Registered No. 05095454

Wales & West Gas Networks (Holdings) Limited

Annual report and consolidated financial statements
for the year ended 31 March 2018

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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	
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 2018 and comparative financial statements for results for the year ended 31 March 2017 ("2017") as reported under Financial Reporting Standard 102 ("FRS 102").

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

The business model

Business environment

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

The Group operates one of the independently owned regional gas distribution networks ("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 Company's gas distribution network and the supply of gas transportation services.

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

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

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

Regulatory environment

The gas distribution business of WWU is regulated by 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.

The business model (continued)

Regulatory environment (continued)

Under the current RIIO–GD1 price control, Ofgem had the ability to conduct a mid-period review. On 12 May 2016, Ofgem confirmed that it would not conduct a mid-period review over the operation of the RIIO-GD1 price control as it deemed the control was working appropriately. Ofgem however did identify that some work was required to ensure effective output accountability by the licensees to fill in some gaps in the framework and improve the operation of some of the mechanisms. During 2017/18 WWU has worked with the other GDNs and Ofgem to develop the Network Output Measures ("NOMs"), this has included building consistent models and methodologies. These NOMs have fulfilled the framework gaps and Ofgem is currently reviewing a consultation on the methodology proposed by the GDNs.

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. Ofgem has issued a RIIO-GD2 consultation to which WWU has responded. WWU 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 during the autumn of 2019 and will be engaging with stakeholders over the next 12 months to ensure we develop a well justified and stakeholder led business plan.

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

In addition to the revenues permitted by Ofgem, WWU earns other revenues, predominantly through gas meter work and smart meter installations. WWU aims to continue undertaking this work, where it is of benefit to WWU. However, it is anticipated that whilst traditional gas meter revenue will reduce the new contract to install smart meters across the UK's population of domestic electricity and gas meters will partially mitigate this over the next few years.

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

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

Results and operating performance

The operating profit amounted to £153.4m for the year ended 31 March 2018 (2017: £183.4m). After net interest of £53.9m, which includes an index-linked and interest rate swap credit of £32.4m (2017: net interest of £270.5m, includes an index-linked and interest rate swap charge of £182.7m) the consolidated profit before taxation for the year ended 31 March 2018 amounted to £99.5m (2017: loss of £87.1m). The consolidated profit attributable to shareholders, but before dividends, amounted to £77.6m (2017: loss of £40.3m).

The derivative asset and liability recognised at 31 March 2018 is £32.9m and £947.3m respectively (2017: £42.5m asset and £977.0m liability). In the year ended 31 March 2018 there was a decrease in the fair value liability, resulting in a profit and loss account credit of £32.4m. This credit is due to a decrease in the forward RPI curve and an increase to the forward LIBOR curve (2017: loss of £182.7m; due to an increase in the forward RPI curve and a reduction to the forward LIBOR curve).

The profit before taxation for the year ended 31 March 2018 excluding the fair value credit of £32.4m on derivatives amounted to £67.1m (2017: excluding fair value charge of £182.7m, profit of £95.6m).

The results of the Group for the year ended 31 March 2018 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 2018, the Group invested and capitalised £126.6m, against which consumers contributed £11.1m (2017: £142.4m, against which consumers contributed £15.2m), on expanding and improving the regional gas distribution network.

The business model (continued)

Results and operating performance (continued)

Part of network improvement includes replacement work within capital investment. The Group laid 378kms 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 £68.5m during the year ended 31 March 2018, against which consumers contributed £1.2m (2017: 425kms at a gross cost of £79.6m, against which consumers contributed £3.0m). 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 2017/18 all Ofgem targets have been met by WWU (2016/17: All targets met). There were 1,555 complaints in the year ended 31 March 2018 (2017: 1,708). 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 period, the Group also continued to work to improve operational efficiency through the performance management framework and the use of management information tools.

Financial review

Basis of accounting

The consolidated financial statements present the Group's results for the year ended 31 March 2018 with comparatives for the year ended 31 March 2017 and the financial position as at 31 March 2018 and 31 March 2017. 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 Consolidated Regulatory Accounts of Wales & West Utilities Limited prepared to 31 March every year. The Consolidated Regulatory Accounts are available from the Company secretary shown on page 1 after 31 July 2018.

Note 2 – Turnover provides an analysis of income derived 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 liquidity management.

Liquidity, resources and capital expenditure

Net cash inflow from operations for the year ended 31 March 2018 amounted to £223.8m (2017: £231.7m).
Investing activities absorbed net cash of £129.9m (2017: £133.6m) and net cash inflow from financing activities amounted to £516.6m. Financing activities, included £645.0m received for loan notes issued to affiliated companies and £48.0m par value paid for the Class B bond buy back during the year ended 31 March 2018 (2017: £165.4m outflow, which included £200m for the repayment of a £200m guaranteed bond at par on the redemption date of 2 December 2016 and a European Investment Bank loan of £150.0m).

The business model (continued)

Pension Scheme

At 31 March 2018 an FRS 102 pension valuation of £11.5m net deficit (2017: £54.9m net deficit) resulted in a credit to the statement of comprehensive income of £22.9m net of deferred tax of £4.7m (2017: £0.6m charge net of deferred tax of £0.1m). The Group contributed £18.4m (2017: £25.5m) of deficit contributions in respect of the defined benefit pension Scheme during the year ended 31 March 2018.

The calculation of the gross pension liability of £560.9m (2017: £622.2m) 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 - 2018: 2.50%, (2017: 2.50%)
- Inflation rate - 2018: 3.15%, (2017: 3.20%)

During the year, the Group updated its assumptions around mortality from the Continuous Mortality Investigation ("CMI") 2015 model to the CMI 2017 model, to reflect the latest available information. The change to the CMI model 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 2017 valuation.

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

Shareholder deficit

Shareholder deficit at 31 March 2018 amounted to £34.8m (2017: deficit £90.7m) as a result of a retained profit of £77.6m (2017: retained loss £40.3m), and an actuarial gain on the pension Scheme net of deferred tax of £22.9m (2017: net actuarial loss of £0.6m) and ordinary dividends of £44.6m (2017: £44.4m).

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 net borrowings of £2,218.5m (2017: £1,586.1m) are disclosed in notes 13 and 14.

At 31 March 2018, cash at bank of £681.5m was held by the Group (2017: £71.0m) 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. See note 28 – Post balance sheet events.

On 4 May 2018, WWU borrowed, £50.0m of Class B debt from the National Westminster Bank plc expiring on 4 May 2021. The loans carry a coupon of LIBOR + 1.25% and interest is payable bi-annually in May and November. See note 28 – Post balance sheet events.

On 23 July 2018, Wales & West Utilities Limited (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m. See note 28 – Post balance sheet events.

On 27 July 2018, Wales & West Utilities Finance plc ("WWUF") agreed pricing on a new Class A bond for a nominal amount of £300.0m under that company's £5,000.0m multicurrency secured guaranteed bond programme. The bond will be issued on 3 August 2018, carries interest at 3.0% p.a. and is repayable on 3 August 2038. See note 28 – Post balance sheet events.

Strategic report (continued)

The business model (continued)

Borrowings and financing (continued)

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 information at the year end. As at 31 March 2018 the Group held index-linked swap contracts with a notional principal of £1,003.8m (2017: £1,003.8m) and interest rate swaps with a notional principal of £234.4m (2017: £234.4m).

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 2018 was £914.4m (2017: £934.5m). 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. Further debt from the European Investment Bank was raised directly by WWU.

At 31 March 2018, WWUF had in issue a series of bonds, all of which are listed on the London Stock Exchange. Details of these issuances are set out below:

Nominal value	Coupon	Class	Issue date	Redemption date
£250m	6.25%	A	10 July 2009	30 November 2021
£300m	5.75%	A	31 March 2010	29 March 2030
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035
£67m	6.75%*	B	31 March 2010	17 December 2018/2036*
£250m	4.625%	A	4 November 2011	13 December 2023
£150m	5.00%	A	4 November 2011	7 March 2028

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

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 £1,347.5m, were lent by WWUF to WWU to repay its existing bank financing and to fund further capital investment. On 2 December 2016 WWU repaid £200m of the loan to WWUF. The funds were used to repay the guaranteed bond with a nominal value of £200m which matured on 2 December 2016.

On 27 March 2018, the Company 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 104.134% of their par value, and included accrued interest of £0.9m. The total consideration paid was £50.9m. The premium paid of £2.0m is included within interest payable see note 5(b), representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day, WWUF acquired from the Company the bonds which it bought and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, the Company extinguished an equivalent amount of debt owed by WWUF to it.

