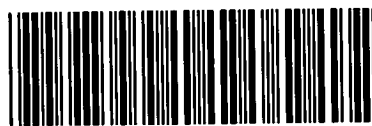


Registered No. 05095454

Wales & West Gas Networks (Holdings) Limited

Annual report and consolidated financial statements
for the year ended 31 March 2023

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Directors and advisers

Directors

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

- (A) *Member of the Audit Committee*
(R) *Member of the Remuneration Committee*
(H) *Member of the Health & Safety Committee*
(T) *Member of the Treasury Committee*
(E) *Member of the ESG Committee*

* *Executive director*

** *Non-executive director*

Company secretary and registered office

Paul Millar
Wales & West House, Spooner Close, Coedkernew, Newport, NP10 8FZ

Auditor

Deloitte LLP
Abbots House, Abbey Street, Reading, RG1 3BD

Chairman's Statement

We are pleased to share our Annual report, which includes the second year of the Ofgem five year RIIO-GD2 (Revenue = Incentives, Innovation and Outputs) regulatory control period. A year which has continued to embed the organisational changes implemented in the prior years, changes that ensure we have a sustainable, resilient and fit for purpose organisation that meet the challenges of the current and future price controls.

As a Group we continue to strive towards our ambition to be *'Trusted to expertly serve customers and communities with safe, reliable and affordable energy services today, whilst investing wisely to create a sustainable, greener future.'*

The role and effectiveness of the Board

Our Board is responsible for ensuring leadership through effective oversight and review.

Supported by its principal committees – Audit, Health and Safety, Remuneration, Treasury and a recently established Environmental, Social and Governance ('ESG') committee – the Board continues to set the strategic direction and aims to deliver sustainable shareholder value over the longer term. The work of the Board complements, enhances and supports the work of the Executive Committee.

We believe that effective governance is realised through leadership and teamwork and collaboration across all levels within the Board structure drives a culture of continuous improvement. Operating performance is managed on a daily basis by the local Executive Team who constantly strive to ensure the committed Price Control Deliverables within the current period are met. These are discussed in the report below.

Capital providers

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



Andrew Hunter
Chairman
24 August 2023

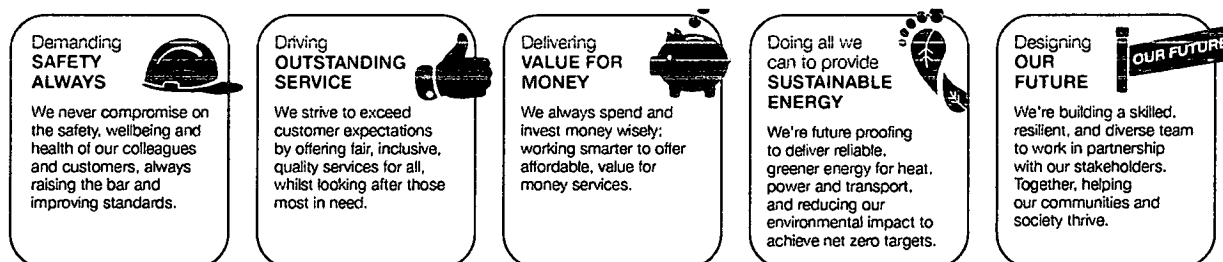
Chief Executive's report

I am pleased to present this report for the year ended 31 March 2023, covering the second year of the RIIO-GD2 price control; another challenging year for our business. The ongoing cost of living crisis, and war in Ukraine together with the wider economic issues have all collectively brought disruption on a scale not imagined just a few short years ago.

However, I am pleased to say that as a business we have risen to the challenge – all down to the fantastic efforts of our people. The business-wide changes implemented at the beginning of this RIIO2 control are now well embedded and set us in good stead to meet the demands of the future. In such times of uncertainty our colleagues at WWU have embraced these changes and continue to deliver for our customers and communities. Testament to their hard work we have achieved our key outputs for customers again this year, continued excellent delivery for customers across Wales and South West England, and are well set to meet the challenges for the balance of this, and future, price controls. Their efforts are something that I, alongside my leadership team are incredibly proud of.

Our priorities

To support achieving our price control deliverables across RIIO-GD2 we have updated our business ambitions (see Chairman's statement), priorities, and values with a renewed focus on sustainability. Our new priorities align with our headline targets and continue to comprise 5 key areas:



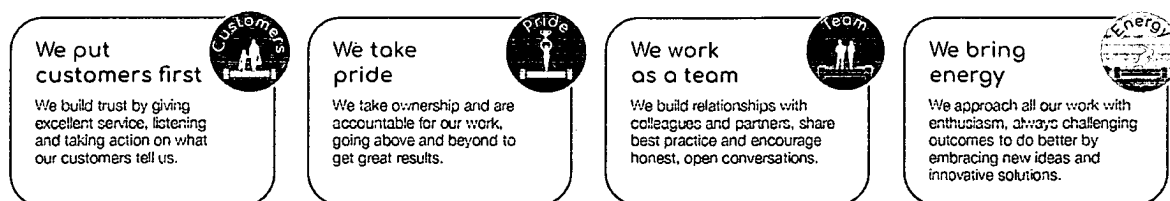
- **Demanding Safety Always:** We continue to respond to over 97% of gas emergencies within 1 hour, and have replaced more than 440 kilometres of old metal gas pipes in the year – further removing risk from the network. For the tenth year in a row we have been awarded the RoSPA Gold award, achieving the President's award, a first in our sector.
- **Driving Outstanding Service:** We have continued to provide good customer service and are proud to be Institute of Customer Service 'Distinction' status and to be one of 9 companies to get the new ISO22458 Inclusive Service standard. The Vulnerability & Carbon Monoxide Allowance has allowed us to give further support to those most in need during the cost of living crisis through partnerships with organisation such as Citizens Advice, NEA, SCOPE, Fuel bank Foundation and Warm Wales.
- **Delivering Value for Money:** Our proportion of the customer bill has remains consistent with prior years once adjusted for the cost of Supplier of Last Resort whereby we collect on behalf of the gas shipper companies as instructed by Ofgem. This is the result of the unprecedented failure of numerous energy suppliers over last few years.
- **Providing Sustainable Energy:** In 2021/22 we secured the first exemption from the Health & Safety Executive (HSE) allowing us to inject gas containing with up to 1% hydrogen into our network in Swindon. Elsewhere the connection of the 20th biomethane site to our network means we have now decarbonised the annual heating demand of circa 160,000 homes.
- **Designing our Future:** Like many organisations we have been impacted by significant turnover in our people. To ensure we remain 'an employer of choice', we continue to invest significantly in the development and wellbeing of our colleagues – and in this regard are proud to retain our Investors in People Silver Level accreditation.

Strategic report (continued)

Our values:

Our four values underpin everything we do, from employee recruitment to service delivery and are not just the backbone to achieving our business plan but drive us to create a better world for this generation and the next. They are:

Our values



These values have not changed from previous years; but are regularly reviewed to ensure they remain appropriate.

Performance:

This year has been challenging, the energy crisis affecting customers, the energy companies supporting government's contingency planning, resource shortages, the ongoing war in Ukraine and the cost-of-living crisis impacting everyone. Despite this we achieved our outputs and still supported those most in need.

Despite the challenges mentioned above, our operating performance over the past year has been satisfactory, with all of the Ofgem "Guaranteed Standards of Performance" targets being achieved, consistent with previous years.

External targets were met in response to reported possible gas escapes, both within one and two hour time frames even with the influx of calls linked to supplier issues during the cold spells in December 2022 and early 2023. The Ofgem standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met.

There were 1,542 complaints in the year ended 31 March 2023 (2022: 1,490). This was up 3.5% from the previous year due to the increased workload and emergency jobs throughout the winter period. Our employees continue to be our most valuable resource and on-going training, engagement and support ensured operational efficiency and operational standards have all been met.

Working practices, supported by our staff and the Trade Unions, continue to be flexible and remain adapted due to Covid-19 with increased safety procedures, office and depot based employees working from home on a hybrid basis and increased online communication and engagement continuing to be used. We are acutely aware of the mental health of our employees and additional emphasis and support has been provided where required.

Climate Change and its Impact on the Future Role of the Network

This is a critical time for the energy sector, with the current volatility in the energy markets, uncertainty of direction to achieve the government's commitment of net zero by 2050, and the impacts of the war in Ukraine feeding the current cost of living crisis. We will continue to provide the infrastructure to transport the energy and heat that people need, whilst at the same time reducing the carbon impact of our business.

In our GD2 Business Plan we set out how we will deliver for the communities which rely on us, with a large focus being on sustainability and the long-term future of energy. Building on this, in July 2023 we published our WUW Sustainability Strategy¹ which aims to set out the overarching, long-term vision for our business and the key milestones we anticipate meeting to deliver it. We recognise that sustainability is a broad concept and that our business is on a journey towards sustainability in our own operations and in the services we provide to our customers and communities. We recognise we are a gas network that plays a central role in delivering safe, reliable and affordable energy – and that the vast majority of the gas we carry is a fossil fuel. As such, we need to change in line with the UK's commitments while continuing to meet the needs and expectations of our stakeholders. We recognise we cannot do this alone: we will need to work with partners across and beyond our industry and respond to changes in policy and regulation.

¹ <https://www.wu.co.uk/media/4824/sustainability-strategy-2023.pdf>

Strategic report (continued)

Our Sustainability Strategy has been shaped by stakeholder input and will also be a platform for further engagement, not least as we develop our next business plan in support of RIIO-GD3. Our Strategy will evolve and we will report on it annually, adapting it as required to reflect changes in the wider world, including in response to evolving government strategy.

Our internal ambition remains to deliver a "Net Zero-ready" gas network by 2035 in the areas most likely to convert to hydrogen, if sufficiently funded and supported by central and local Government and regulators. On the same basis our ambition is for our whole network to be net zero ready by 2040. In 2018 and 2019, over 25,000 stakeholders across Wales and South West England had input into our RIIO-GD2 Business Plan, and from those discussions our plan was designed to meet those expectations, namely focusing on sustainability and the environment, as well as delivering an inclusive service for everyone, particularly the vulnerable in society, including doubling our support for those most in need.

The UK Government has set a target for the UK to be net zero in its carbon emissions by 2050. In November 2020, the UK Government announced its Ten Point Plan for a green industrial revolution and Energy White Paper providing some more insight on potential net zero carbon pathways. Whilst we expect a significant degree of uncertainty to prevail for some years on the final pathways that may emerge, we consider that there will be a long-term role for gas (including some, or all, of methane, hydrogen and biomethane) in the energy system.

The next stages in the UK net zero strategy are likely to be hydrogen injecting into the current networks with up to 20% by volume planned by the UK Government (1% blending derogation already in place in the local Swindon network) with no detriment to domestic appliance operations; a decision and subsequent pathway on this is expected in late 2023. This will be followed by the conversion of natural gas distribution network to a net zero gas system, with parts operating on a 100% hydrogen supply and other parts on a renewable biomethane supply which is also forecast to increase.

The Government's 10 Point Plan and Energy White Paper also outlined the consecutive delivery of a hydrogen community, hydrogen village and hydrogen town by 2030. The UK Government has already funded the development of hydrogen-ready appliances in anticipation of changing over from a natural gas supply with a hydrogen blend to a 100% hydrogen supply, and recently consulted on mandating hydrogen readiness from 2026. The target for low carbon hydrogen production by 2030 was doubled from 5GW to 10GW in the more recent Energy Security Strategy. Part of the Government's strategy to reduce reliance on imported energy supplies (both gas and electric).

In addition to direct investment in network assets, including expanding the number of biomethane production plants connected to our network, we plan to invest around £18m in innovation and net zero related activity across the current price control, RIIO-GD2, to develop further the role of our assets in the future energy system.

This includes:

- working with other Gas Distribution Networks to develop Hydrogen trials alongside evidence on safety and transition management;
- developing plans for Hydrogen rollout and town pilots in different parts of the UK, including WWU's geography; and
- working with major industry to develop decarbonised industrial clusters in South Wales, North Wales and the South West, which could require new or repurposed gas network assets.

Climate related reporting

As a Group we support, and are committed to, implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). We have identified the actions required to be able to disclose our first TCFD information in the 2024 version of these accounts and continue to implement our action plan responding to the gap analysis and benchmarking review undertaken in 2021/22. We are collecting the appropriate data as at 31 March 2023 to ensure we have appropriate comparative information.

