectancy by 1 year	+ £17.7m	+ £18.0m

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

	31 March 2019 £m	31 March 2018 £m
Opening fair value of Scheme assets	549.4	567.3
Expected return on assets	13.2	13.7
Employer contributions	8.3	28.2
Employee contributions	0.2	0.3
Benefits paid	(52.5)	(64.5)
Actual less expected return on assets	21.2	4.4
Closing fair value of Scheme assets	<u>539.8</u>	<u>549.4</u>

Defined contribution scheme

The Group also operates a defined contribution section of the scheme for staff. The employer paid £3.6m during the year ended 31 March 2019 (2018: £3.0m) in respect of defined contribution members.

Notes to the consolidated financial statements (continued)

27. Related party transactions

(a) Xoserve Limited

The Group owns 10% (2018: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid Group as owner of the gas transmission business in the UK. From 1 April 2017 the governance and control of Xoserve will be reflective of the principles set out in Ofgem's Funding Governance and Ownership review. Whilst the Company will continue to own its 10% stake in Xoserve, its control of Xoserve will be diminished under this new arrangement.

Xoserve provides gas throughput (meter reading) and billing information to the 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 £2.8m in respect of the year ended 31 March 2019 (2018: £4.0m), of which £0.3m was charged to capital (2018: £0.7m).

(b) Loan interest and dividend payments

The investors in the Company as at the balance sheet date (see note 19 – Called up share capital) are entitled to accrued interest income in relation to loan notes which the Company has issued to them.

For the year ended 31 March 2019, interest of £nil was payable to investors in respect of the year to 31 March 2019 (2018: £6.6m). Interest of £5.4m was paid during the year ended 31 March 2019 (2018: £6.4m). 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, which was paid on 4 April 2018 together with £1.6m of accrued loan note interest covering the period from 31 December 2017 to 31 March 2018 (2018: £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 2017 to 31 March 2018).

Dividends have been paid during the year as disclosed below and in note 7, dividends on equity shares.

On 4 April 2018 the Company repaid its £96.8m shareholder loan at par and the £5.4m of accrued interest thereon, and a final dividend of £1.87 per ordinary share amounting to £542.8m split equally to West Gas Networks Limited and Western Gas Networks Limited as part of the simplification of the Group's internal borrowing arrangements.

(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 £0.1m for the year ended 31 March 2019 (2018: £0.1m).

(d) CK Hutchison Holdings Limited

CK Hutchison Holdings Limited is a company which holds a 30% interest in the Company. CK Hutchison Holdings Limited owns 75.67% of CK Infrastructure Holdings Limited, a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 March 2019 the Group was invoiced by Hutchison International Limited for the following services negotiated by CK Hutchison Holdings Limited.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.2m for the year ended 31 March 2019 (2018: £0.2m). The contract is for a 5 year period from 1 April 2016.

Microsoft EA Licencing agreement – cost to the Group £0.3m for the year ended 31 March 2019 (2018: £0.3m). The contract is for a 3 year period from 1 April 2018.

Notes to the consolidated financial statements (continued)

27. Related party transactions (continued)

e) Loans from affiliated companies

On 27 March 2018, WWU, a wholly owned subsidiary of Wales & West Gas Networks (Holdings) Limited, issued £645.0m, net of fees of £0.2m, of loans to affiliates with a 20 year term expiring on 26 March 2038. The loan notes attract interest at LIBOR + 6.5%. At 31 March 2019 the book value of these loans was £649.3m (2018: £644.8m).

During the year ended 31 March 2019, interest of £52.1m was charged on these loans and at 31 March 2019 £14.2m was payable on loans to affiliates for the period from the 21 December 2018 to 31 March 2019 (2018: £0.6m payable for the period from 27 March 2018 to 31 March 2018). On 20 December 2018 loan interest of £34.0m was paid to affiliates in line with their percentage share (2018: £nil).

The interests of the affiliates in the loan notes of the Group as at 31 March 2019 and at 31 March 2018 were:

Loan note holders	% share	Nominal value £m	31 March 2019	31 March 2018 £m
Affiliated entity	30%	193.5	194.8	193.4
Affiliated entity	30%	193.5	194.8	193.4
Affiliated entity	30%	193.5	194.8	193.5
Affiliated entity	10%	64.5	64.9	64.5
	100%	645.0	649.3	644.8

Wales & West Gas Networks (Holdings) Limited (UK), Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ is WWU's ultimate parent Company. Wales & West Gas Networks (Holdings) Limited, the "Group", has no controlling party as it is immediately owned by consortium members – See note 19 for details of the ownership of the "Group".