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% (2017: 20%) of the estimated assessable profit for the year. The £6.4m current corporation tax charge for the year ended 31 March 2018 (2017: £nil) represents amounts due to the UK Tax Authorities in respect of profits chargeable to corporation tax for the year together with amounts due to consortium members by way of consortium relief claimed.

Taxation (continued)
Deferred corporation net tax charges are recognised as deferred tax net liabilities of £207.1m at 31 March 2018 (2017: £187.0m). 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.

Fixed assets
Freehold land and buildings are carried in the consolidated financial statements at depreciated historic cost of £18.0m (2017: £16.4m).

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 £126.6m for the year ended 31 March 2018 (2017: £142.4m).

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

Contractual relationships
The Group has contractual relationships with many parties including directors, employees, suppliers, 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, which is used by the Group in setting its regulated gas distribution charges to gas transporters. The investment in Xoserve was £0.1m at 31 March 2018 (2017: £0.1m).

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

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.

On 4 May 2018, WWU borrowed, £50.0m of Class B debt from the National Westminster Bank plc 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 23 July 2018, Wales & West Utilities Limited (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m.

On 27 July 2018, Wales & West Utilities Finance plc ("WWUF") agreed pricing on a new Class A bond for a nominal amount of £300.0m under that company's £5,000.0m multicurrency secured guaranteed bond programme. The bond will be issued on 3 August 2018, carries interest at 3.0% p.a. and is repayable on 3 August 2038.

Other than those matters referred to above which are detailed in note 28 – Post balance sheet events, 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 Company is required to submit a RIIO-GD2 business plan to Ofgem during the autumn of 2019 and will be engaging with stakeholders to ensure it develops a well justified and stakeholder led business plan.

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

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

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

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with consumers, Ofgem and the public. Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies. 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 2018 amounted to £0.2m, which included £0.1m of additional compensation as WWU voluntarily choose to double the Ofgem compensation rates during 2017 (2017: £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 2018 and the preceding years as shown below. Key operational performance measures were:

	Ofgem Target	**Year ended 31 March 2018**	Year ended 31 March 2017	15 month and 1 day period ended 31 March 2016	364 day period ended 30 December 2014
Responding to gas escapes					
1 hour target for uncontrolled escapes	97.0%	**98.0%**	98.5%	98.6%	98.6%
2 hour target for controlled escapes	97.0%	**98.6%**	99.4%	99.6%	99.6%
Standards of performance					
Issuing quotations	90.0%	**99.7%**	99.0%	99.2%	98.9%
Offer dates for work start and finish	90.0%	**99.9%**	99.9%	99.9%	99.9%
Jobs completed on agreed dates	90.0%	**97.2%**	95.9%	94.2%	94.0%
Responding to complaints	90.0%	**99.9%**	99.9%	99.8%	99.9%
Customer complaints					
Number of complaints		**1,555**	1,708	2,497	2,807
Number of jobs undertaken		**272,721**	283,089	282,972	234,185
Percentage complaints		**0.6%**	0.6%	0.9%	1.2%
Upheld complaints*					
Ombudsman service		-	-	-	-

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

Key performance measures (continued)

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

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Turnover	**425.2**	433.9
Operating costs	**(271.8)**	(250.5)
Operating profit	**153.4**	183.4
Operating profit before depreciation, amortisation, movement in provisions and one-off items	**246.5**	271.2
Profit/(loss) after tax	**77.6**	(40.3)
Operating cash flows	**223.8**	231.7

One-off items are those of an unusual or non-recurring nature incurred by the Group and include accrual charges or credits taken through the profit and loss account and disclosed in note 3(a).

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.

Principal risks and uncertainties (continued)

Asset management systems

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

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

Network Assets, Health and Safety

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

Mains replacement targets, Health and Safety Executive

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme (see 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 a tri-party agreement with two main contractors and has secured a contract until March 2021.

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

Regulation

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

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

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. Ofgem has issued a RIIO-GD2 consultation to which the Company has responded and we expect some decisions from Ofgem. 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.

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.

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.

Principal risks and uncertainties (continued)

Employee relations

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

Financial risk management

The Group's operations and capital structure expose it to a variety of financial risks that include commodity risk, credit risk, liquidity risk, interest rate risk, inflation risk, pension deficit and taxation. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the 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 2018 was £5.9m (2017: £5.0m). 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 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 intends to achieve 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.

Principal risks and uncertainties (continued)

Credit risk (continued)

The amount of credit given to gas shippers is governed by the Uniform Network Code ("UNC") regulations and guideline. These provide for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of prepayment. The UNC criteria allow a maximum credit limit usage of 100% (2017: 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.

Inflation risk

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

The Group has entered into RPI-linked swaps primarily to partially mitigate RPI inflation risk and to support the hedging policy target for interest rate risk as noted above. Ofgem may change the inflationary index and methodology of its application to allowed revenues and to the regulated asset value.

Pension deficit risk

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). The defined benefit section of the Scheme was closed to new entrants in 2005 and has a considerable number of members who are either retired or have deferred benefits. Since 2005 new employees are entitled to enrol into the defined contribution section of the Scheme.

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

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 2018, the Company held index-linked swap contracts with a notional principal of £1,003.8m (2017: £1,003.8m) and interest rate swaps with a notional principal of £234.4m (2017: £234.4m).

At 31 March 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 was £914.4m (2017: £934.5m). 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.

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 2018 there were no significant incidents on the gas network (2017: 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 2018, there were three direct labour lost time injuries ("LTI's") and two contract labour LTI's (2017: one direct labour LTI and one contract LTI), giving a 12 month frequency rate of 0.10 LTI's/100,000 hours worked for direct labour (2017: 0.03 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 Group meets this challenge by having a comprehensive management system designed and certified to standards such as ISO 55001 and ISO 14001, with a structured risk management process at its core.

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

Environment

The Group is also proud of its environmental achievements and again maintained certification to ISO 14001 environmental management. By utilising and developing industry-wide best practices, the Group has reduced its environmental impact. Key areas of focus have been climate change, the disposal of waste to landfill and the use of quarried stone. Protecting the environment is a key focus for the Group going forward, and the 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:

	At 31 March 2018			At 31 March 2017		
Number	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Executive and directors	16	1	17	16	1	17
Senior managers	28	8	36	29	8	37
Other employees	1,130	237	1,367	1,130	225	1,337
Total employees	**1,174**	**246**	**1,420**	**1,174**	**234**	**1,391**

WWU undertakes mains replacement work through a tri-party agreement with two main contractors, with a contract secured until March 2021. In addition contractors are engaged to undertake larger capital projects and to resource back office departments. At 31 March 2018 WWU had over 620 contractors engaged (2017: over 680).

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

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 2018 annual colleague survey on our behalf and achieved a 51% response rate (2017: 69%).

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 People and Wellbeing Strategy, which was relaunched in March 2017, with focus in the year on supporting psychological health.

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.

The Group measures success in this area through employee retention. The Group had a voluntary staff turnover rate of 8.0% during the year ended 31 March 2018 (2017: 3.0%), this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average in UK industry during 2016 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 the areas of "Emergency", "Mechanical Engineering" and "Electrical & Instrumentation", in 2015 we extended our apprentice recruitment into the areas of "Build and Repair" and "Replacement". All our apprenticeships are in key areas where skills are not readily available in the external market and training times can be up to five years.

Ensuring continuity of the key skills required within the Industry and enabling a full and proper knowledge transfer to take place will ensure that the Group is well placed to effectively undertake this work going forward. 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 164 (2017: 143), meaning that 22% (2017: 18%) of the industrial workforce has joined the Company via the WWU Apprenticeship Programme. In 2017 we recruited 21 apprentices and a further 18 apprentices are due to be recruited in 2018.

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

By order of the Board

Paul Millar

Paul Millar
Company secretary
19 July 2018

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 2018 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
The Board of Directors approved the payment of a final dividend in respect of the year ended 31 March 2017 of 7.69 pence per £1 ordinary share, totalling £22.3m, which was paid on 21 June 2017 (2017: 7.64 pence per £1 ordinary share, totalling £22.2m, which was paid in June 2016).

The Board of Directors approved the payment of an interim dividend in respect of the year ended 31 March 2018 of 7.68 pence per £1 ordinary share, totalling £22.3m which was paid on 20 December 2017 (2017: 7.64 pence per £1 ordinary share, totalling £22.2m which was paid in December 2016).

Subsequent to the balance sheet date, 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.

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

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

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

Directors' service contracts and remuneration
Details of directors' remuneration are set out in note 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 2018, there have been no political donations (2017: £nil).

Non-adjusting events after the end of the reporting year
Non-adjusting events are disclosed in note 28 – Post balance sheet events.