An internal Environment, Social, Governance (ESG) & Sustainability Group has been set-up which monitors, controls and reports to the Executive Team and also to the Board through the new Board ESG Committee, demonstrating the importance the Board places on this area.

Strategic report (continued)

Working with a range of stakeholders to develop sustainable, innovative and affordable energy, we believe our role is to contribute positively to the quality of life and wellbeing of our customers and the communities we serve. As a Group we will continue to invest in our gas distribution network, so we can continue to successfully deliver gas to homes and businesses, offering the very best service for our customers, both now and for generations to come.



Graham Edwards OBE
Chief Executive
24 August 2023

Strategic report (continued)

WWU Business Model

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") the company which owns and operates the Gas Transporters' Licence for Wales and the South West of England.

The Company does not own any physical assets or have any employees.

Business environment

The Gas Distribution and Transmission Network in Great Britain comprises the National Transmission System and eight regional gas distribution networks ("GDN"). The National Transmission System is owned and operated by National Gas Transmission plc, 60% of which was acquired by Macquarie Asset Management and British Columbia Investment Management Corporation on 31 January 2023, with 40% remaining with National Grid.

The Group operates 1 of the 8 independently owned regional GDN's comprising the 3 local distribution zones in Wales and South West of England. Together these 8 networks represent the large majority of the GDN in Great Britain. The gas distribution business comprises the development, administration, maintenance and operation of the Company's GDN and the supply of gas transportation services.

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

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

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

Future developments

With the exception of the planned Hydrogen blending mentioned on page 5, the Group does not envisage any significant changes in the business operations of the Group in the regulatory control period to 31 March 2026. The Group expects to continue to safely maintain and develop the Gas Distribution Network for the benefit of stakeholders in accordance with the Gas Transporters' Licence granted by the Regulator. The Group has a good record against its key performance measures and aims to maintain this position into the future.

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 ("GEMA" or "The Regulator"), which makes all major decisions and sets policy priorities for Ofgem. The mechanism for regulation of the Company's activities in gas distribution and metering is derived from:

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

Strategic report (continued)

As a regulated business the Group is subject to price controls set by Ofgem which define its allowed revenues. For the year ended 31 March 2023, the Company operated under Ofgem's RIIO (Revenue = Incentives, Innovation and Outputs) principles (the RIIO-GD2 price control) a 5 year price control which commenced on 1 April 2021 and ends on 31 March 2026. This price control defines allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on the Company's investment in the gas infrastructure asset. This is the second price control under the RIIO regime.

In addition to the regulated revenues permitted by Ofgem, the Group earns non-regulated revenues, predominantly through gas meter work, smart meter installations and third party maintenance contracts. The Group aims to continue undertaking this work where it is of benefit to the Group.

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

The Group submits specified annual returns and a regulatory reporting pack to Ofgem annually following the 31 March regulatory year end.

Close out of RIIO-GD1

As part of starting a new price control we are also required to 'Close out' RIIO-GD1, reconciling any under delivery of RIIO-GD1 outputs with actual performance. Due to the coronavirus pandemic we under-delivered on our fuel poor connections deliverable and included a hand back circa £1m of capital expenditure in 2022/23 PCFM forecast. We over-delivered against all other RIIO-GD1 outputs, however Legacy tax clawback remains outstanding and continued discussions with Ofgem are ongoing.

RIIO-GD2 Framework

The RIIO framework introduced in RIIO-GD1 remains in place in RIIO-GD2 with some significant differences. These include Price Control Deliverables (specific outputs) for mains replacement, cyber security and a large capital pipeline rebuild project; any non-delivery or change of specification could result in a hand back of cost allowances (which are more prescriptive than the outputs previously reported on in RIIO-GD1).

New mechanisms called 'use it or lose it' allowances for investment in net zero and vulnerable customers have been introduced; we will hand back any allowances unspent in the RIIO-GD2 close out process in 2026.

There is also a considerable increase in the number of 'uncertainty mechanisms' we can utilise if we do not have the costs and workload covered in our base allowances; these require applications to Ofgem for re-imbursement of material spend areas outside of our base allowances.

There is a significant increase in the information required by Ofgem in respect of this price control ("regulatory returns") compared to GD1.

Revenue allowances for cost of capital are lower, and inflation is compensated, by reference to CPIH.

Competition and Markets Authority ('CMA') appeal

WWU has appealed certain aspects of GD2 in relation to the CMA's determination in 2021 and these remain subject to a Judicial Review which has yet to be carried out. Following High Court refusal on two occasions for permission for the Group's application for permission to apply for judicial review of certain elements of the GD2 price control, on the 22 March 2023 the Court of Appeal granted permission to apply for judicial review, with the Rt. Hon. Judge agreeing that the application should be reviewed at a full judicial review. We will now proceed with the hearing, expected in Q1 2024.

Future regulatory price controls

Ofgem has made the decision not to have an extension to GD2 and so the current price control will end in 2026 as initially planned. We anticipate being required to submit our GD3 Business Plan to Ofgem by December 2024, post further direction on what they expect to be included. This will include Ofgem issuing Sector Specific Methodology Decisions and taking a view on any impact of the Government's latest thinking and any decisions on Net Zero Carbon.

Our Year In Review

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 assets and include:

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

Chief Operating Officer Review – Rob Long

I am pleased to present an overview of yet another successful year for our operational delivery, meeting all our standards of performance whilst keeping our people and customers safe.

The Executive team and I believe that our safety performance is amongst the leaders in the sector, a valued position which we strive to maintain through continued, vigilant implementation of our health, safety and environmental procedures. A key part of maintaining our successful record is having Health and safety central to our values and culture; we continue to nurture a safety aware culture within our workforce that sees clear accountability resting with line management and its employees.

Testament to this we have been awarded another Royal Society for the Prevention of Accidents (RoSPA) Gold Award for our health and safety performance; this marks the tenth year in a row which results in the prestigious President's Award. This consistently high level of performance is a fantastic achievement over such a long period of time and is a first in our sector.

We have also achieved all our regulatory standards of performance in the year despite facing severe adverse weather throughout the December 2022 to March 2023 period. Continuing to deliver to this level is testament to the dedication and hard work of our people.

Our mains replacement programme is progressing well, and we abandoned some 445km of metallic mains for the 2022/23 regulatory year (412km 2021/22) against an average requirement of 425km each year across RIIO-GD2. We are well placed to deliver all our regulatory commitments for RIIO-GD2, and well set for future price controls.

Service delivery for our customers is also core to our values and this year we have maintained our ServiceMark accreditation from the Institute of Customer Service, with our high scores placing us alongside leading household brands. This year we were also awarded Distinction status which is held by only a small number of companies in the UK; again, this is a testament to the hard work of our people.

On customer satisfaction, we are proud that we were ranked 3rd out of all GDNs for our Emergency response customer scores, a fantastic result for such a critical and core service. However, we have seen a slip in our planned works and connections scores with 6th out of 8 GDNs being below our expectation. We continually analyse the detailed feedback provided by our customers and have a number of action plans in place to improve our relative GDN position next year.

Process Safety

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 our company works. The Group's objective and obligation is to mitigate and / or minimise 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 and ISO 45001. A Safety Case that details how we manage, operate and maintain the gas network has been submitted to, and approved by, the Health and Safety Executive.

During the year ended 31 March 2023 there were three significant incidents on the gas network (2022: nil). The HSE takes all such incidents extremely seriously as does WWU; two of the incidents were not attributable to WWU (3rd Party Strike / Non Network Related) with the third still under investigation to determine the root cause.

Strategic report (continued)

Chief Operating Officer Review (continued)

Occupational Health and Safety

Our objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to members of the public. To meet this challenge we have a comprehensive management system designed and certified to "ISO 45001 – Occupational Health and Safety" ("ISO 45001"), with a structured risk management process at its core. WWU is proud to be amongst the first UK companies to achieve this standard in October 2018 and the first GDN to do so.

During the year ended 31 March 2023, there were four labour lost time injuries ("LTIs"), giving a 12-month frequency rate of 0.11 LTIs/100,000 hours worked for direct labour (2022: two LTI's giving a 12-month frequency rate of 0.06 LTIs/100,000 hours worked). With a deployed workforce of around 2,200 (2022: around 2,160), a multi-million-pound replacement programme and our core role of managing the safe and secure delivery of gas, the safety challenge is significant. We continue to make progress in the management of occupational illnesses with a comprehensive health surveillance and occupational health programme for industrial employees.

Service levels and complaints

We are required by Ofgem to meet a number of different service targets ("Overall Standards"), including attendance at gas escapes, notifying consumers in advance of planned interruptions and responding to complaints. The Company's Gas Transporters' Licence also requires us 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.

We make compensation payments 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 2023 amounted to £0.4m (2022: £0.3m).

We measure service quality to assess the performance of management and staff in serving consumers, including a monthly survey which is undertaken by an independent market research company (Explain Market Research), the results of which are published on the Company's website and are reported to Ofgem.

The scores are out of 10:

	Year ending 31 March 2023	GDN Ranking
Planned work	8.81	6 th place (out of 8)
Connections	8.84	6 th place (out of 8)
Emergency	9.59	3 rd place (out of 8)

All regulatory standards of performance were achieved in the year ended 31 March 2023 and the preceding years as shown below.

Strategic report (continued)

Chief Operating Officer Review (continued)

Key operational performance measures were:

	License Obligation	Year ended 31 March 2023	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2020
Responding to gas escapes					
1 hour target for uncontrolled escapes	97.0%	98.6%	99.0%	99.2%	99.0%
2 hour target for controlled escapes	97.0%	99.4%	99.9%	99.8%	99.8%
Standards of performance					
Issuing quotations	90.0%	99.5%	99.6%	99.7%	99.7%
Offer dates for work start and finish	90.0%	99.8%	99.3%	99.1%	99.7%
Jobs completed on agreed dates	90.0%	94.5%	92.8%	94.9%	95.0%
Responding to complaints	90.0%	99.4%	99.7%	99.8%	99.9%
Customer complaints					
Number of complaints		1,542	1,490	1,285	1,549
Number of jobs undertaken		263,485	230,574	206,487	266,792
Percentage complaints		0.6%	0.6%	0.6%	0.6%
Upheld complaints*					
Ombudsman service		-	2	-	-

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

Capital investment in our network

We invested and capitalised £202.1m, against which consumers contributed £12.6m (2022: £153.0m, against which consumers contributed £11.4m), on expanding and improving the network.

Part of network improvement includes replacement work on gas pipes recorded within capital investment. The Company laid 410kms 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 £121.4m during the year ended 31 March 2023 against which consumers contributed £3.2m (2022: 341kms at a gross cost of £88.9m against which consumers contributed £4.5m).

This replacement work is critical, and 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.

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

WWU and Our Community

Our Group aims to be a socially responsible business within the region covered by its gas distribution network. We achieved the new ISO 22458 Inclusive Service Provision standard and associated Kitemark in 2022 giving independent assurance of how we identify and support all customers, especially those with additional needs.

While funding for first time gas central heating systems has reduced, we still funded first time gas connections to 245 homes in 2022/23 (1,250 homes in 2021/22) through the fuel poor voucher scheme.

Strategic report (continued)

Chief Operating Officer Review (continued)

We invested almost £2m to support customers with the cost of living crisis and record energy prices, through collaborative gas network partnerships on a UK scale and local projects within our area. This included crisis support to the Fuel Bank Foundation allowing customers to access energy vouchers, phone advice services through organisations such as Citizens Advice, SCOPE and Marie Curie, and direct support to the most vulnerable through Warm Wales, Centre for Sustainable Energy, Care & Repair Cymru and local support groups.

Other projects have focused on raising awareness of the risks of carbon monoxide, providing free CO alarms, and promoting the utilities Priority Services Registers.

Director of Finance Review – Neil Henson

It is my pleasure to present the results of the Group for the year ended 31 March 2023 which continue to build on the strong financial performance from previous years. The key financial performance measures of the Group under FRS 102 are shown below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (as restated)	Year ended 31 March 2021 £m (as restated)
Turnover	518.3	462.9	454.8
Operating costs	(290.4)	(297.0)	(280.5)
Operating profit	227.9	165.9	174.3
<i>Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)</i>	311.6	250.0	256.9
Financing income/(charges)	35.2	(342.8)	(148.4)
Profit/(loss) before tax	263.1	(176.9)	25.9
Tax	(69.9)	(59.6)	(14.7)
Profit/(loss) after tax	193.2	(236.5)	11.2
Operating cash flows	299.3	248.3	256.7

Operating profit increased to £227.9m for the year ended 31 March 2023 (2022 restated: £165.9m) due to increases in allowed revenue (income from regulated activities) and our continued efforts to control our cost base, despite the high inflationary environment we have all experienced.

After net interest of £136.4m and a fair value swap credit of £171.6m (2022 restated: net interest of £117.5m and a fair value swap charge of £225.3m) the consolidated profit before taxation for the year ended 31 March 2023 amounted to £263.1m (2022 restated: loss of £176.9m). The consolidated profit attributable to shareholders amounted to £193.2m (2022 restated: loss of £236.5m). Please see the section below where further details of the restatement are provided.

Basis of accounting plus prior period restatement

The consolidated financial statements present the Group's results for the year ended 31 March 2023 with comparatives for the year ended 31 March 2022 and the financial position as at 31 March 2023 and 31 March 2022. They have been prepared using the accounting policies shown on pages 44 to 50, in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom.

Long-term provisions have been discounted using the long term gilts rate of 3.8% (2022: restated to 1.82% from 5.7%). In prior years, the Group discounted these long-term provisions using the weighted average cost of capital based on the equity and debt leverage of the Group adjusted for industry risk rates. In light of the cashflow always having been risk adjusted, in FY23, the Group changed the rate used to discount its provisions to a long-term risk free rate, using the long term gilts rate as a proxy. This change was also applied to the comparatives for the year ended 31 March 2022 as well as the retained earnings brought forward from 2021. This gave rise to a reduced financing charge for the year ended 31 March 2022 of £4.1m (£342.8m from £346.9m) with a corresponding tax charge of £0.5m (£59.6m charge increase from £59.1m), and reduced retained earnings brought forward of £12.1m.

Strategic report (continued)

Director of Finance Review (continued)

The provisions in prior years were also retrospectively re-stated to the revised discounted cashflows, which gave rise to the reduction of operating costs by £1.0m in the year ended 31 March 2022 and £2.3m in the year ended 31 March 2021. See notes 6 and 17.

Business unit reporting

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

Turnover in note 2 provides an analysis of income derived from regulated activities, non-regulated activities and from customer contributions in the year. Regulated revenue was up by 11.8% to £497.5m from £444.8m in 2022. This was largely due to an increase in capacity income (8%), due to a price increase of 8% coming into effect for the 2022/23 regulatory year. Customer contributions were £1.2m higher in the year, up to £12.6m from £11.4m in 2022, as a result of increases in chargeable diversions workload.

Cashflow generation and liquidity resources

Net cash flow from operating activities amounted to £299.3m, an increase over the prior year (2022: £248.3m) largely due to higher regulated revenue (£52.7m) and subsequently reduced operating costs as a percentage of turnover (56.3% for 2023 compared with 64.4% for 2022).

Investing activities, excluding transfers to and from deposit accounts with maturities greater than 3 months, absorbed net cash of £181.2m (2022: £155.0m). This significant increase is largely due to the increase in the mains replacement program workload. Net cash outflow from financing activities amounted to £201.5m (2022: £244.1m net cash outflow). Financing activities included repayment of the £50m Class B committed revolver in April 2022 and £10.5m was also paid to shareholders in the year (2022: £60.0m). In 2023 £78.5m of accretion payments were made (2022: £nil) and the level of principle debt repayment is lower.

Total liquidity resources at 31 March 2023 were £374.4m, comprising cash and deposits of £199.4m and undrawn facilities of £175.0m on committed revolver facilities (2022: £407.8m). Liquidity resources comprises cash at bank, cash held on deposit and revolving credit facilities. Cash balances, reflecting net cashflow, excluding deposits and after taking account of financing activities, reduced by £70.4m (2022: reduced by £123.8m). The reduction over the prior year is largely due to the £78.5m of accretion payments on the index linked swaps.

Pension Scheme

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). At 31 March 2023, an FRS 102 pension valuation of £4.7m net deficit (2022: £76.4m net surplus) resulted in a loss to the statement of comprehensive income of £93.2m before a deferred tax credit of £23.3m (2022 £73.2m credit before a deferred tax charge of £18.3m). The Company contributed £9.0m of deficit contributions in respect of the defined benefit section of the Scheme during the year ended 31 March 2023 (2022: £9.0m) in line with the updated deficit recovery plan. Further to this there was an additional company contribution of £0.9m in respect of the voluntary redundancy exercise that took place in March 2021. The corresponding increase in liability arising due to the redundancy exercise was recognised in prior year accounts.

By reference to section 4.7 of the Scheme Trust Deed and Rules, a surplus in the Scheme is considered recoverable by the Company. Accordingly, the Company therefore considers it appropriate to recognise an asset in respect of the Scheme where one arises. Whilst at 31 March 2022 there was a £76.4m surplus, at 31 March 2023 this reversed and there was a small net deficit of £4.7m.

The calculation of the gross pension liability of £343.0m (2022: £480.9m) has a number of areas of judgement, with the key assumptions being the discount rate, inflation rate and assumptions around mortality – as stated below:

- Discount rate - 2023: 4.70%, (2022: 2.65%): c£135m decrease to the liability in the year (2022: £66m increase)
- Inflation rate - 2023: 3.30%, (2022: 3.65%): c£17m decrease to the liability in the year (2022: £27m increase)

There were no actuarial losses or gains in relation to changes in demographic assumptions during the year.

Strategic report (continued)

Director of Finance Review (continued)

The Scheme net deficit of £4.7m (consisting of assets of £338.3m and liabilities of £343.0m) was based on underlying actual scheme asset valuations as at 31 March 2023 for the majority of the assets; £18.7m of the property funds are based on valuations at 28 February 2023, and £85.3m as at 31 December 2023 representing the Alcentra fund (a Direct Lending/credit type fund which is always measured quarterly in arrears). The Alcentra fund value as at 31 March 2023 was valued at £85.6m and the property fund was valued at £18.6m, which were not subsequently adjusted this year due to their size. Details of the movements in the Scheme's assets and liabilities are set out in note 25.

With effect from 31 July 2021, WWU agreed with affected members the closure of the defined benefit section of the WWU Pension Scheme to future accrual. This closure resulted in a one off curtailment gain of £9.4m which has been included in the comparative income statement results for the year ended 31 March 2022.

Shareholder deficit

Shareholder deficit as at 31 March 2023 amounted to £689.6m (2022 restated: £812.9m), a decrease over the prior year as a result of a retained profit of £193.2m for the year ended 31 March 2023 (2022: restated retained loss of £236.5m) largely driven by fair value derivative gains of £171.6m (see note 5(c) for further details) and offset by an actuarial loss on the pension Scheme net of deferred tax of £69.9m (2022: net actuarial gain of £54.9m). The Company does not currently have a distributable reserve. No dividends are proposed or have been paid.

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

Borrowings and financing

Details of total gross external borrowings of £2,496.7m (2022: £2,504.5m) are disclosed in notes 12 and 13. Total gross borrowings with senior secured lenders (i.e. excluding £697.8m subordinated debt owed to shareholder entities and £2.9m finance leases) of £1,796.0m (2022: £1,825.6m) are also disclosed in note 13.

Wales & West Utilities Finance plc ("WWUF") was established as a wholly owned subsidiary of WWU in March 2010 and is the funding vehicle for raising public bonds to support the long term bond debt financing requirements of the Group.

In addition, WWU has borrowed directly from the European Investment Bank ("EIB"), MetLife and National Westminster Bank plc ("NWB"). These debt investors, together with bond debt investors, comprise the senior secured lenders to the Group.

At 31 March 2023, cash at bank (excluding cash held on deposit) of £64.4m was held by the Group (2022: £134.8m). Cash held on deposit (for a period greater than three months) by the Group was £135.0m (2022: £148.0m). Total cash held by the Group is therefore £199.4m (2022: £282.8m).

Payments to shareholders during the year ended 31 March 2023 were £10.5m (2022: £60.0m). We continue to anticipate significantly lower payments to shareholders in RIIO-GD2 compared to RIIO-GD1, and this support from shareholders helps to lower leverage.

Our published leverage target for the end of RIIO-GD1 of net debt (measured on a senior lender basis and includes accrued accretion on inflation linked swaps) between 65% to 70% of Regulated Asset Value ("RAV") was achieved, with an outcome of 66.7% at 31 March 2021.

The outcomes for 31 March 2022 and March 2023 were also within that range. We are reviewing this range for the remainder of RIIO-GD2 and expect to update it by December 2023. Liquidity resources remain strong and were £374.4m at 31 March 2023.

Details of the Group's approach to financial risk is set out in the Strategic report on pages 26 to 28.

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, PAYE and national insurance, regulatory licence fees, local authority fees (New Roads and Streetworks Act) and relevant rates.

Strategic report (continued)

Director of Finance Review (continued)

Corporation tax is calculated at 19% (2022: 19%) of the estimated assessable profit for the year. Deferred tax is calculated at 25% (subject to reversals pre 1 April 2023 @19%) because this rate was substantively enacted on 24 May 2021.

The £6.2m current tax charge for the year ended 31 March 2023 reflects the tax charge of £6.2m for the current period after the utilisation of brought forward losses and a prior period current tax charge of £nil. (2022: £0.2m current tax credit for the year ended 31 March 2022 reflects the tax charge of £nil for the 2022 period after the utilisation of brought forward losses and a prior period current tax credit of £0.2m). The overall current tax position for the year has moved from a tax credit of £0.2m in 2022 to a charge of £6.2m in 2023 mainly as a result of the increase in profit in the year.

A net deferred tax net liability of £376.0m is recognised as at 31 March 2023 (2022 restated: £335.6m). The deferred tax is calculated based on enacted rates at the time the asset or liability is expected to unwind.

In accordance with the Group's obligations in respect of Schedule 19 of Finance Act 2016 the 2022 Tax Strategy² is publicly available on the business website and can be found in the Publications section. With the aim of being a good corporate citizen, the Group's strategy is to comply with all relevant legislation, regulations and disclosure requirements at all times, to submit accurate tax returns and pay the right amount of tax at the right time, and to maintain a transparent, constructive and professional relationship with HMRC.

The total tax charge for the year ended 31 March 2023 of £69.9m and effective tax rate of 26.6% (2022 restated: £59.6m and effective tax rate of -33.7%) is higher than the expected tax charge at the statutory rate of £50.0m (2022 restated: tax credit 33.6m) mainly as a result of the disallowance of interest on shareholder loans of £65.1m and rate differences of £10.8m as explained in note 6(a) and (b) (2022: mainly as a result of the disallowance of interest on shareholder loans and provisions of £62.1m and rate differences of £81.3m).

Fixed assets and intangibles

Freehold land and buildings are carried in the consolidated financial statements at depreciated historic cost of £23.8m for the year ended 31 March 2023 (2022: £20.0m), the increase largely due to our investment in a new Bristol depot.

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 £202.1m for the year ended 31 March 2023 (2022: £153.0m). See notes 7 and 8, tangible and intangible additions less the £3.7m asset write down following the Group's decision to terminate the development of an IT software solution.

Contractual relationships

The Group has contractual relationships with many parties including Directors, employees, suppliers, banking groups, debt investors, group companies and affiliated companies (see note 13). Amongst the suppliers is Xoserve Limited, the sole company which provides gas throughput and billing information to the Group and the other GDN's, and which is used by the Group and the other GDN's in setting its regulated gas distribution charges to gas transporters. The Group's investment in Xoserve was £0.1m at 31 March 2023 (2022: £0.1m).

Current energy market conditions

During the year the UK energy supply market and the wholesale gas price have seen extreme volatility, largely driven by the war in Ukraine and the economic climate. Following peaks in wholesale gas prices over the summer months of 2022, prices have stabilised as has the energy supply market.

The Group continues to monitor the shippers' liquidity closely including the level of bad debt risk. During the year 1 supplier has entered administration. At the end of March 2023, there is a £0.5m bad debt provision (2022: £5.3m).

Bad debts arising in a regulatory year, in relation to the Group's transportation business are expected to be recovered in a future regulatory year(s) to the extent the business has used reasonable endeavours to recover amounts from shippers. Over 30 energy suppliers to the market have ceased trading since January 2021, with one placed in Special Administration. This has not materially affected the Group's financial condition or performance. There have been no Supplier failures since July 2022.