Report of the directors (continued)

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.

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 2018, its medium term business plans from 2019 to 2021, the risks faced by the business and the net current liabilities position, and the directors believe that the Group and Company is well placed to manage its business risks successfully. The review included considering the forecast 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. Copies of the Consolidated Regulatory Accounts for the Wales & West Utilities Limited group for the regulatory year ended 31 March 2018 will be available from the Company secretary after 31 July 2018.

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

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

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.
Deloitte LLP has expressed their willingness to continue in office as auditor and are deemed to be reappointed, subject to certain specified circumstances under s487 of the Companies Act 2006.

By order of the Board
Paul Millar
Company secretary
19 July 2018

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

Paul Millar
Company secretary
19 July 2018

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:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the 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 28.

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

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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.

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.

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.

Delyth Jones

Delyth Jones (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
27 July 2018

Consolidated profit and loss account for the year ended 31 March 2018

Continuing operations	Note	**Year ended 31 March 2018 £m**	Year ended 31 March 2017 £m
Turnover	2	**425.2**	433.9
Net operating costs	3(a)	**(271.8)**	(250.5)
Operating profit before depreciation, amortisation movement in provisions and one-off items		**246.5**	271.2
Increase in environmental and holder provision	3(a, b)	**(1.9)**	-
Increase in insurance provision	3(a, b)	**(1.6)**	-
One - off item - restructuring provision		**-**	0.6
Depreciation and amortisation	3(a),8,9	**(89.6)**	(88.4)
Operating profit		**153.4**	183.4
Operating profit	3	**153.4**	183.4
Interest receivable and similar income	5(a)	**0.4**	0.7
Interest payable and similar charges	5(b)	**(86.7)**	(88.5)
Index–linked and interest rate swap movement	5(c)	**32.4**	(182.7)
Profit/(loss) before taxation		**99.5**	(87.1)
Tax on profit/(loss)	6	**(21.9)**	46.8
Profit/(loss) for the financial year attributable to ordinary shareholders		**77.6**	(40.3)

Consolidated and Company statement of comprehensive income for the year ended 31 March 2018

Group	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Profit/(loss) for the financial year attributable to ordinary shareholders	**77.6**	(40.3)
Actuarial gain/(loss) on pension Scheme (note 26)	**27.6**	(0.7)
Deferred tax charge/(credit) on actuarial gain/(loss) on pension Scheme (note 26)	**(4.7)**	0.1
Total comprehensive income/(loss) relating to the year	**100.5**	(40.9)

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.

Balance sheets at 31 March 2018

	Note	Group 31 March 2018 £m	Group 31 March 2017 £m	Company 31 March 2018 £m	Company 31 March 2017 £m
Fixed assets					
Intangible assets	8	**183.1**	189.1	-	-
Tangible assets	9	**2,522.5**	2,480.2	-	-
Investments	10	**0.1**	0.1	**78.0**	43.6
		2,705.7	2,669.4	**78.0**	43.6
Current assets					
Swap fair value asset (excluding accretion) – due after more than one year	15(e)	**32.9**	42.5	-	-
Stocks	11	**3.0**	3.1	-	-
Debtors	12	**44.1**	45.1	**725.2**	726.3
Cash at bank	22, 23	**681.5**	71.0	-	-
		761.5	161.7	**725.2**	726.3
Current liabilities					
Creditors: amounts falling due within one year	13(a)	**(258.9)**	(92.0)	**(11.8)**	(5.4)
Net current assets		**502.6**	69.7	**713.4**	720.9
Total assets less current (liabilities)/assets		**3,208.3**	2,739.1	**791.4**	764.5
Creditors: amounts falling due after more than one year	13(b)	**(2,995.2)**	(2,563.1)	**(96.8)**	(96.8)
Provisions for liabilities	18	**(236.4)**	(211.8)	-	-
Net (liabilities)/assets before pension liability		**(23.3)**	(35.8)	**694.6**	667.7
Pension liability	26	**(11.5)**	(54.9)	-	-
Net (liabilities)/assets including pension liability		**(34.8)**	(90.7)	**694.6**	667.7
Capital and reserves					
Called up share capital	19	-	290.3	-	290.3
Profit and loss account		**(34.8)**	(381.0)	**694.6**	377.4
Total shareholders' (deficit)/funds		**(34.8)**	(90.7)	**694.6**	667.7

The retained profit for the financial year before dividends dealt with in the financial statements of the parent Company was £71.5m (2017: profit of £72.7m).

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 19 July 2018 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 2018

Group

	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 31 March 2016 as restated		**290.3**	**(295.7)**	**(5.4)**
Loss for the year		-	(40.3)	(40.3)
Dividends paid	7	-	(44.4)	(44.4)
Remeasurement of net defined benefit liability	26	-	(0.7)	(0.7)
Deferred tax on defined benefit liability	26	-	0.1	0.1
Total comprehensive loss		**-**	**(85.3)**	**(85.3)**
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 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)**

Company

	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 31 March 2016 as restated		**290.3**	**349.1**	**639.4**
Profit for the year		-	72.7	72.7
Dividends paid	7	-	(44.4)	(44.4)
Total comprehensive income		**-**	**28.3**	**28.3**
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**

Consolidated cash flow statement for the year ended 31 March 2018

	Note	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Operating activities			
Net cash inflow from continuing operating activities	20	**242.2**	257.2
Pension deficit contributions	26	**(18.4)**	(25.5)
Net cash inflow from operating activities		**223.8**	231.7
Cash flows from investing activities			
Purchase of intangible fixed assets		**(3.8)**	(6.3)
Purchase of tangible fixed assets		**(127.3)**	(129.7)
Proceeds of disposal of tangible fixed assets		**1.2**	2.4
Net cash outflow from investing activities		**(129.9)**	(133.6)
Cash flows from financing activities			
Interest received in respect of index-linked swap contracts		**10.7**	13.4
Interest received in respect of interest rate swaps		**7.0**	6.4
Interest received on current asset investments		**-**	1.1
Interest received - other		**0.4**	0.3
Interest paid in respect of index-linked swap contracts		**(5.5)**	(1.2)
Interest paid in respect of interest rate swaps		**-**	(1.8)
Interest paid - other external debt		**(69.9)**	(76.5)
Interest paid in respect of loan notes		**(6.4)**	(6.6)
Payments in respect of interest rate swap contracts		**-**	(5.1)
Payments in respect of index-linked swap contracts		**(1.5)**	(1.0)
Bond debt cancelled/repaid		**(48.0)**	(200.0)
Debt drawn down		**30.0**	150.0
Loan notes issued to affiliates		**645.0**	-
Debt issue fees		**(0.6)**	-
Dividends paid		**(44.6)**	(44.4)
Net cash inflow/(outflow) from financing activities		**516.6**	(165.4)
Net cash inflow/(outflow) after financing		**610.5**	(67.3)
Cash and cash equivalents at beginning of period	22	**71.0**	138.3
Cash and cash equivalents at end of period	22,23	**681.5**	71.0
Net cash inflow/(outflow)		**610.5**	(67.3)
Analysis of cash and cash equivalents			
Cash at bank	22,23	**681.5**	71.0
Total cash and cash equivalents	22,23	**681.5**	71.0

Principal accounting policies

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

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

General information and basis of accounting
Wales & West Gas Networks (Holdings) Limited (registered number 05095454) is a private company limited by shares incorporated in Wales, United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Report of the directors on page 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 and in respect of the valuation of pension assets and liabilities and financial derivatives, and in accordance with FRS 102 issued by the Financial Reporting Council and restated comparative balances accordingly.

The Group has early adopted the Financial Reporting Council Triennial review 2017 amendments to the FRS 102 as issued in December 2017.

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

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

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

Going concern
The directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these consolidated financial statements as set out in the Report of the directors on page 17.

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

Uniform accounting policies have been adopted across the Group.

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

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

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.

Principal accounting policies (continued)

Turnover (continued)
No liability is recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and reductions will be made to future prices to reflect any over-recovery.

Contributions received from customers towards the construction or diversion of network assets are recognised in turnover within the profit and loss account on job completion or at stages of a project in line with costs. 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 held by Wales & West Utilities Limited has been recognised as a separately identifiable intangible asset, the value of which has been reallocated from tangible assets on transition to FRS 102.

Intangible fixed assets are amortised, on a straight line basis, at rates estimated to write off their book amount over their estimated useful economic lives. 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

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

Principal accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Principal accounting policies (continued)

Financial instruments (continued)

i) Financial assets and liabilities (continued)

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

Financial assets and liabilities are only offset in the 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. Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

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.

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 measured using closing market values at the balance sheet date. Pension Scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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

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

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

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

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

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

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

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

Principal accounting policies (continued)

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

- **Intercompany loan**
  Amounts owed by the wholly owned subsidiary, Wales & West Gas Networks (Junior Finance) Limited, of £725.2m at 31 March 2018 (2017: £726.3m) – £645.0m of this balance was repaid on 4 April 2018, the remaining balance is considered recoverable.

- **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.

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

- **Key source of estimation uncertainty – 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 2018 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.

- **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 setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The mortality assumption is set based on the most recent mortality tables "SAPS2" with an adjustment for the CMI 2017 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 profit after taxation, but before dividends, for the year within the financial statements of the Company was £71.5m (2017: profit of £72.7m). The amount transferred to reserves was a retained profit of £26.9m (2017: retained profit of £28.3m).

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 2018 £m	Year ended 31 March 2017 £m
Income from regulated activities	**406.9**	412.2
Income from non - regulated activities	**7.2**	6.5
Customer contributions towards the construction of assets	**11.1**	15.2
	425.2	433.9

3. Operating profit

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

	Note	**Year ended 31 March 2018 £m**	Year ended 31 March 2017 £m
Continuing operations:			
Staff costs	4(b)	**81.3**	80.2
Own work capitalised		**(40.4)**	(39.0)
Depreciation: Own assets	9	**74.4**	73.7
Depreciation: Leased assets	9	**1.2**	1.1
Depreciation: Intangible assets	8	**14.0**	13.6
Less amortised grants		**-**	(0.7)
Profit on disposal of fixed assets		**(2.4)**	(2.2)
Rentals under operating leases:			
Hire of plant and equipment		**0.8**	0.7
Other		**0.4**	0.4
Cost of stock recognised as an expense		**6.8**	7.7
One-off items ~ restructuring costs		**-**	(0.6)
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

Net increase in provisions relate to;

the environmental and holder demolition provision. A review of costs incurred and the timing of work carried out during the year ended 31 March 2018, gave rise to a £1.9m increase in the provision (note 18), and;

the insurance provision. A review of costs incurred and the timing of work carried out during the year ended 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 (note 18).

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 2018 £000	Year ended 31 March 2017 £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	**144.9**	124.9
the audit of the joint venture	**6.5**	6.3
Total audit fees	**156.4**	136.2
assurance services related to group reporting	**64.5**	46.1
assurance services related to regulatory reporting	**33.2**	32.5
assurance services related to FRS 102 transition	**45.5**	-
taxation compliance services	**-**	10.5
other taxation advisory services	**-**	110.7
other assurance services	**17.2**	65.6
Total non-audit fees	**160.4**	265.4

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Fees in respect of the pension scheme:		
Audit of pension scheme	**17.0**	20.0

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

4. Directors and employees

(a) Directors' emoluments and interests

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Fees payable to non - executive directors	**85.0**	85.0
Salary payments (including benefits in kind)	**451.2**	441.5
Performance related bonus (see below)	**465.0**	445.4
Pension contributions	**10.0**	-
Contributions in lieu of pension	**113.0**	102.5
	1,124.2	1,074.4

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

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

The amount disclosed in respect of the period ended 31 March 2018 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2017. 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 2018, £1.0m was accrued in respect of amounts payable under the long term incentive plan (2017: £0.9m).

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 2018 £000	Year ended 31 March 2017 £000
Salary payments (including benefits in kind)	**451.2**	441.5
Performance related bonus (see above)	**465.0**	445.4
Pension contributions	**10.0**	-
Contributions in lieu of pension	**113.0**	102.5
	1,039.2	989.4
Accrued group pension (Defined contribution)	**191.6**	139.9

4. Directors and employees (continued)

(b) Staff costs

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Wages and salaries	**59.9**	59.9
Social security costs	**7.1**	6.7
Pension costs (note 26)	**14.3**	13.6
	81.3	80.2

Staff costs are allocated to business activities based on time taken per employee to undertake. On this basis £29.4m of the above staff costs have been capitalised during the year ended 31 March 2018 (2017: £28.1m).

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

	Year ended 31 March 2018 Number	Year ended 31 March 2017 Number
Regulated gas distribution activities	**1,404**	1,379
Other activities	**2**	2
	1,406	1,381

5. Interest

(a) Interest receivable and similar income

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Interest receivable on bank deposits	**0.4**	0.7
	0.4	0.7

(b) Interest payable and similar charges

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
On external debt	**73.4**	75.8
On loans from parent undertakings	**6.4**	6.6
On loan notes with affiliates	**0.6**	-
Premium over par on Class B bond buyback	**2.0**	-
Amortised debt issue costs and bond discount	**1.7**	2.0
On unwinding of discounts on provisions (note 18)	**1.1**	1.2
Other finance charges –net pension (note 26)	**1.1**	2.5
Finance lease interest	**0.2**	0.2
Other	**0.2**	0.2
	86.7	88.5

Interest on external debt for the year ended 31 March 2018 includes a charge of £5.0m (2017: £3.1m) 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 2018 £m	Year ended 31 March 2017 £m
On index-linked derivative contracts – inflation accrual	**48.3**	25.5
Interest payable, on index-linked swaps	**5.6**	2.6
Interest payable, on interest rate swaps	**-**	2.1
Interest receivable, on index-linked swaps	**(10.2)**	(12.6)
Interest receivable, on interest rate swaps	**(6.9)**	(6.5)
Accretion of swap extension costs	**2.6**	1.7
Fair value (gain)/loss on index-linked swaps – excluding accruals	**(81.3)**	173.0
Fair value loss/(gain) on interest rate swaps – excluding accruals	**9.5**	(3.1)
Total swap portfolio (gain)/loss	**(32.4)**	182.7

The total gain on RPI linked swaps for the year ended 31 March 2018 of £32.4m arose from a decrease to medium term inflation ("RPI") and an increase in medium term nominal interest rates ("LIBOR") as reflected by their respective market observable forward curves. (2017: loss of £182.7m arose from an increase to RPI and a reduction to LIBOR as reflected by their respective market observable forward curve)

6. Tax on profit/(loss)

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

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Taxation is made up as follows:		
Current tax		
UK corporation tax on profit/(loss) of the year	**6.4**	-
Total current tax	**6.4**	-
Deferred tax		
Origination and reversal of timing differences	**14.2**	(40.7)
Deferred tax relating to change in tax rate	**1.3**	(6.1)
Total deferred tax charge/(credit)	**15.5**	(46.8)
Total tax on profit/(loss) (note 6(b))	**21.9**	(46.8)

The current tax charge of £6.4m (2017: £nil) represents estimated amounts due to the UK Tax Authorities in respect of profits chargeable to corporation tax for the year together with amounts due to consortium members by way of consortium relief claimed.

The main UK corporation tax rate reduces to 17% from 19% with effect from 1 April 2020.

The deferred tax charge relating to the change of tax rate of £1.3m (2017: £6.1m credit) has arisen as a result of the differential tax rates at which deferred tax assets and liabilities are expected to reverse. The deferred tax assets and liabilities that make up the closing net deferred tax liability of £207.1m (2017: £187.0m) are set out in note 18 (d).

6. Tax on profit/(loss) (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% (2017: 20.0%) to the loss before tax is explained below:

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Profit/(loss) before tax	**99.5**	(87.1)
Profit/(loss) before tax multiplied by the weighted average rate of corporation tax in the UK of 19.0% (2017: 20.0%)	**18.9**	(17.4)
Effects of:		
Expenses not deductible for tax purposes	**0.2**	0.2
Income not taxable in determining taxable profits	**(0.5)**	(0.9)
Change in tax rate	**1.3**	(6.1)
Adjustment to deferred tax in respect of prior periods	**2.0**	(22.6)
Current tax charge/(credit) for the year (note 6(a))	**21.9**	(46.8)

The effective tax rate of 22% for the year ended 31 March 2018 is higher than the statutory rate of 19% due to a prior period adjustment to deferred tax of £2.0m and the effects of changes in tax rates in relation to the timing of deferred tax liability reversals of £1.3m.

The net reversal of recognised deferred tax assets and deferred tax liabilities expected to occur in the year to 31 March 2019 is a charge of £4.6m. This relates mainly to the reversal of the deferred tax assets related to the defined benefit pension and on the fair value of derivatives recognised on balance sheet at 1 April 2016.