² <https://www.wvutilities.co.uk/media/4364/wales-west-utilities-tax-strategy-2022.pdf>

Strategic report (continued)

Director of Finance Review (continued)

When a supplier fails, there is a process in place to protect that Suppliers customers, ensuring the customer continues to receive energy, whereby Ofgem appoint a Supplier of Last Resort (SoLR) to take on the failed supplier's customers. However, the additional costs of this process (including any unrecovered wholesale gas purchase costs, inherited domestic customer credit balances and working capital costs) are then recovered through the distribution networks and ultimately passed through to consumer bills.

WWU received 17 SoLR claims in December 2021 totalling £95.9m, representing the Company's share of total claims sent to all gas and electricity distribution networks, of £1,837.3m. Following licence modifications by Ofgem to Standard Special Condition A48 of the Gas Transporters' Licence, WWU was obliged to raise transportation charges to the extent of receipt of SoLR claims up to and including December 2021 (rather than September 2021), and to pay amounts so raised to the SoLRs in 2022/23. The SoLR claims have been recognised from April 2022 onwards and are accounted for on a net basis in the Profit and Loss Account.

In December 2022 WWU received 21 SoLR claims totalling £26.0m which have been included in price setting and recovery in 23/24 regulatory year prices. Amounts received will be paid across to the appropriate SoLRs during the year to 31 March 2024.

Corporate and social responsibility

WWU AND OUR PEOPLE

Gender diversity

The Group employed the following mix of staff:

Number	At 31 March 2023			At 31 March 2022		
	Male	Female	Total	Male	Female	Total
Executive and Directors	7	3	10	8	4	12
Senior managers	28	7	35	25	6	31
Other employees	1,558	292	1,850	1,505	274	1,779
Total employees	1,593	302	1,895	1,538	284	1,822

WWU engages contractors to undertake specialist and larger capital projects, mains replacement activities and to provide some resource to back office departments. At 31 March 2023 WWU had over 321 contractors engaged (2022: over 268). The Group is based in the UK and, to the extent that it is appropriate, aims for a workforce that is representative of the communities in which it operates.

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

Employment policies

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

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

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

Strategic report (continued)

Corporate and social responsibility (continued)

Colleague engagement

Our commitment to transparent, regular, and two-way engagement is fundamental to managing the business and colleague engagement. Our comprehensive employee engagement and communications strategy has well-embedded channels. By regularly gathering colleague views and consulting with our Trade Union Representatives, we can confidently develop and adapt our colleague engagement activities.

Our Corporate Affairs Department developed a targeted communication programme that is fully supported and led by the Executive Team. The Executive Team comprises the four WWU internal department heads and the CEO and Legal Counsel. During the year, this included a programme of regular face-to-face colleague briefings, Q&A sessions, online briefings by our Executive Team, and regular surveys to colleagues.

We have an annual face-to-face communications programme where the Executive Team and Senior Managers meet colleagues in an interactive roadshow format in different geographical locations across our network. These roadshows allow us to share information across a wide range of topics of interest based on our business priorities and discuss local and network-wide matters of interest or concern with colleagues.

We reinstated our face-to-face Operational 'Roadshow' programme, visiting a large number of our depots right across our network. Connecting with colleagues in person to gather their views and ideas for the future is already proving invaluable in shaping our onward communication and engagement delivery.

In addition, we work closely with charities and organisations to run quarterly face-to-face workshops to support the health and wellbeing of our colleagues, supported by our internal networks. In March, we partnered with Prostate Cymru to run a workshop to help support and raise awareness of prostate disease, and also trained a small group of colleagues to be Menopause Champions.

Our focus on Financial Wellbeing has been central to our Wellbeing Strategy in the last year. Our Financial Wellbeing programme allows colleagues to manage their benefits flexibly by being able to access a range debt management, savings or mortgage overpayment advice, alongside saving responsibly into their pension.

Additionally, our senior-level Employee Forum focuses on change and business performance. Members of the Executive Team and Senior Trade Union representatives meet quarterly to discuss and report on crucial matters of importance to colleagues and representatives, such as company policy, organisation design, pay and terms and conditions.

Other regular methods of colleague engagement and collaboration include our Management Conferences, Young Person's Network, Wellbeing and Health Forum, and our Women's Inclusion Network (WIN). Set up independently by a group of colleagues, our WIN has been embraced by our senior team and is now jointly chaired by our Director of Regulation, Asset Strategy & HSE, and sponsored by our Director of Finance & IT. The group has made an impact with a trial of safety alarms for lone workers and has developed our first Menopause Policy, and a group of volunteers from the WIN received training by an external expert to become Menopause Champions during April 2023. Most recently a group of colleagues have set up an Accessibility Network focussing on the issue of disability and inclusivity across our network.

Our magazine '2W' has remained a communications channel of choice for colleagues since 2005, and we took the decision during 2021 to largely move away from printed copies to an online digital format. 2W provides a colleague-centric view of what goes on at WWU – showcasing achievements, awards, and stories about our people, as well as updating them on key business activities and projects.

This is supplemented by our intranet which is updated daily with the latest news from the Company and colleagues. Called 'Pipeline,' this is our central hub of information for our people which can be accessed via mobile devices or desktops. Colleagues at all levels can submit 'blogs' which are often opinion pieces on topical or business issues of importance to them. We are currently developing plans to replace Pipeline in 2023 with a new digital workplace channel – offering colleagues more opportunities to engage and collaborate right across the business, providing a central hub and vital resource library.

We believe this to be an important channel as we move towards different ways of working post pandemic. Our new Hybrid Working policy was launched in 2022 and has been successful in offering flexibility for colleagues in roles where this is possible.

Strategic report (continued)

Corporate and social responsibility (continued)

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation; colleague engagement surveys and 'pulse' surveys provide the Group with valuable information upon which to base future policy decisions and understand the concerns of colleagues. WWU has in place, since 2017, a silver level accreditation from Investors in People (IiP). We are delighted that in spite of the turmoil and challenges Covid-19 placed on our business and our colleagues, and the company wide restructuring we undertook in 2021, our focused communication and engagement activities resulted in us retaining our silver level accreditation in 2021.

The Group offers equality of opportunities and support for disabled employees and provides a comprehensive occupational health service which seeks to retain colleagues in employment. The Group's policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes, abilities, values, and behaviours in support of the Group's operational requirements. Once employed, a development plan is designed so as to ensure suitable opportunities for each disabled person.

Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group's operational requirements. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well-being of the Group's workforce with a wide-reaching Wellbeing Strategy. The addition of an Accessibility Network will further encourage inclusive practices and allow us to consider adjustments and working arrangements from the lived experiences of others.

Training and development

The Group has consistently sought to recruit and retain the best employees in its geography in order to provide the level of service, which is expected by customers, and invests appropriately in training to protect and develop key competencies. The Group measures success in this area through employee retention. The Group had a voluntary staff turnover rate of 7.6% during the year ended 31 March 2023 (2022: 8.4%).

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

Our focus for 2022 was to provide colleagues with the skills required to develop within their roles, and to refresh and relaunch existing programmes as we supported colleagues back into a hybrid working environment.

Our Management Development programme was redesigned and delivered to over 90 Managers from across our business, to help give them the confidence and skills required to effectively manage their teams. This will continue to be rolled out on a 6 monthly basis to both new and existing managers.

Ensuring continuity of the key skills required within the industry and enabling a full and proper knowledge transfer to take place will ensure that the Group is well placed to effectively undertake this work going forward. Working with our sector skills council, Energy & Utility Skills, and other key partners, we are able to effectively and proactively plan for the future. The number of additional apprentices employed since we started trading in 2005 is 185 (2022: 185).

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

Impact of Covid-19 on Colleagues

The Covid-19 pandemic has now come to an end and as a result the way we work has evolved. Our new Hybrid Working policy was launched in 2022 and has been successful in offering flexibility for colleagues in roles where this is possible.

Transition impact of RIIO-GD2

Following an extensive external tender process during 2021, we continue to maintain an in-house delivery model to deliver our Mains Replacement Programme. We will continue to contract with a number of smaller organisations in order to meet the full RIIO-GD2 output, which we are on target to achieve, and we have started planning for RIIO-GD3.

Strategic report (continued)

Corporate and social responsibility (continued)

Non-Financial Reporting

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

We exceeded our commitment to reduce carbon emissions by 10% over the 2013-2021 price control period.

WWU, THE ENVIRONMENT AND CLIMATE CHANGE

Our ambition is to be trusted to expertly serve customers and communities with safe, reliable and affordable energy services today, whilst investing wisely to create a sustainable, greener future.

The services that we provide are essential in everyday life for all our customers. We invest £2m every week in improving our gas network so that it is safe and available when people need it, whether it's gas supply for heating their home or running their business. We have a strong track record of delivering high standards of safety, reliability and customer service, with multiple accreditations and awards for this activity.

We recognise that most of the gas transported to our customers today is a fossil fuel, and that our operations directly and indirectly impact on the environment. We support the commitment of the UK and Welsh governments to reaching Net Zero carbon emissions and believe that the investments we make in reducing emissions, decarbonising heat, power and transport can help deliver a net zero energy system. The next few pages highlight the actions we have taken to reduce our emissions.

ESG Performance

In response to our customers, investors, our Board and global indicators, the Group has recognised the importance of adopting Sustainable Development principles as guidance for business planning. In April 2023 we publish our first Sustainability Strategy³ which explains how our strategic goals are aligned with the United Nations Sustainable Development Goals. This strategy is coherent with our Environmental Action Plan which guides operations and planning towards long term environmental targets on zero carbon, zero avoidable waste, and biodiversity net gain. We maintain "ISO 14001 - Environmental Management" certification. We are inaugural signatories of the UK Business Nature Positive Pledge and are active members of the Energy Networks Association environmental group. This enables us to keep up to date with and contribute to industry-wide best practices.

Key areas of focus in 2022/23 have been climate change, as discussed on page 5, the disposal of waste to landfill and the use of quarried stone. Climate change is a substantial risk to our current operations and future plans. Our approach is to reduce the risk to the business by adopting both an internal and external strategic approach. Internally we are constantly striving to reduce our operational emissions and we have been successful in reducing net emissions as disclosed below. Externally we have a unique role to play in the de-carbonisation of our network and are working with our partners to connect more sustainable sources of renewable gas (currently we have 20 renewable sources of gas connected to our network).

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 Company's remediation programme has a main focus on managing environmental risk and where appropriate, delivering biodiversity/environmental net gain. 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 2023 the remaining three gas holders started to be dismantled and the sites remediated, at a cost of £1.5m.

³ <https://www.wwutilities.co.uk/media/4824/sustainability-strategy-2023.pdf>

Strategic report (continued)

Streamlined Energy and Carbon reporting

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

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

	Note	Year ended 31 March 2023* (TCO2e)	Year ended 31 March 2022* (TCO2e)
Scope 1, Stationary Combustion	1	237	297
Scope 1, Fugitive Emissions including Shrinkage (gas leakage, own use gas and theft of gas)	2,3	360,960	374,185
Scope 1, Mobile Combustion		12,158	10,381
Scope 2, Emissions from purchased electricity – Market Based		-	-
Scope 2, Emissions from purchased electricity – Location Based		847	914
Total Gross Emissions (Scope 1 and 2) – Market Based		373,355	384,863
Total Gross Emissions (Scope 1 and 2) – Location Based		374,202	385,777
Total Gross Energy Consumption (Scope 1 and 2) (kWh)		363,799,780	370,014,178
Carbon (Scope 1 and 2 in tonnes CO ₂ e)/ £m turnover	4	722	833
Carbon (Scope 1 and 2 in tonnes CO ₂ e)/ GWh gas throughput of the network	4	7.4	6.7
Scope 3 – Purchased goods and services, including polyethylene and metal pipe, reinstatement materials, pipe helicopters services		4,291	4,166
Scope 3 – Capital goods, including plastic and metal pipe and IT purchases		4,326	3,512
Scope 3 – Fuel and energy related activities, not including in scope 1		3,160	2,871
Scope 3 – Scope 3 waste generated in operations, including excavated spoil, office, and depot waste		277	185
Scope 3 – Business Travel		118	104
Scope 3 – Employee Commuting		1,087	964
Total Gross Emissions (Scope 3)		13,259	11,802
Total Gross Emissions (Scope 1, 2 and 3) - Market Based		386,614	396,665
Total Gross Emissions (Scope 1, 2 and 3) – Location Based		387,461	397,579
Renewable energy generated (kWh)		120,570	130,883
Total Net Energy Consumption (Scope 1, 2) (kWh)		371,020,431	369,983,775
Carbon Offsets, including business travel and helicopter services	5	2,705	77
Total Net Emissions (Scope 1, 2 and 3)		383,909	396,588

* - Data provided here is in line with annual business carbon footprint reporting to Ofgem using DEFRA 2022 conversion factors. Conversion factors are updated annually.