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

7. Dividends on equity shares

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Final dividend in respect of the year ended 31 March 2017, 7.69 pence per £1 ordinary share (2016: 7.64 pence per £1 ordinary share)	**22.3**	22.2
interim dividend in respect of the year ended 31 March 2018, 7.68 pence per £1 ordinary share (2017: 7.64 pence per £1 ordinary share)	**22.3**	22.2
Total dividends paid	**44.6**	44.4

Subsequent to the balance sheet date on 4 April 2018 the Company paid a final dividend of £542.8m equivalent to £1.87 per 0.01p ordinary share, split equally to West Gas Networks Limited and Western Gas Networks Limited.

8. Intangible fixed assets

Group

	Gas Transporters' Licence £m	IT Software £m	Assets under construction £m	Total £m
Cost or valuation				
At 1 April 2017	229.0	28.7	1.0	**258.7**
Additions	-	-	8.0	**8.0**
Transfers in year	-	3.5	(3.5)	-
At 31 March 2018	**229.0**	**32.2**	**5.5**	**266.7**
Accumulated amortisation				
At 1 April 2017	61.1	8.5	-	**69.6**
Charge for the year	5.1	8.9	-	**14.0**
At 31 March 2017	**66.2**	**17.4**	-	**83.6**
Net book amount				
At 31 March 2018	**162.8**	**14.8**	**5.5**	**183.1**
At 31 March 2017	167.9	20.2	1.0	189.1

Company

The company had no intangible fixed assets at 31 March 2018 or at 31 March 2017.

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 2017	18.0	6.2	2,905.0	173.0	51.2	**3,153.4**
Additions	-	-	1.8	0.5	116.3	**118.6**
Disposals	(0.2)	-	-	(2.9)	-	**(3.1)**
Transfers in year	2.2	-	109.8	6.8	(118.8)	-
At 31 March 2018	**20.0**	**6.2**	**3,016.6**	**177.4**	**48.7**	**3,268.9**
Accumulated depreciation						
At 1 April 2017	1.6	4.1	538.3	129.2	-	**673.2**
Charge for the year	0.4	0.2	63.8	11.2	-	**75.6**
Disposals	-	-	-	(2.4)	-	**(2.4)**
At 31 March 2018	**2.0**	**4.3**	**602.1**	**138.0**	-	**746.4**
Net book amount						
At 31 March 2018	**18.0**	**1.9**	**2,414.5**	**39.4**	**48.7**	**2,522.5**
At 31 March 2017	16.4	2.1	2,366.7	43.8	51.2	**2,480.2**

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 2018 the net book amount of these assets held under finance leases was £2.2m (2017: £3.0m).

Company
The Company had no tangible fixed assets at 31 March 2018 or at 31 March 2017.

10. Fixed asset investments

Group	Unlisted investments £m
Cost and net book amount	
At 31 March 2018 and 31 March 2017	**0.1**

The unlisted fixed asset investment of £0.1m (2017: £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% (2017: 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.

10. Fixed asset investments

Company

	Interests in Group undertakings £m
Cost and net book value	
At 1 April 2017	**43.6**
Capital contribution – release of intercompany loan interest	**34.4**
At 31 March 2018	**78.0**

During the year ended 31 March 2018 a £34.4m capital contribution (2017: £43.6m) 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.

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

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
which owns 100% of Wales & West Gas Networks (Senior Finance) Limited	05149493	2 ordinary shares of £1 each	Holding company
which owns 100% of Wales & West Utilities Holdings Limited	07092596	3 ordinary shares of £1 each	Holding company
which owns 100% of Wales & West Utilities Limited *which owns 100% of*	05046791	30,675,000 ordinary shares of £1 each	Management of gas transportation assets throughout Wales and the South West of England
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
and 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.

11. Stocks

Group	31 March 2018 £m	31 March 2017 £m
Raw materials and consumables	**3.0**	3.1

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

Company
The Company had no stock at 31 March 2018 or at 31 March 2017.

12. Debtors

	Group 31 March 2018 £m	Group 31 March 2017 £m	Company 31 March 2018 £m	Company 31March 2017 £m
Amounts falling due within one year:				
Trade debtors	**41.7**	40.9	-	-
Amounts owed by Group undertakings	-	-	**725.2**	726.3
Prepayments and accrued income	**2.4**	4.2	-	-
	44.1	45.1	**725.2**	726.3

13. Creditors

	Note	Group 31 March 2018 £m	Group 31 March 2017 £m	Company 31 March 2018 £m	Company 31 March 2017 £m
(a) Amounts falling due within one year:					
External borrowings	14(b i), (biii)	**96.8**	-	-	-
Accrual for index-linked swaps		**73.8**	-	-	-
Obligations under finance leases	14 (b v)	**1.0**	1.1	-	-
Payments received on account		**10.9**	9.6	-	-
Trade creditors		**6.5**	6.7	-	-
Other taxation and social security		**5.4**	3.5	-	-
Corporation tax		**5.7**	-	**5.7**	-
Other creditors		**3.2**	2.9	-	-
Accruals and deferred income		**49.5**	62.8	-	-
Amounts due to parent undertakings	27	**6.1**	5.4	**6.1**	5.4
		258.9	92.0	**11.8**	5.4
(b) Amounts falling due after more than one year:					
Loan notes with joint venture	14(a)	**96.8**	96.8	**96.8**	96.8
External borrowings	14(b)	**1,377.9**	1,486.3	-	-
Loan notes with affiliates	14(b iv)	**644.8**	-	-	-
Swap fair value liability (excluding accretion)		**873.5**	951.5	-	-
Accrual for accretion on index-linked swaps		-	25.5	-	-
Obligations under finance leases	14(b v)	**1.2**	1.9	-	-
Trade creditors		**0.6**	0.3	-	-
Other creditors		**0.4**	0.8	-	-
		2,995.2	2,563.1	**96.8**	96.8

14. External borrowings

Company

(a) Loan notes

Loan notes amounting to £96,757,500 at 31 March 2018 (2017: £96,757,500) were in issue to the Company's shareholders and are listed on the Channel Islands Stock Exchange. The notes are unsecured, bear interest at LIBOR plus 6 per cent, and are repayable in 2024. On 4 April 2018, these loan notes were repaid at par (see note 19 – Called up share capital and note 28 – Post balance sheet events).

Group

(b) Other borrowings

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

	31 March 2018 £m	31 March 2017 £m
Repayable as follows:		
In less than one year	**97.8**	1.1
In more than one year but not more than two years	**0.7**	115.1
In more than two years but not more than five years	**249.1**	249.6
In more than five years	**1,774.1**	1,123.5
	2,121.7	1,489.3

As at 31 March 2018 the £2,121.7m (2017: £1,489.3m) of external borrowings comprises bonds of £1,135.2m (2017: £1,176.8m), loan notes issued to affiliated companies of £644.8m (2017: £nil), an EIB term loan of £309.9m (2017: £309.8m), revolving bank facilities of £29.6m (2017: £0.3m debit) and obligations under finance leases of £2.2m (2017: £3.0m).

(i) At 31 March 2018 Wales & West Utilities Finance plc ("WWUF") had in issue guaranteed bonds with a nominal value of £1,117.0m (2017: £1,165.0m) and a book value of £1,135.2m (2017: £1,176.8m). Included in the book value is £27.8m (2017: £22.8m) of accrued inflation on the index-linked bonds less unamortised bond fees and discount of £9.6m (2017: £11.0m).

On 2 December 2016 a guaranteed bond with a nominal value of £200.0m matured and was repaid at par 77with funds advanced from a wholly owned subsidiary, Wales & West Utilities Limited.

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 104.134% of their par value, and included accrued interest of £0.9m. The total consideration paid was £50.9m. The premium paid of £2.0m is included within interest payable see note 5(b), representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day, WWUF acquired from WWU the bonds which it bought 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.

14. External borrowings (continued)

(b) Other borrowings (continued)

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

Nominal value	Coupon	Class	Issue date	Redemption date	Book amount 31 March 2018
£250m	6.25%	A	10 July 2009	30 November 2021	£249.0m
£300m	5.75%	A	31 March 2010	29 March 2030	£295.3m
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035	£127.3m
£67m	6.75%*	B	31 March 2010	17 December 2018/2036*	£66.8m
£250m	4.625%	A	4 November 2011	13 December 2023	£248.6m
£150m	5.00%	A	4 November 2011	7 March 2028	£148.2m
£1,117m					£1,135.2m

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

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

On 23 July 2018, Wales & West Utilities Limited (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m. See note 28 – Post balance sheet events.

On 27 July 2018, Wales & West Utilities Finance plc ("WWUF") agreed pricing on a new Class A bond for a nominal amount of £300.0m under that company's £5,000.0m multicurrency secured guaranteed bond programme. The bond will be issued on 3 August 2018, carries interest at 3.0% p.a. and is repayable on 3 August 2038. See note 28 – Post balance sheet events.