Strategic report (continued)

Streamlined Energy and Carbon reporting (continued)

Note

1. Energy consumption values for a limited number of locations estimated due to unavailable data, considered to be less than 0.5% of total business carbon footprint;
2. Shrinkage gas is calculated using an Ofgem approved engineering mathematical model. Asset data and performance is populated within this model combined with pre-determined leakage rates to estimate the level of Shrinkage Gas by component. The conversion of Shrinkage gas from energy quantity to the CO₂ equivalent is carried out by using updated DEFRA conversion factors (2022/23 data) and Environmental Reporting Guidance March 2021 (RIIO-2 Environmental Reporting Guidance v_1 final (ofgem.gov.uk)) – DEFRA factor for Natural Gas updated following discussion with other GDNs at ENA meeting.
3. Value includes fugitive emissions associated with refrigeration and air conditioning units which were recorded as nil previously but have been included in this reporting period;
4. Intensity metrics have been selected to permit broad and sector specific carbon emission comparison. Sector specific intensity metrics have been discussed and agreed via the Energy Networks Association and the Gas Environment Group;
5. 2022/23 Carbon Offsets of 2700tCO₂e (detailed below) plus 5tCO₂e that relates to electricity generated by our solar panels that was exported to the grid.

Our ambition for reducing emissions is to accelerate and be net zero-ready by 2035 in the areas most likely to convert to hydrogen, if sufficiently funded and supported by central and local Government and regulators. This ambition would see an increase in our mains replacement programme, reduced emissions from above ground installations, and an increase in the proportion of green gas (including hydrogen) injected into our network. On the same basis our ambition is for our whole network to be net zero ready by 2040.

Our scope 1 and 2 carbon reporting and total business carbon footprint has seen an overall reduction in emissions during the year ending 31 March 2023 from previous years. The reduction relates largely to shrinkage gas (gas leakage from old metallic pipes, gas stolen from the network and gas used in the management of the network), where our mains replacement programme and our investment in upgrading gas pressure control systems continues to have a positive impact. Our GD2 commitment is to reduce the carbon emissions associated with shrinkage by 10% by 2026. The reduction, against a 2020/21 baseline shows that we are on target in year two with a 5% reduction achieved to date.

Our Scope 1, mobile combustion emissions have increased within the year and this increase reflects the insource of Repex work with heavy workload for plant on site; larger hired dumpers and excavators operating many hours per day. During the reporting period our carbon intensity in tCO₂e per £m turnover has reduced reflecting a reduction in carbon and increased turnover; whilst our carbon intensity in tCO₂e per GWh gas throughput has increased. This reflects a 12% reduction in throughput and a 2% reduction in carbon emissions.

Our renewable electricity generation has created over 120,000 kWh of green energy and this year our carbon offsetting included the fuel use of our HGVs in our fleet, on top of our helicopter fuel use, air and train travel, bringing us to a total of 2700tCO₂e which has had a positive impact on our carbon footprint. The priority is always to reduce emissions but until there is a viable, greener alternative for our HGVs, we will look to offset these unavoidable emissions.

We continue to work with our supply chain and are currently mapping all suppliers to better understand their ESG performance. This will enable us to engage more effectively with our suppliers on issues of environmental and social sustainability. We are continually monitoring and improving our PQs for contract tenders, demanding higher levels of environmental accountability from those who seek to do business with us. Our PQs for new suppliers request the cradle to gate carbon footprint of purchased goods where available. We will be developing our capacity to report activity-based supply chain footprints reducing our reliance on spend-based analysis.

During the year from 1 April 2022 to 31 March 2023, the following carbon and energy efficiency actions have been taken:

- Our mains replacement programme has seen the successful abandonment of approximately 445km (2022: 412km) of metallic mains with 27,746 (2022: 26,178) services being replaced or transferred; the replacement of leaking metallic pipe work with polyethylene ("PE") pipe reducing our fugitive emissions significantly.
- We renewed our gas and electricity contracts in April 2021 to include certified green energy. This change is reflected in the business carbon footprint, with our location-based contracts saving 719tCO₂e in 2022/23 over the market based alternative.
- In April 2021 we published our Supplier Charter which clearly sets out the core principles expected of all suppliers. The environmental standard reflects our ambition regarding carbon, circular economy, and natural capital.

Strategic report (continued)

Streamlined Energy and Carbon reporting (continued)

- In March 2022 we appointed a Sustainable Procurement Lead and they have been focused on translating sustainability policy into all strands of procurement.
- We have continued to increase the number of electrical charging points across our network with 60 installed previously, another 1 installed in 2022/23 and a further 29 planned in 2023/24. We have also continued to encourage the uptake of ultra-low emission vehicles (ULEVs) by existing and new employees within the company car scheme. Ultra-Low Emission Vehicles ("ULEV") reached 90% in March 2023 with further ULEVs on order for delivery in 2023-2026.

Adaptation Reporting Power

WWU continue to take a proactive role in the management of risk to physical assets from climate change. We have responded to consultation on the fourth round of DEFRA's Climate Change Adaptation Reporting Power (ARP), as set out in the Climate Change act 2008 and anticipate submitting a fourth round response in due course. The report, updated with UKCP18 projections, highlights that climate risk is primarily embedded in day-to-day operations and future actions will be considered in line with ongoing risk assessments and Ofgem funding cycles.

TCFD and Sustainability

As a Group we support and are committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). We have identified the actions required to be able to submit our first TCFD report in 2024 and are currently implementing a preparation action plan that responds to the gap analysis and benchmarking review undertaken in 2021/22.

An ESG Management Committee, chaired by the CEO, oversees task and finish groups working on specific sustainability issues and reports progress to the Board ESG Committee. We will be developing a comprehensive ESG scorecard in 2023 building on the extensive data gathering and analysis that we currently provide for various stakeholders including the Dow Jones and Hang Seng sustainability indices.

Internally we are constantly striving to reduce our operational emissions through numerous cost and waste reduction initiatives. Externally we have a unique role to play in the de-carbonisation of our network and we continue to work with our partners to connect more sustainable sources of renewable gas as well as helping pioneer innovative projects to develop the use of Hydrogen within the network. These are discussed on page 5 and form part of this report by cross-reference.

Strategic report (continued)

Principal risks and uncertainties

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

The impact of Covid-19 on our ability to deliver our services has now reduced, with our business adapting to a new way of working. As a result, the risk of Covid-19 on our business, a risk that was separately referenced in last year, has been removed as a principal risk and referenced within other risks where applicable.

Approach to risk

The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified below.

In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Transporters' Licence, standards of service and obligations with the HSE. During the year, and subsequently, this included the ongoing review of the risk assessments in light of the impact of the Covid-19 pandemic on home, office and site working practices, their consequential impact on cyber security and GDPR as well as the volatility in the commodity and supply markets caused by the recent geo-political tensions around the world. If more than one principal risk event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

On an annual basis, the Board, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes, risks and controls with assurance and support provided by one of the Group'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 is closely involved in the review process, whether that be through discussion at relevant committees or during review and challenge from the Group's 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.

Further financial related risks are set out after these key business risks and include inflation and interest rate risk.

Strategic Risk 1 : Network Asset Management Systems

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E

Trend: Stable

Risk : 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.

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

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

Strategic report (continued)

Strategic Risk 2 : Health and Safety Incidents

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E

Trend: Stable

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

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme, applicable to all GDNs, may not be achieved. Non-compliance with the HSE 30:30 Mains Replacement Programme could result in financial penalties and could cause adverse publicity and impact negatively on the reputation of the Group. 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.

Risk Mitigation : WWU has a well-established risk based asset intervention programme which is designed to limit the risk of failure resulting in loss of supply, injuries and fatalities. WWU measure customer service at the highest level in the organisation and we have a senior level focus on improvement plans within our Customer and Communities Steering Group. The mains replacement programme is designed at least one year ahead; progress against the targets is shared quarterly with the HSE. The Company implemented a direct labour delivery model from Summer 2021 to give us greater control over programme delivery and against the potential risks of losing labour to third parties; this has led to a strengthened workforce and we are on track to meet our RIIO-GD2 Mains Replacement targets.

Strategic Risk 3 : Regulation and RIIO-GD2 Price Control

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E

Trend: Stable

Risk : The gas industry is subject to extensive regulatory and reporting obligations with which the regulated business must comply. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of WWU or, in the case of financial or workload misreporting, a potential fine and a negative reputational impact. The prices which can be charged for the use of the Company's gas distribution network are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be allowed over a pre-determined period (5 years from 2021).

In addition, targeted incentive schemes have been introduced by the Regulator whereby the Group has the opportunity to perform against agreed targets and thereby increase revenues or incur penalties if performance is below the targets.

Risk Mitigation : 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 regulation team and a RIIO steering group to support the RIIO-GD2 price control, understand future plans and the potential impacts on the business.

See the regulatory environment section on page 8 for further information. The Company responds to all potential changes which impact on the business and seeks to mitigate any adverse impacts. The Company has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations, including a robust assurance process for the annual regulatory reporting.

Strategic Risk 4 : Supply Chain

Risk Responsible Officer : Chief Operating Officer

Trend: Stable

Risk : 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.

Risk Mitigation : Since Brexit and during Covid-19 WWU has maintained a critical spares stock holding of repair clamps and other essential material to support the maintenance of the network in the event of an outage. WWU's Procurement department also monitors supplier shortages and in key areas (e.g. PPE and PE Pipe) have support suppliers in place to step in, in the event of failure. There has been minimal impact on the business and corresponding financial statements due to Brexit and the situation is constantly under review.

Strategic report (continued)

Strategic Risk 5 : Labour Availability and Employee Relations

Risk Responsible Officer : Chief Operating Officer

Trend: Decreasing

Risk : 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. Turnover remains low comparative to national trends but has been steadily increasing.

Risk Mitigation : 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, and there is a focused recruitment and retention strategy. 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.

Strategic Risk 6 : Cyber Security Risk and IT Service Failure

Risk Responsible Officer : Director of Finance and IT

Trend: Stable

Risk : In an increasingly complex environment, with the advent of new technologies, cloud services, mobile working and increased geopolitical situation, traditional security tactics are struggling to combat growing numbers of cyber threats; some of which are unknown and difficult to predict. As an operator of essential services and part of the UK critical national infrastructure, we play a vital role in society, ensuring the supply of energy to domestic and industrial customers across our region. The reliability and security of supply are essential to our customer's everyday activities.

Risk Mitigation : The Head of Cyber Resilience has outlined a multi-year Improvement Plan which will see the cyber resilience and maturity of WWU continue to grow, and risk exposure reduce. Phase 1 of this Improvement Plan included a tightened access control policy and the introduction of privileged access management, together with End Point Protection deployed to the whole estate, and a full suite of ISO27001 Cyber Security Policies. WWU Executive Leadership is regularly updated on the overall state of cyber security and the plans and investment in place to improve the current position.

In line with requirements set out in the Cyber Assessment Framework (CAF) the Cyber Resilience Team have put in place a robust assurance model that blends in-house security testing and assurance skills with external third party exercises. This allows for a much more agile and iterative approach to assurance. Under this model, we have undertaken a number of exercises, including:

- Internal and external reviews of the 'Business Applications' system used in System Operations
- An internal review of Active Directory, and internal penetration test and code review of the Priority Services Register (PSR) Portal
- An internal review of our Active Directory estate
- An internal review of our current email and messaging security
- An external review of our current Incident Response capability, and associated roadmap

In addition to the above, the cyber security team also work closely with Internal Audit to facilitate additional assurance exercises. Findings from these exercises are all logged and assigned action owners, and progress of all internal audit exercises are presented to the Audit Committee on a regular basis.

Strategic Risk 7 : Environment and Climate Change

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E

Trend: Stable

Risk : There is a climate change decarbonisation risk that a full electrification energy scenario in the UK would lead to the stranding of distribution system assets and loss of value / business. Climate change is a substantial risk and our roadmap is to reduce the risk to the business by adopting both an internal and external strategic approach.

Risk Mitigation : The Group is delivering or supporting many innovative projects that build the case for Hydrogen both for industrial and domestic use. These are discussed on page 5 and form part of this report by cross-reference. The Group has a unique role to play in the de-carbonisation of our network and are working with our partners to

Strategic report (continued)

connect more sustainable sources of renewable gas (currently there are 20 renewable sources of gas connected to our network which is equivalent to heating 157,000 homes).