14. External borrowings (continued)

(b) Other borrowings (continued)

(ii) At 31 March 2018 the Group had borrowed funds with a nominal value of £310.0m (2017: £310.0m) under its European Investment Bank term loan facilities. The book value of the debt at 31 March 2018 is £309.9m (2017: £309.8m) after deducting unamortised debt fees of £0.1m (2017: £0.2m).

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

Nominal value	Fixed/ Floating	Coupon	Class	Drawdown date	Maturity date	Book amount 31 March 2018	Book amount 31 March 2017
£60m	Floating	0.455% + LIBOR	A	21 August 2015	31 March 2026	£60.0m	£60.0m
£100m	Floating	0.452% + LIBOR	A	30 November 2015	31 March 2027	£100.0m	£99.9m
£100m	Fixed	2.10%	A	27 January 2017	31 March 2026	£99.9m	£99.9m
£50m	Fixed	1.99%	A	22 March 2017	31 March 2027	£50.0m	£50.0m
£310m						£309.9m	£309.8m

(iii) At 31 March 2018, the Group had borrowed £30.0m (2017: £nil) under its revolving credit facilities, with a book value at 31 March 2018 of £29.6m including unamortised credit fees of 0.4m (2017: £0.3m debit representing unamortised credit facility fees). These facilities mature in February 2021. The floating interest rates on drawings under these facilities ranged from LIBOR + 0.35% to LIBOR + 1.50% (2017: ranged from LIBOR + 0.60% to LIBOR + 1.65%).

(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 and Western Gas Networks Limited (see note 27(e) - related party transactions). The loan notes carry a coupon of LIBOR + 6.5% and interest is payable bi-annually in June and December. On 12 June 2018 the loan notes were registered on the Official List of the International Stock Exchange in Jersey.

At 31 March 2018, WWU had borrowed £645.0m (2017: £nil) in the form of loan notes from affiliated companies. The book value of the debt at 31 March 2018 is £644.8m (2017: £nil) after deducting unamortised debt fees of £0.2m (2017: £nil). The table below details the loan notes balances with those affiliated companies at 31 March 2018:

	% Share £	Nominal value Loan notes £m	Book amount 31 March 2018 £m
Charm Lion Investment Limited (HK)	**30%**	**193.5**	**193.4**
Grace Lucky Investment Limited (HK)	**30%**	**193.5**	**193.4**
Popular Sky Investment Limited (HK)	**30%**	**193.5**	**193.5**
Grand Palace Investment Limited (HK)	**10%**	**64.5**	**64.5**
	100%	**645.0**	**644.8**

The cash received by WWU in respect of the loan notes was used on 4 April 2018 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, the Company paid £645.0m; comprising repayment of the £96.8m shareholder loan at par, £5.4m accrued interest thereon and a £542.8m dividend split equally to West Gas Networks Limited and Western Gas Networks Limited (see note 19 – Called up share capital and note 28 – Post balance sheet events).

(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 2018 was £2.2m (2017: £3.0m).

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

Group

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

	Note	31 March 2018 £m	31 March 2017 £m
Financial assets held at amortised cost			
Trade debtors	12	**44.1**	45.1
Cash	22,23	**681.5**	71.0
Total financial assets at amortised cost		**725.6**	116.1
Financial assets at fair value			
Derivative financial instruments	15(e)	**32.9**	42.5
Total financial assets		**758.5**	158.6

The cash balance at 31 March 2018 includes 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 majority of the existing loans from the Company's parent Wales & West Utilities Holdings Limited as part of a restructuring to simplify the UK Group's internal borrowing arrangements.

Company

The company held no financial assets at 31 March 2018 or at 31 March 2017.

Group	Note	31 March 2018 £m	31 March 2017 £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		**13.6**	12.4
Obligations held under finance leases	14	**2.2**	3.0
Loan notes	14 (a)	**96.8**	96.8
Guaranteed bonds	14 (b)	**1,135.2**	1,176.8
External borrowings – EIB loan and bank fees	14 (b)	**339.5**	309.5
Loans with affiliates	14 (b)	**644.8**	-
Total financial liabilities at amortised cost		**2,242.8**	1,609.2
Financial liabilities at fair value			
Derivative financial instruments	15(e)	**947.3**	977.0
Total financial liabilities		**3,190.1**	2,586.2

Company

The company held financial liabilities at amortised cost in the form of loan notes of £96.8m (2017: £96.8m) at 31 March 2018 – see note 14 (a) - External borrowings and see note 28 – Post balance sheet events.

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:

	Note	**Year ended 31 March 2018 £m**	Year ended 31 March 2017 £m
Interest income and expense			
Total interest income for financial assets at amortised cost	5(a)	**(0.4)**	(0.7)
Total interest expense for financial liabilities at amortised cost	5(b)	**86.7**	88.5
Fair value gains and losses			
On derivative financial assets measured at fair value through profit or loss	5(c)	**2.6**	(9.6)
On derivative financial assets measured at fair value through profit or loss	5(c)	**(35.0)**	192.3
		(32.4)	182.7

(b) Interest rate composition of gross borrowings

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

	31 March 2018 £m	31 March 2017 £m
Fixed rate	**363.0**	411.0
Fixed real rate	**1,064.0**	1,064.0
Floating rate	**126.8**	96.8
Total	**1,553.8**	1,571.8

Fixed nominal rate

Within fixed nominal rate debt at 31 March 2018 is £150.0m (2017: £150.0m) of fixed rate debt drawn with the European Investment Bank and £213.0m (2017: £261.0m) of fixed rate bonds to which no index-linked swaps have been allocated.

Fixed real rate

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (2017: £100.0m of 2.496% index-linked bonds) and £964.0m of fixed nominal rate and floating rate borrowings (2017: £964.0m) matched with index-linked swaps which together mitigate RPI volatility from regulated revenues.

Floating rate

The floating rate debt of £126.8m includes £30.0m at 31 March 2018 (2017: £nil) representing short term debt drawn under the revolving credit facility and £96.8m (2017: £96.8) in respect of shareholder loan notes as shown in note 14 (a) - External borrowings.

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 2018 and 31 March 2017, excluding intra-group indebtedness and loan notes issued to affiliates, together with the weighted average period for which the rate is fixed, was:

		Weighted average interest rate		**Weighted average period for which rate is fixed**	
		31 March 2018	31 March 2017	**31 March 2018**	31 March 2017
Currency		**%**	%	**Years**	Years
Sterling:	Fixed rate	**3.72**	3.83	**8.5**	9.2
	Fixed real rate	**3.78**	3.82	**8.4**	9.1

(d) Borrowing facilities

Undrawn committed borrowing facilities were:

	31 March 2018	31 March 2017
	£m	£m
Committed borrowing facilities	**435.0**	460.0
Drawn	**(340.0)**	(310.0)
Undrawn committed facilities	**95.0**	150.0

The drawn facilities at 31 March 2018 of £340.0m (2017: £310.0m of EIB loans) represent £310.0m of EIB loans as detailed in 14b (ii) and £30.0m of revolver facility drawn at 31 March 2018 (2017: £nil). The £95.0m of undrawn facilities at 31 March 2018 comprised revolver facilities (2017: £150.0m revolver facilities). In addition there are standby liquidity facilities of £90.0m (2017: £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.

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 £0.7m (2017: £0.5m) of unamortised debt fees.

The loan notes were listed on the Channel Islands Stock Exchange on 27 January 2011. As the loan notes have not traded, the fair value at 31 March 2018 is deemed to be the issue price of £96.8m (2017: £96.8m). 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. (See note 28 – Post balance sheet events).

All of the guaranteed bonds are listed on the London Stock Exchange. The fair value of the guaranteed bonds has been calculated using the 31 March 2018 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 2018.

Group	**31 March 2018**		31 March 2017	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Loan notes	**(96.8)**	**(96.8)**	(96.8)	(96.8)
Guaranteed bonds	**(1,135.2)**	**(1,377.4)**	(1,176.8)	(1,497.4)
Loans with affiliates	**(644.8)**	**(645.0)**	-	-
Bank loans	**(339.5)**	**(340.0)**	(309.5)	(310.0)
Obligations held under finance leases	**(2.2)**	**(2.2)**	(3.0)	(3.0)
Cash at bank	**681.5**	**681.5**	71.0	71.0
	(1,537.0)	**(1,779.9)**	(1,515.1)	(1,836.2)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:				
Index-linked swaps liability	**(947.3)**	**(989.1)**	(977.0)	(977.0)
Interest rate swaps asset	**32.9**	**33.8**	42.5	42.5
	(2,451.4)	**(2,735.2)**	(2,449.6)	(2,770.7)

Company	**31 March 2018**		31 March 2017	
	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)
	(96.8)	**(96.8)**	(96.8)	(96.8)

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 derivate contracts at 31 March 2018 and 31 March 2017 are shown below:

	31 March 2018 £m	31 March 2017 £m
Fair value of financial derivatives		
Fair value of swap liability	**(989.1)**	(994.6)
Fair value of swap asset	**33.8**	43.9
Net fair value of financial derivatives	**(955.3)**	(950.7)

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 £41.9m (2017: £17.6m) less the credit adjustment on the swap asset of £0.9m (2017: £1.4m).

Index-linked swaps

As at 31 March 2018 the Group held index-linked swaps with a notional principal of £1,003.8m (2017: £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 2018 ranged between 1.41% and 2.95% (2017: 1.25% and 2.85%). The maturity dates of these swaps range between November 2023 and November 2039 (2017: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,003.8m, £700.0m (2017: £700.0m) of these swaps have self-executing break dates and are phased as follows:

Year of break clause	**31 March 2018 £m**	31 March 2017 £m
2020	**3.4**	140.0
2022	**86.4**	140.0
2024	**140.0**	140.0
2025	**23.6**	23.6
2026	**140.0**	140.0
2027	**134.1**	116.4
2029	**85.9**	-
2030	**39.4**	-
2032	**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 (2017: £303.8m) of index-linked swaps do not have any such break clauses and mature in 2023 (2017: 2023).

15. Financial instruments and risk management (continued)

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

Interest rate swaps
As at 31 March 2018, the Group held interest rate swaps with a notional principal of £234.4m (2017: £234.4m), which offset the floating LIBOR receive legs on the index-linked swaps. The interest rate on the pay legs of these swaps at 31 March 2018 is floating LIBOR (2017: floating LIBOR). The maturity dates of these swaps range between November 2018 and March 2030 (2017: between November 2018 and March 2030).

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

Company
The Company had no index-linked or interest rate swap arrangements at 31 March 2018 or at 31 March 2017.

16. Capital commitments

Group

	31 March 2018 £m	31 March 2017 £m
Tangible fixed assets	**191.9**	241.6
Intangible fixed assets	**4.8**	4.0
Capital purchases contracted for but not provided for	**196.7**	245.6

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 2018 or at 31 March 2017.

17. Leasing commitments

At 31 March 2018 and 31 March 2017 commitments in respect of total future minimum lease payments under non-cancellable operating leases were as follows:

Group	**Land and buildings**		**Others**	
	31 March 2018 £m	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m
Within one year	**0.1**	0.1	-	-
Between two and five years	**0.2**	0.2	-	-
After five years	**0.1**	0.1	-	-
	0.4	0.4	-	-

Company
The Company had no operating lease commitments at 31 March 2018 or at 31 March 2017.

18. Provisions for liabilities

Group

	Note	31 March 2018 £m	31 March 2017 £m
Insurance provision	18 (a)	**2.4**	1.4
Environmental and holder demolition provision	18 (b)	**14.2**	11.7
Wayleaves provision	18 (c)	**6.4**	6.2
Deferred tax	18 (d)	**207.1**	187.0
Other provisions	18 (e)	**6.3**	5.5
		236.4	211.8

Company

The Company had no provisions at 31 March 2018 or at 31 March 2017.

(a) Insurance provision

	Note	31 March 2018 £m	31 March 2017 £m
At 1 April		**1.4**	1.5
Unwinding of discount	5 (b)	**0.1**	0.1
Charged in the year	3 (b)	**1.6**	0.3
Utilised in the year		**(0.7)**	(0.5)
At 31 March		**2.4**	1.4

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.

(b) Environmental and holder demolition provision

	Note	31 March 2018 £m	31 March 2017 £m
At 1 April		**11.7**	12.4
Unwinding of discount	5 (b)	**0.7**	0.7
Charged in the year	3 (b)	**1.9**	-
Utilised in the year		**(0.1)**	(1.4)
At 31 March		**14.2**	11.7

The environmental and holder demolition provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. During the year the Group 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.

18. Provisions for liabilities (continued)

(c) Wayleaves provision

	Note	31 March 2018 £m	31 March 2017 £m
At 1 April		**6.2**	6.1
Unwinding of discount	5 (b)	**0.3**	0.4
Utilised in the year		**(0.1)**	(0.3)
At 31 March		**6.4**	6.2

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 2018 £m	31 March 2017 £m
At 1 April		**187.0**	233.9
Charged/(credited) to profit and loss account	6	**15.5**	(46.8)
Charged/(credited) to comprehensive income	26	**4.7**	(0.1)
Total net deferred tax liability at 31 March		**207.1**	187.0
Deferred tax liability analysed as follows:			
Accelerated capital allowances		**353.5**	360.8
Tax losses carried forward		**(41.4)**	(43.6)
Future tax relief on swap liabilities		**(100.9)**	(118.6)
Short term timing differences on general provisions		**(2.2)**	(1.8)
Pension liability		**(1.9)**	(9.8)
Total net deferred tax liability at 31 March		**207.1**	187.0

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 and Company

	31 March 2018 £m	31 March 2017 £m
At 1 April	**5.5**	4.5
Charged in the year	**0.8**	1.0
At 31 March	**6.3**	5.5

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

19. Called up share capital

	31 March 2018 £m	31 March 2017 £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**	290.3
Share capital reduction	**(290.3)**	-
290,272,506 Ordinary shares of £0.01p each at 31 March 2018	**-**	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 (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 2018 were:

	Shareholding %	Share Capital £	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 2018 £m	Year ended 31 March 2017 £m
Continuing operations:		
Operating profit	**153.4**	183.4
Depreciation of tangible fixed assets	**75.6**	74.8
Depreciation of intangible fixed assets	**14.0**	13.6
Amortisation of grants	**-**	(0.7)
Profit on disposal of fixed assets	**(0.5)**	(2.2)
Net decrease in stocks	**0.1**	0.3
Net decrease/(increase) in debtors	**0.8**	(1.0)
Net decrease in creditors	**(5.2)**	(7.0)
Restructuring payments	**-**	(1.9)
Difference between pension charge and cash contributions	**1.5**	(0.3)
Movements in provisions for liabilities	**2.5**	(1.8)
Net cash inflow from operating activities	**242.2**	257.2

21. Analysis of changes in financing in the year/

	Share capital		Long term loans	
	31 March 2018 £m	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m
At 1 April	**290.3**	290.3	**1,563.3**	1,610.4
Share capital reduction (note 19)	**(290.3)**	-	**-**	-
Obligations under finance lease	**-**	-	**(0.8)**	0.9
Amortisation of debt issue costs and discount	**-**	-	**1.7**	2.0
Debt and financing issue costs	**-**	-	**(0.5)**	-
Bond debt cancelled/repaid	**-**	-	**(48.0)**	(200.0)
Loans with affiliates	**-**	-	**645.0**	-
Bank debt drawn	**-**	-	**30.0**	150.0
At 31 March	**-**	290.3	**2,190.7**	1,563.3

22. Analysis of changes in cash in the year

	Note	**31 March 2018 £m**	31 March 2017 £m
At 1 April	23	**71.0**	38.3
Net cash inflow	23	**610.5**	32.7
At 31 March	23	**681.5**	71.0

23. Analysis of cash and cash deposits

	Note	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 Change in year £m**	31 March 2017 Change in year £m
Cash at bank	22	**681.5**	71.0	**610.5**	32.7
Current asset investments – cash on term deposit		**-**	-	**-**	(100.0)
		681.5	71.0	**610.5**	(67.3)

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

	31 March 2018 £m	31 March 2017 £m
Increase in cash as per cash flow statement (note 22)	**610.5**	32.7
Obligations held under finance lease	**0.8**	(0.9)
Amortisation of debt issue costs and discount	**(1.7)**	(2.0)
Debt issue and financing costs	**0.5**	-
Cash transferred from term deposit	**-**	(100.0)
Bond debt repaid	**48.0**	200.0
Loans with affiliates	**(645.0)**	-
Bank debt drawn	**(30.0)**	(150.0)
Increase in net debt	**(16.9)**	(20.2)
At 1 April	**(1,492.3)**	(1,472.1)
At 31 March	**(1,509.2)**	(1,492.3)

	Note	31 March 2018 £m	31 March 2017 £m
Loan notes	13(b),14(a)	**(96.8)**	(96.8)
Borrowings	13,14	**(2,121.7)**	(1,489.3)
Less: accrual for inflation on index-linked bond	14 (b i)	**27.8**	22.8
Debt	21	**(2,190.7)**	(1,563.3)
Cash at bank and in hand	22, 23	**681.5**	71.0
Net debt		**(1,509.2)**	(1,492.3)

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.