Internally the Group is constantly striving to reduce our operational emissions through numerous cost and waste reduction initiatives, in many cases linked to regulatory outputs which support government policy.

The Group completed a GAP analysis and benchmarking review of our climate related financial disclosures and have started to develop our reporting strategy and ambitions in relation to climate change. An ESG management group has been established to monitor, control and report to the Executive Team and also to the Board through a new ESG Board Committee. The Group is continuing to consider the impact of climate change on other aspects of the business such as the physical impact on the network, both above and below ground.

Financial risks

The Group's operations and capital structure expose it to a range of ongoing financial risks outlined below.

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.

Liquidity risk

Liquidity risk is the risk that any payment obligation is not met, or is not expected to be met, when due. The Group has significant payment obligations represented by secured debt obligations to third parties. 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, but 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 senior secured debt or any other maturing indebtedness will be capable of being so paid when due. The Group is compliant with the financial ratios reported semi-annually to our senior lenders.

Leverage risk

The Group has significant secured debt obligations to third parties. Excessive leverage, principally represented by high levels of net debt to RAV, can pressurise credit strength, impair ability to raise capital efficiently, invest in the network and maintain shareholder value. 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. From 2017, the Group pursued a senior net debt to RAV policy target ratio within the range of 65% to 70% by 31 March 2021 (using the senior lender measurement basis). That target was achieved with an outcome of 66.7% and has remained in that range at each reporting date to March 2023. The leverage policy is expected to be updated by December 2023 for the remainder of the current regulatory control period RIIO-GD2 which ends on 31 March 2026.

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Volatility in interest rates, real and/or nominal, could result in uncertainty over future cash flows, compliance with interest cover ratios with senior lenders and rating agencies. This volatility is reduced by a policy of maintaining a fixed nominal and/or real rate on at least 85% of liabilities on a rolling 5 year basis, 75% of liabilities thereafter. Consequently, the significant increase to market nominal interest rates in the year to 31 March 2023 has not significantly increased finance costs because most of the Company's nominal cost of debt is fixed through debt and derivative contracts.

Index-linked swap and interest rate swap contracts are used to achieve the target interest risk profile. As at 31 March 2023, the Group held index-linked swap contracts with a notional principal of £1,000.4m (2022: £1,000.4m) and interest rate swaps with a notional principal of £680.4m (2022: £680.4m). At 31 March 2023 the net fair value liability of the interest and index-linked swap contracts held by the Group was £945.6m (2022: £1,205.4m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward interest and RPI rates. £300m notional of the RPI swaps and £500m notional of the interest rate swaps are due to expire on 30 November 2023. Note 14 - Financial instruments and risk management provides further detail.

Strategic report (continued)

Inflation risk

Inflation risk exists because CPIH inflation allowed in regulated revenues and RAV does not perfectly offset inflation cost changes within the business (affecting operating costs and investments) and capital structure combined, leading to (i) cash flow risk due to timing mismatches between inflation cash inflows and outflows and (ii) basis risk due to different measures of inflation involved – i.e. CPIH to revenues and RAV but RPI in the cost of debt finance with the use of RPI linked swaps and RPI linked debt.

From 1 April 2021, Ofgem changed the inflationary index from RPI to CPIH for the determination of regulated nominal revenues and RAV and considered this change to be value neutral to investors and consumers in the long run. This change is likely to accelerate revenues into control period RIIO-GD2 and RIIO-GD3 from revenues in subsequent control periods, but likely to result in slower nominal growth in RAV.

The Group has, and continues to use, a significant amount of RPI linked inflation swaps to achieve a fixed real cost on a significant amount of debt in its capital structure and this significant position remains. Since 2010, periodic swap accretion payments due under these RPI swaps create significant cashflow timing differences because they are not offset by inflation cash inflows from future regulated nominal revenues. In addition, the regulatory change to CPIH from 1 April 2021 gives rise to a new basis risk between this RPI linked debt base and the CPIH linked regulated revenues and RAV.

These two risks create pressures on liquidity, leverage, and credit rating profile, and ultimately on shareholder value, and are managed within the Group's policies on liquidity, leverage and credit rating. At 31 March 2023, a 0.01% increase to the forward break even RPI curve would result in a £2.5m increase to the RPI index-linked swap liability and a 0.01% increase to forward nominal interest rates would result in a £1.5m decrease to the RPI index-linked swap liability. The significant increase to market nominal interest rates during the year to 31 March 2023 had led to a reduction in the carrying amount of the RPI swap liability, despite higher levels of inflation. Higher inflation, however, pressurises credit metrics, notably with rating agencies, who include accrued accretion expense on RPI contracts in their coverage ratios. However, the size of the Group's RPI swap portfolio will reduce in November 2023 when £300 million of the £1,004 million will expire and Net debt to RAV leverage has been controlled through supportive shareholders who have reduced distributions, as acknowledged by rating agencies Fitch and Standard and Poors. The Group intends to reduce the exposure to RPI further by moving to a CPI basis using derivatives, once market conditions are suitable. Debt rating levels, whilst on negative outlook, have been maintained during the year ended 31 March 2023 and since then. For our senior lenders, detailed forward looking financial ratios are published at the same time as our financial statements are published and we expect to maintain adequate headroom. Copies of rating agency reports and financial ratio certificates for senior lenders are contained in our investor website (<https://www.wufinanceplc.co.uk>). However, there can be no absolute assurance that these policies will be effective in preventing impairment to liquidity, credit profile and shareholder 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 100% (2022: 100%) of members are either retired or have deferred benefits at 31 March 2023. Since 2005 new employees are entitled to enrol into the defined contribution section of the Scheme.

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

See page 13 for consideration of the volatility of the pension assets and details of the criteria for the recognition of the pension liability at 31 March 2023. In order to further minimise the risks of the fluctuating values of liabilities in the defined benefit section of the pension scheme, the scheme was closed to future accruals from July 2021.

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

Strategic report (continued)

Commodity risk (continued)

The total gross cost of gas purchased for the year ended 31 March 2023 was £18.5m (2022: £17.7m). 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-GD2 regime and treated as a cost pass through using day ahead prices and is therefore substantially mitigated. The volume risk is closely monitored and is also mitigated to a certain extent given the relatively stable flows of gas through the network and consequent consumption volumes.

Credit risk

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

The amount of credit given to gas shippers is governed by the Uniform Network Code ("UNC") regulations and guideline. These provide for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of prepayment. The UNC criteria allow a maximum credit limit usage of 100% (2022: 100%) which, if exceeded, allows the Company to apply sanctions.

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

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

Strategic report (continued)

The Board's Statement on s172(1)

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

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

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

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

Engaging with stakeholders

The success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us, and working together towards shared goals assists us in delivering long-term sustainable success. In order to fulfil their duties, the Directors of the Group itself take care to have regard to the likely consequences on all stakeholders of the decisions and actions which they take. Where possible, decisions are carefully discussed with affected groups and are therefore fully understood and supported when taken.

Reports are regularly made to the Group Board by the business units about the strategy, performance and key decisions taken which provides the Board with assurance that proper consideration is given to stakeholder interests in decision making. At Group level, the Board is well informed about the views of stakeholders through the regular reporting on stakeholder views and it uses this information to assess the impact of decisions on each stakeholder group as part of its own decision-making process.

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

Shareholders

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

Debt investors

We continue to communicate with our debt investors upon individual request, through ongoing reporting requirements in accordance with the Common Terms Agreement, information provided on the Company's investor website, periodic non-deal roadshows and deal specific roadshows prior to any possible debt issuance.

Colleagues

Our people are key to our success and we want them to be successful individually and as a team. Our culture is built on our Company Ambition, Priorities and Values which were developed with staff in 2013 and recently updated as discussed in more detail in the Chief Executive's report. This underpins all of our people procedures and activities. There are many ways we engage with and listen to our people including colleague surveys, forums, round table groups, face-to-face briefings, internal communities, newsletters and through our anonymous colleague whistle-blowing line. Key areas of focus include health and well-being, development opportunities, pay and benefits. Regular reports about what is important to our colleagues are made to the Board ensuring consideration is given to colleague needs.

Connecting with colleagues in person to gather their views and ideas for the future is already proving invaluable in shaping our onward communication and engagement delivery.

Details of the Group's employment policies and employee consultation undertaken can be found in the Strategic report on pages 16 to 18 and form part of this report by cross-reference.

Strategic report (continued)

Colleagues (continued)

We have reintroduced an annual face-to-face communications programme where the Executive Team and Senior Managers meet colleagues in an interactive roadshow format in different geographical locations across our network. These roadshows allow us to share information across a wide range of topics of interest based on our business priorities and discuss local and network-wide matters of interest or concern with colleagues. We reinstated our face-to-face Operational 'Roadshow' programme, visiting a large number of our depots right across our network.

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

Customers

Our ambition is to deliver best-in-class service to customers. We build relationships with our customers, who are mainly gas shippers and the end gas consumer, with whom we interact to understand their needs and views and listen to how we can improve our service for them. We use this knowledge to inform our decision-making, for example to tailor our workforce to suit customer demands. Details of the Company's key performance measures, including Ofgem standards of service and customer satisfaction results can be found in the Strategic report on pages 10 to 12 and form part of this report by cross-reference.

The Customer Engagement Group ("CEG") was formalised in August 2018 with a role to scrutinise our future plans. They are an independent group that reflects the views of customers and stakeholders from across Wales & the South West of England. The group is chaired by Sian Callaghan, Communications Consultant and experienced Non-Executive Director, who has extensive experience of Corporate Communications in highly regulated industries. Sian has held senior positions at Centrica/British Gas, and the Office for National Statistics. To reflect the views of communities from across Wales and the South West of England, Sian is joined by 6 other members' representing different customers and stakeholders, with specialisms in communications and engagement, business, safeguarding vulnerable customers and research.

Communities

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

Our focus on helping vulnerable customers continues to increase, with 50 projects now in place across our network and in collaboration with other Gas Distribution Networks. We published our second annual report on our Vulnerability and Carbon Monoxide Allowance work on 1 July 2023.⁴

Suppliers

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

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

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

⁴ <https://www.wvutilities.co.uk/media/4821/wales-west-utilities-vcma-annual-report-2022-23.pdf>

Strategic report (continued)

Suppliers (continued)

In the year we have tendered a number of our key business support contracts including our Energy contract, our Employee Benefits provider, our Logistics and Warehousing supplier contract and our Training and Education provider. Alongside this we continue to tender our key supply contracts including our PE pipe and fitting supply contract. All above and below threshold tenders run by the Procurement team are done in collaboration with the business and subject matter experts. For the majority of tenders, the qualitative assessment of the bids is solely made by the business experts. This stakeholder engagement approach ensures winning tenders are both fit for purpose and represent value for money.

Details of the Company's key contractual relationships can be found in the Strategic report on page 16 and forms part of this report by cross-reference.

Government and regulators

We engage with the Government and regulators through a range of industry consultations, forums, meetings and conferences to communicate our views to policy makers relevant to our business. Key areas of focus are compliance with laws and regulations and health and safety. The Board is updated on legal and regulatory developments and takes these into account when considering future actions. Details of the Group's regulatory environment including RII-GD2 can be found in the Strategic report on page 8 and forms part of this report by cross-reference.

Illustrations of how s172 factors have been applied by the Board can be found throughout the Strategic Report. For example, information on how we maintain safety records can be found on pages 10 to 11; for details on how we have considered the impact of the Group's operations on the community and environment see pages 12 and 19; for capital allocation and investment decisions, see page 11.

Further details on the Board and its Corporate Governance Framework are presented in more detail in the financial statements of WWU, the operating subsidiary.

This strategic report of the Directors was approved by the Board of Directors and authorised for issue on 24 August 2023.

By order of the Board



Paul Millar
Company secretary
24 August 2023

Report of the Directors

The Directors have pleasure in presenting the annual report to the shareholder of the Wales & West Gas Networks (Holdings) Limited group ("the Company" or "the Group" as the context requires) together with the audited consolidated financial statements for the year ended 31 March 2023 as presented on pages 39 to 79.

Principal activities

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

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 32,880 kilometres of mains pipeline and a further 2,360 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 GDN which it owns. Gas is transported on behalf of approximately 30 main gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

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

Dividends on ordinary shares

The Directors do not recommend the payment of an interim or final dividend in respect of the year ended 31 March 2023 (2022: £nil). The company does not currently have a distributable reserve.

Directors

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

There were no changes in Directors during the year.

Company secretary

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

Directors' service contracts and remuneration

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

Directors' interests

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

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

Contributions for political or charitable purposes

During the year ended 31 March 2023, there have been no political donations (2022: £nil). The Group did however donate £33k during the year ended 31 March 2022 for charitable purposes (2022: £33k).

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 16 and form part of this report by cross-reference.

Employee consultation

Details of the Group's employment policies and employee consultation undertaken can be found in the Strategic report on pages 16 to 18 and form part of this report by cross-reference.

Report of the Directors (continued)

Contractual relationships

The Group has contractual relationships with many parties including Directors, employees, suppliers, banking groups, debt investors, group companies and affiliated companies (see notes 13 and 27). Amongst the suppliers is Xoserve Limited, the sole company which provides gas throughput and billing information to the Group, and which is used by the Group in setting its regulated gas distribution charges to gas transporters. The investment in Xoserve was £0.1m at 31 March 2023 (2022: £0.1m).

Financial risks

The Board is responsible for financial risk management policies of the Group. The exposure of the Group to ongoing key financial risks can be found in the Strategic report on pages 26 to 28 and form part of this report by cross-reference.

Corporate Governance arrangements

The Group has only debt securities listed on the London Stock Exchange, Luxembourg Stock Exchange and loan notes which are registered on the Official List of the International Stock Exchange in Jersey, and no listed equity. The full corporate governance disclosures set out in the UK Corporate Governance Code are not required. The Corporate Governance Statement setting out how the Group complies with the Wates Principles is disclosed within the financial statements of the wholly owned subsidiary Wales & West Utilities Limited, copies are available from the Company Secretary

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 principal risks and uncertainties that the business faces are set out on pages 23 to 26. The financial position of the Group, its cash flows and liquidity position are set out on pages 12 to 15 and form part of this report by cross-reference.

In arriving at their decision to prepare the consolidated financial statements on a going concern basis the Directors have reviewed the Group's and Company's board approved budgets and cashflow forecasts to September 2024. The levels of headroom under key financial ratios, liquidity headroom, investment grade credit rating levels and ability to access debt capital markets were assessed in the context of the principal risks and uncertainties faced by the Group, the net liability position and any material term debt expires to September 2024. The Directors concluded that the Group and Company were in a position to meet their liabilities as they fall due during the period to September 2024.

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

The Directors also concluded that there were no events or condition that cast significant doubt on going concern and which would give rise to material uncertainties requiring disclosure.

Qualifying indemnity

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

Directors' liability insurance

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

Engaging with suppliers, customers and other stakeholders

Details of the Group's engagement with suppliers, customers and other stakeholders can be found in the Strategic report on pages 29 to 31 and forms part of this report by cross-reference.

Impairment review

An impairment review of the net asset carrying value of the business (i.e. the Cash Generating Unit ("CGU")) of the Group has not been carried out as there were no indicators of impairment during the year to 31 March 2023.

Report of the Directors (continued)

Exceptional items

There were no Material Items in the current year.

Details of Material Items in relation to the prior year ending 31 March 2022 can be found in the accounting note 3(c) on page 52 and form part of this report by cross-reference.

Change in accounting policies

During the year, there were no changes to accounting policies.

Streamlined Energy and Carbon reporting

The carbon and energy reporting can be found in the Strategic report on page 20 and form part of this report by cross-reference.

Events after the end of the reporting period

As disclosed in note 29, on page 79, after the year end, the £125m bank revolver facility was extended by one year to 2026, and the £50m revolver with NatWest was replaced with a new £50m 3 year facility to 2026.

On 25 July 2023, the Company also priced £75m of 20 year private placement Notes with New York Life Insurance Company and Associates. Funding is deferred for 3 months to 26 October 2023 with a maturity date of 26 October 2043. The notes carry a fixed coupon rate of 5.98% with interest paid semi-annually. The notes will be treated as Class A debt, which is currently rated A- by Fitch and Standard and Poors.

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.

Change in Auditor

Following the mandatory tender for our Audit work in 2022, Deloitte LLP will not be continuing in office after the signing of these financial statements. PricewaterhouseCoopers LLP were successful in this process and a resolution to appoint them will be proposed at the forthcoming Annual General Meeting.

This report of the Directors was approved by the Board of Directors and authorised for issue on 24 August 2023.

By order of the Board



Paul Millar
Company secretary
24 August 2023

Directors' responsibilities statement

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

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

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

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

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

By order of the Board



Paul Millar
Company secretary
24 August 2023

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

Report on the audit of the consolidated financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated and parent company statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

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

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

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

financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Companies Act 2006, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulatory requirements of the Office of Gas and Electricity Markets ("OFGEM").

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

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

- **Classification of overheads** – The group invests heavily in fixed assets and specifically in infrastructure and their gas network annually, ranging from major replacement projects to minor repair and maintenance works. During the year the group has invested £136.8m in property, plant and equipment. We have identified a risk that overheads capitalised as costs directly attributable to the construction of the network are overstated. As the classification of such capital expenditure and operating expenditure directly affects the group's financial performance, we identified that there was a potential for fraud through the manipulation of this balance.

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

We have performed the following procedures in response to the risk identified:

- obtained an understanding of the relevant controls around the valuation of capitalised overheads
- challenged the appropriateness of the company's capitalisation policies and its approach to determining which costs should be capitalised, and tested whether these policies are being followed
- tested the accuracy of a sample of overhead costs;
- checked the appropriate classification of costs in the general ledger; and
- evaluated the estimates used in determining the value of the cost that is directly attributable to the construction of an asset.

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

In addition to the above, our procedures to respond to the risks identified included the following:

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



Suzanne Gallagher (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
24 August 2023

Consolidated profit and loss account for the year ended 31 March 2023

		Year ended 31 March 2023	Year ended 31 March 2022
	Note	£m	£m (As restated see note 17)
Continuing operations			
Turnover	2	518.3	462.9
Net operating costs		(290.4)	(297.0)
Operating profit before depreciation, amortisation, and certain material items		311.6	235.3
Material revenue item – legacy adjustment	3(a, c)	-	11.9
Material income item - restructuring	3(a, c)	-	8.9
Material cost item – CMA costs	3(a, c)	-	(6.1)
Operating profit before depreciation and amortisation		311.6	250.0
Depreciation and amortisation	3(a) 7,8	(83.7)	(84.1)
Operating profit	3	227.9	165.9
Interest receivable and similar income	5(a)	5.1	0.7
Interest payable and similar charges	5(b)	(141.5)	(118.2)
Fair value swap movements	5(c)	171.6	(225.3)
Profit/(loss) before taxation		263.1	(176.9)
Tax on profit/(loss)	6	(69.9)	(59.6)
Profit/(loss) for the financial year		193.2	(236.5)

Consolidated and Company statement of comprehensive income for the year ended 31 March 2023

Group	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (As restated see note 17)
Profit/(loss) for the financial year attributable to ordinary shareholder	193.2	(236.5)
Actuarial (loss)/gain on pension scheme (note 26)	(93.2)	73.2
Deferred tax credit/(charge) on actuarial (loss)/gain on pension scheme (note 26)	23.3	(18.3)
Total comprehensive income/(expense) relating to the year	123.3	(181.6)

Company

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

Consolidated and Company balance sheets at 31 March 2023

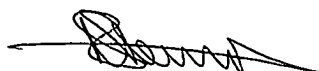
	Note	Group		Company	
		31 March 2023 £m	31 March 2022 £m (As restated see note 17)	31 March 2023 £m	31 March 2022 £m
Fixed assets					
Intangible assets	7	187.9	189.5	-	-
Tangible assets	8	2,876.7	2,767.4	-	-
Investments	9	0.1	0.1	-	-
Pension asset	25	-	76.4	-	-
		3,064.7	3,033.4	-	-
Current assets					
Derivative asset					
– due after more than one year	14(e)	40.5	34.7	-	-
Stocks	10	4.2	4.1	-	-
Debtors	11	58.9	47.7	0.4	0.4
Cash at bank and in hand	21	64.4	134.8	-	-
Cash on deposit	22	135.0	148.0	-	-
		303.0	369.3	-	-
Current liabilities					
Creditors: amounts falling due within one year	12(a)	(444.3)	(197.0)	(0.8)	(0.8)
Net current (liabilities) / assets		(141.3)	172.3	(0.4)	(0.4)
Total assets less current liabilities		2,923.4	3,205.7	(0.4)	(0.4)
Creditors: amounts falling due after more than one year	12(b)	(3,182.6)	(3,620.5)	-	-
Provisions for liabilities	17	(426.2)	(398.6)	-	-
Pension liability	25	(4.7)	-	-	-
Net liabilities		(690.1)	(813.4)	(0.4)	(0.4)
Capital and reserves					
Called up share capital	18	-	-	-	-
Profit and loss account		(690.1)	(813.4)	(0.4)	(0.4)
Total shareholder's deficit		(690.1)	(813.4)	(0.4)	(0.4)

The loss for the financial year dealt with in the financial statements of the parent Company was £nil (2022: £nil).

The annual report and consolidated financial statements of Wales & West Gas Networks (Holdings) Limited (registered number 05095454) on pages 39 to 79 were approved by the Board of Directors and authorised for issue on 24 August 2023 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 2023

Group

	Note	Called up share capital and share premium £m	Profit and loss account £m	Total £m
Total equity attributable to owners at 1 April 2021 (as reported)		-	(619.7)	(619.7)
Restatement (net provisions discount rate adjustment)	17	-	(12.1)	(12.1)
Total equity attributable to owners at 1 April 2021 (as restated)		-	(631.8)	(631.8)
Loss for the year ended 31 March 2022 (as restated)		-	(236.5)	(236.5)
Remeasurement of net defined benefit asset	25	-	73.2	73.2
Deferred tax on net defined benefit asset remeasurement	25	-	(18.3)	(18.3)
Total comprehensive expense		-	(181.6)	(181.6)
Total equity attributable to owners at 31 March 2022 (as restated)		-	(813.4)	(813.4)
Profit for the year		-	193.2	193.2
Remeasurement of net defined benefit liability	25	-	(93.2)	(93.2)
Deferred tax on net defined benefit liability remeasurement	25	-	23.3	23.3
Total comprehensive income		-	123.3	123.3
Total equity attributable to owners at 31 March 2023		-	(690.1)	(690.1)

Company

	Called up share capital and share premium £m	Profit and loss account £m	Total £m
At 1 April 2021	-	(0.4)	(0.4)
Result for the year	-	-	-
Total comprehensive income	-	-	-
At 31 March 2022	-	(0.4)	(0.4)
Result for the year	-	-	-
Total comprehensive income	-	-	-
At 31 March 2023	-	(0.4)	(0.4)

Consolidated cash flow statement for the year ended 31 March 2023

		Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
	Note		
Operating activities			
Net cash inflow from continuing operating activities	19	308.7	261.1
Taxation		0.5	(2.1)
Pension deficit contributions	25	(9.9)	(10.7)
Net cash flows from operating activities		299.3	248.3
Cash flows from investing activities			
Purchase of intangible fixed assets		(6.5)	(16.2)
Purchase of tangible fixed assets		(173.1)	(139.2)
Intangible asset write-down costs		(3.7)	-
Proceeds of disposal of tangible fixed assets		2.1	0.4
Net transfers from deposit accounts		13.0	27.0
Net cash outflow from investing activities		(168.2)	(128.0)
Cash flows from financing activities			
Interest received in respect of index-linked swap contracts		4.4	4.7
Interest received in respect of interest rate swaps		3.1	3.0
Interest received – other		3.5	1.3
Interest paid in respect of index - linked swap contracts		(8.6)	(18.5)
Interest paid – other external debt		(63.4)	(62.0)
Interest paid on subordinated loans from affiliates		(10.5)	(60.0)
Index linked swap accretion payments		(78.5)	-
Premium paid over par on repayment of Class A bond		-	(11.5)
Payments in respect of finance lease obligations		(1.5)	(1.1)
Net bank and bond debt repaid		(50.0)	(100.0)
Net cash outflow from financing activities		(201.5)	(244.1)
Net decrease in cash and cash equivalents		(70.4)	(123.8)
Cash and cash equivalents at beginning of year	21, 22	134.8	258.6
Cash and cash equivalents at end of year	21, 22	64.4	134.8
Net decrease in cash and cash equivalents		(70.4)	(123.8)
Analysis of cash and cash equivalents			
Cash at bank	21, 22	64.4	134.8
Total cash and cash equivalents	22	64.4	134.8
Analysis of cash on deposit			
Cash on deposit at beginning of period	21, 22	148.0	175.0
Cash on deposit at end of period	21, 22	135.0	148.0
Net transfers from deposit accounts as per above	22	(13.0)	(27.0)

Principal accounting policies (continued)

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

Changes in accounting policy

During the year, there were no changes to accounting policies, however there were some disclosure changes in relation to the intangible and tangible fixed asset cost and depreciation / amortisation values, as per notes 7 and 8.