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 evaluation of the Scheme is due at 31 March 2019.

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

Financial assumptions	**31 March 2018**	31 March 2017
Inflation assumption	**3.15% pa**	3.20% pa
Discount rate	**2.50% pa**	2.50% pa
Rate of increase in pensions in payment	**3.15% pa**	3.20% pa
Rate of increase in salaries	**3.90% pa**	3.95% pa
Mortality assumptions		
Life expectancy of a male aged 60	**27**	27
Life expectancy of a male currently age 40 from age 60	**29**	30

The assets in the Scheme (excluding the Defined Contribution Section of the Scheme and the members' AVC funds) and the expected rates of return at 31 March 2018 and 31 March 2017 were:

Asset distribution

	31 March 2018		31 March 2017	
	% of Total	**Fair value £m**	% of Total	Fair value £m
Equities	**17.6**	**96.6**	24.3	137.8
Government bonds	**11.4**	**62.8**	11.5	65.2
Direct lending	**6.2**	**34.2**	3.4	19.1
Property	**5.4**	**29.4**	3.9	22.3
LDI funds	**29.2**	**160.3**	29.5	167.1
Diversified Growth fund	**20.8**	**114.1**	19.8	112.6
Cash	**9.4**	**52.0**	7.6	43.2
Total market value of assets		**549.4**		567.3

26. Pension Scheme (continued)

The following amounts at 31 March 2018 and 31 March 2017 were measured in accordance with the requirements of FRS 102:

Balance sheet	31 March 2018 £m	31 March 2017 £m
Total market value of assets	**549.4**	567.3
Present value of Scheme liabilities	**(560.9)**	(622.2)
Deficit in the Scheme	**(11.5)**	(54.9)

The Scheme is represented on the balance sheet at 31 March 2018 as a liability under FRS 102 which amounts to £11.5m (2017: £54.9m).

During the year ended 31 March 2018, contributions by the Group of £28.2m (2017: £39.5m), which included £18.4m (2017: £25.5m) in respect of the agreed 15 year deficit recovery plan ending 31 March 2031 (2017: 15 year deficit recovery plan ending 31 March 2031) and a £nil (2017: £3.0m additional contribution to the early retirement programme, 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 £1.5m outside of the Scheme for the year ended 31 March 2018 in order to meet the Scheme's expenses (2017: £1.3m). At 31 March 2018 there were no contributions due to the defined benefit section (2017: £nil).

It has been agreed that the ongoing employer contribution will be at a rate of 56.3% (2017: 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 (2017: On 30 March 2017 the Company paid £11.0m in respect of the deficit contributions due for the year ended 31 March 2018).

The following amounts have been recognised in the consolidated financial statements for the year ended 31 March 2018 and the year ended 31 March 2017 under the requirements of FRS 102:

Profit and loss account	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**(11.3)**	(11.0)
Past service cost	**-**	(3.0)
Total operating charge	**(11.3)**	(14.0)
Analysis of amounts charged to other finance costs:		
Net interest on the net defined liability	**(1.1)**	(2.5)
Total pension expense	**(12.4)**	(16.5)

Pension costs of £14.3m shown in note 4(b) comprise £11.3m of current service cost and £3.0m of defined contribution costs (2017: £13.6m; £11.0m of current service cost and £2.6m of defined contribution costs).

26. Pension Scheme (continued)

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

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Remeasurements recognised in comprehensive income		
Return on Scheme's assets excluding interest income	**4.4**	77.7
Experience gain on obligation	**-**	23.5
Changes in demographic assumptions underlying the present value of the obligation	**17.4**	30.2
Changes in financial assumptions underlying the present value of the obligation	**5.8**	(132.1)
Actuarial gain/(loss) recognised in the statement of comprehensive income – pre tax	**27.6**	(0.7)
Deferred tax (charge)/credit on actuarial gain/(loss) (note 18 (d))	**(4.7)**	0.1
Actuarial gain/(loss) recognised in the statement of comprehensive income – net	**22.9**	(0.6)

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

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

	31 March 2018 £m	31 March 2017 £m
Opening defined benefit obligations	**622.2**	524.4
Past service cost	**-**	3.0
Current service cost	**11.3**	11.0
Interest cost	**14.8**	18.2
Employee contributions	**0.3**	0.4
Benefits paid	**(64.5)**	(13.2)
Actuarial gain from change in demographic assumptions	**(17.4)**	(30.2)
Actuarial (gain)/loss from change in financial assumptions	**(5.8)**	132.1
Actuarial gain from experience on Scheme liabilities	**-**	(23.5)
Closing defined benefit obligations	**560.9**	622.2

At 31 March 2018, the weighted average duration of the defined benefit obligations was around 20 years (2017: 20 years).

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 2018**	31 March 2017
Reducing the Discount Rate by 0.5%	**+ £60.9m**	+ £70.5m
Increasing the assumption for RPI inflation by 0.5%	**+ £56.6m**	+ £65.5m
Increasing the assumption for life expectancy by 1 year	**+ £18.0m**	+ £19.0m

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

	31 March 2018 £m	31 March 2017 £m
Opening fair value of Scheme assets	**567.3**	447.2
Expected return on assets	**13.7**	15.7
Employer contributions	**28.2**	39.5
Employee contributions	**0.3**	0.4
Benefits paid	**(64.5)**	(13.2)
Actual less expected return on assets	**4.4**	77.7
Closing fair value of Scheme assets	**549.4**	567.3

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

The employer paid £3.0m during the year ended 31 March 2018 (2017: £2.6m) in respect of defined contribution members.

27. Related party transactions

(a) Xoserve Limited

The Group owns 10% (2017: 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 £4.0m in respect of the year ended 31 March 2018 (2017: £6.3m), of which £0.7m was charged to capital (2017: £2.6m).

(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 2018, interest of £6.6m was payable to investors in respect of the year to 31 March 2018 (2017: £6.6m). Interest of £6.4m was paid during the year ended 31 March 2018 (2017: £6.8m). As part of the change in ownership of the Company in 2012 the new investors acquired the right to the accrued interest of £3.8m. As a result, the investors are entitled to accrued loan interest of £5.4m at 31 March 2018; £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 (2017: £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 2016 to 31 March 2017).

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

Subsequent to the balance sheet date, 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 (see note 28 – Post balance sheet events).

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 2018 (2017: £0.3m).

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 2018 the Group has been invoiced by Hutchison International Limited for the following services negotiated by CK Hutchison Holdings Limited.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.2m for the year ended 31 March 2018 (2017: £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 2018 (2017: £0.2m). The contract is for a 3 year period from 1 April 2018.

27. Related party transactions (continued)

e) Loans from affiliated companies

On 27 March 2018, WWU issued £645.0m (2017: £nil), 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 2018 the book value of these loans was £644.8m (2017: £nil). At 31 March 2018, interest of £0.6m (2017: £nil) was payable on loans to affiliates for the period from the date of issue, 27 March 2018 to 31 March 2018.

The interests of the affiliates in the loan notes of the Group as at 31 March 2018 (2017: £nil) were:

Loan note holders and country of incorporation	Ultimate parent Company	% share	Nominal value £m	Book amount 31 March 2018 £m
Grace Lucky Investment Limited (HK)	CKI Infrastructure	30%	193.5	193.4
Popular Sky Investment Limited (HK)	Power Assets Holdings	30%	193.5	193.4
Charm Lion Investment Limited (HK)	CK Hutchison	30%	193.5	193.5
Grand Palace Investment Limited (HK)	Li Ka Shing Foundation	10%	64.5	64.5
		100%	645.0	644.8

WWU's ultimate parent Company is Wales & West Gas Networks (Holdings) Limited (UK), Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ. 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.

28. Post balance sheet events

On 4 April 2018, the £645.0m cash deposit held at 31 March 2018, following the issue of the shareholder loan notes by affiliated companies to WWU, was utilised to repay intercompany debt up through the corporate structure. On 4 April 2018, the Company repaid its £96.8m shareholder loan at par and £5.4m of accrued interest thereon, and a 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 (see note 19 – Called up share capital).

On 4 May 2018, WWU borrowed £50.0m of Class B debt from the National Westminster Bank plc 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 23 July 2018, Wales & West Utilities Limited (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m.

On 27 July 2018, Wales & West Utilities Finance plc ("WWUF") agreed pricing on a new Class A bond for a nominal amount of £300.0m under that company's £5,000.0m multicurrency secured guaranteed bond programme. The bond will be issued on 3 August 2018, carries interest at 3.0% p.a. and is repayable on 3 August 2038.