General information and basis of accounting

Wales & West Gas Networks (Holdings) Limited (registered number 05095454) ("the Company") is a private company limited by shares incorporated in Wales, the 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 32.

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

The functional currency of Wales & West 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 and related party transactions.

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 has adequate resources to continue 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 33.

Basis of consolidation

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

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

Related party transactions

Wales & West Gas Networks (Holdings) Limited, the "Group", has no controlling party as it is immediately owned by consortium members – See note 18 for details of the ownership of the "Group". Consequently, under the terms of Section 33 of FRS 102 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are wholly owned within the Wales & West Gas Networks (Holdings) Limited group.

Exceptional Items

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

Principal accounting policies (continued)

Revenue recognition

Turnover, from regulated and non-regulated activities, 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 gas related services to customers during the year. All turnover is generated in the UK. Details of turnover split by class of turnover is presented in Note 2 - Turnover. Turnover is recognised to the extent that it is probable that economic benefit will flow to the Group and that the turnover can be reliably measured.

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

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

Other income

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

Intangible assets and amortisation

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

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 (to 2050)
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 and, for network assets, cost also includes payroll and other costs incurred which are directly attributable to the construction of the asset. Borrowing costs are not capitalised.

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 amounts 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

In the year, £4.1m of asset depreciation has been attributed to capital works (2022: £3.7m). This is in accordance with FRS102 which permits depreciation to be capitalised where directly attributable.

Principal accounting policies (continued)

Impairment review of the carrying value of the cash generating unit ("CGU") represented by the Company's business

RS 102 section 27 requires an assessment at each reporting date as to whether there is any indication that an asset (as defined by Section 27) may be impaired. If such an indication exists, the recoverable amount for the asset must be estimated, and if it is less than the carrying amount of the asset, that carrying amount must be reduced to the recoverable amount. The business of the Company is considered a single cash generating unit ("CGU") in accordance with FRS 102, subject to specific exclusions required by Section 27 (e.g. pension assets, financial assets such as cash and deferred tax assets).

If indicators of impairment exist, determining whether the carrying value of the Company's CGU should be impaired requires an estimation of the CGU's value in use or fair value. The CGU's recoverable amount is the higher of (i) its fair value less costs of disposal and (ii) its value in use.

Value in use represents the present value of expected pre-tax 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 cash generating unit, for which the estimates of future cash flows have not been adjusted.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, the Company considers the outcome of recent transactions for similar assets within similar industries.

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 are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a long term risk free rate that reflects current market assessments of the time value of money, 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 are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, based on discounted future estimated expenditures, 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.

Principal accounting policies (continued)

Financial instruments

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

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

i) Financial assets and liabilities

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

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

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

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

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

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

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, or (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.

Cash on deposit

In accordance with FRS 102 section 7.2, any cash deposit with an initial term greater than 3 months is classified as 'cash on deposit' rather than 'cash at bank and in hand' to reflect the less liquid nature of the deposit.

Pension costs

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

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

Principal accounting policies (continued)

Pension costs (continued)

The assets of the defined benefit section of the Scheme are measured using closing market values at the balance sheet date. The Scheme's 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.

There is no increase in the net present value of the liabilities of the defined benefit section of the Scheme from employee service in the year due to the scheme being closed to future accruals. 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, due to changes in the assumptions for discount rate, inflation rate and mortality, are all recognised in the statement of comprehensive income.

A net pension asset is recognised to the extent the pension defined benefit section of the Scheme's net surplus is considered recoverable by the Company under section 4.7 of the Trust Deed and Rules (while the Scheme is ongoing). On wind-up, under clauses 19.7 and 19.8 the Trustee may (but only with Company consent) apply any balance to augment benefits before the Company becomes automatically entitled to any remaining surplus.

Taxation

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

Deferred tax is 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.

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

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted, or in the case of the deferred tax asset recognised in respect of Corporate Interest Restriction (CIR) disallowances, there are existing deferred tax liabilities sufficient to utilise such deferred tax assets and deductions/taxable amounts are available under UK tax law. CIR related deferred tax assets above such liabilities are not recognised.

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.

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.

Payments received on account

Payments received on account include amounts received in advance from customers for various sources of revenue, including diversions, connections and isolations. Revenue is recognised at job completion. Security deposits are also held on behalf of customers and are repaid at the end of the contract.

Principal accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical 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. The treatment and critical judgement of exceptional items of cost and income is described on page 44 and forms part of this report by cross reference.

Recognition of contributions received from customers towards the construction or diversion of a network asset

Contributions received from customers towards the construction or diversion of network assets of £12.6m (2022: £11.4m) are recognised in turnover within the profit and loss account on job completion. In making their judgement, the Directors considered the detailed criteria for the recognition of revenue as set out in FRS 102 and, in particular, whether the Group had extinguished its performance obligation under the terms of the contract. Following a detailed review of the contracts with customers for construction or diversion of network assets the Directors are satisfied that the Group has performed its obligations under the contract and that recognition of the revenue in the current year is appropriate. The contributions are recognised on completion of the construction work as the obligation in respect of the contract is completed once the construction work is completed and there is no continuing obligation. The gross costs incurred in the year of £21.7m (2022: £25.9m) for both connections and rechargeable diversions are recorded within the Gas Distribution Network fixed assets and depreciated over the life of the asset.

Derivative contracts : Fair value measurements and valuation process

(i) Debit Valuation Adjustments for own credit risk ("DVA"): No DVA (within the meaning of International Financial Reporting Standard 13 ("IFRS 13") and relating to own credit risk) are applied to reduce the fair value liability of derivative contracts. Management does not consider DVA appropriate because FRS 102 requires a settlement basis in assessing fair value whereas IFRS 13 applies a different basis, i.e. a fair value for a transfer of the liability to a market participant where own credit risk is assumed to be the same post the transfer, and this could likely understate the reported fair value liability against ultimate settlement cost.

(ii) Capitalisation of costs from extension of mandatory break dates on index linked swaps. The extension of a mandatory break date on an index linked swap is normally a substantial modification of the contract and a "day one" recognition of the fair value loss from the extension would be normally recognised in the profit and loss account. In the absence of specific guidance in FRS 102, the Company refers to IFRS. IFRS 9 appendix B, para B5.1.2A provides that recognition of a day 1 gain or loss should be based on level 1 inputs (quoted price in an active market for an identical liability) or observable inputs only. As no such inputs exist for the mandatory break date extensions, the Company's policy position is to recognise the loss or gain over the period to the new extended mandatory break date in equal instalments. The total capitalised amount at 31 March 2023 was £66.5m (2022: £70.2m).

Key source of estimation uncertainty

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

Key source of estimation uncertainty - Cost classification

The allocation of overhead costs between capital expenditure and operating expenditure is subject to judgement, particularly around the amount of time spent on different activities. Guidelines have been established and a cost allocation model issued as part of a process to determine the split of attributable overheads between capital expenditure and operating expenditure. This process is consistent with prior years. During the year £69.1m of costs have been re-allocated to capital expenditure from operating expenditure (2022: £58.7m).

Principal accounting policies (continued)

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

The Group's derivative financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value of the derivative asset of £40.7m and liability of £986.3m, the Group uses market-observable data to the extent it is available. The valuations at 31 March 2023 are based on a valuation methodology that is materially unchanged from the prior year. Fair values are based on market observable inputs wherever appropriate, as required by FRS 102, and are produced by discounting expected future cash flows under the swap contracts. These expected future cash flows are generated from market forward rates for RPI and interest over the remaining lives of the derivative contracts. At 31 March 2023, an increase of 0.01% in forward break even RPI would lead to an increase of £2.5m in fair value of the index linked swap liability and an increase of 0.01% in forward nominal interest rates would lead to a decrease of £1.5m in fair value of the index linked swap liability.

Key source of estimation uncertainty – Pension Scheme

Discount rate and mortality assumptions used to determine the carrying amount of the Company's defined benefit pension obligation

The Company's defined benefit pension obligation is discounted at a rate set by reference to market yields at the end of the reporting year on high quality corporate bonds. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

As per last year, the mortality assumption is set based on the most recent mortality tables "SAPS3" with an adjustment for the CMI 2021 model. The mortality assumption included a new component – the "w2020/w2021 weighting parameter" – to facilitate the user taking a view of the impact Covid-19 on future mortality. A parameter of w=10% has been adopted which is consistent with a view that the pandemic's negative impact on life expectancies reduces gradually over the medium term, with mortality rates in 2022 being 5% worse than pre pandemic (2019) but gradually improving back to 'normal' over the next 5 years. This is consistent with the advising actuary's best estimate view.

Details of the assumptions made and associated sensitivities to the discount rate and mortality assumptions are set out in note 25.

Valuation of the Scheme assets used to determine the carrying amount of the Company's defined benefit obligation

The Scheme net deficit of £4.7m (consisting of assets of £338.3m and liabilities of £343.0m) was based on underlying scheme asset valuations as at 31 March 2023. Pension note 25 includes a sensitivity analysis for changes in both the inflation and discount rates and form part of this report by cross reference.

Recognition of the Company's defined benefit pension scheme prior year surplus

The recognition of the £76.4m prior year surplus, in respect of the defined benefit pension scheme, reflects legal and actuarial advice that we have taken regarding recognition of surpluses under FRS 102. We have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up.

Key source of estimation uncertainty – Useful Economic Life of the Network Assets

The current published data on the Future of Energy for the UK, including the developing pathway to net zero with the gas network distributing only hydrogen / biomethane all indicate a long term future for the gas network. There is no contradictory position from Government which would indicate anything different at this point, with the Net Zero Strategy committing to a call for evidence on the 'future of the gas system' which has not yet been held. WWU continues to track developments closely and is undertaking further work to understand the implications for the network. Noting work profiles may change at the end of the current Iron Mains Risk Reduction Programme in 2032, our ambition is to accelerate and be net zero-ready by 2035 in the areas most likely to convert to hydrogen early, if sufficiently funded and supported by central and local Government and regulators. On the same basis our ambition is for our whole network to be net zero ready by 2040. The UK government's target remains to be net zero by 2050.

Given the information currently available about how the UK will achieve net-zero using alternative technologies (particularly greener gases such as hydrogen and biomethane) it is still reasonable to assume that the entire network will continue to be used beyond 2050 in its current form or adapted to accommodate hydrogen or biomethane. Management have therefore assumed that our network assets can be adapted to use alternative technologies and hence have useful lives that extend beyond 2050 in line with our policy. However, if future developments in technology or the climate change agenda indicate that the UELs of our network assets are limited to 2050, with no assumption made for future network additions, an additional £8.5m depreciation would be required per year until then.

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 result after taxation for the year ended 31 March 2023 within the financial statements of the Company was £nil (2022: £nil). The profit after taxation for the year ended 31 March 2023 within the financial statements of the Group was £193.2m (2022 restated: £236.5m loss) and the actuarial loss on the pension scheme included in the consolidated statement of comprehensive income was £69.9m net of deferred tax (2022: net actuarial gain of £54.9m). The total comprehensive gain transferred to reserves was £123.3m (2022 restated: £181.6m loss).

2. Turnover

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Income from regulated activities	497.5	444.8
Income from non - regulated activities	8.2	6.7
Customer contributions towards the construction of assets	12.6	11.4
	518.3	462.9

Within customer contributions £3.2m (2022: £4.5m) was received by WWU in relation to replacement capital expenditure.

3. Operating profit

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

	Note	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (as restated)
<u>Continuing operations:</u>			
Staff costs	4(b)	113.5	98.4
Staff costs capitalised as fixed assets		(62.8)	(50.3)
Depreciation: Own assets	8	78.9	77.0
Depreciation: Leased assets	8	0.8	0.8
Depreciation capitalised	8	(4.1)	(3.7)
Amortisation of intangible assets	7	8.1	10.0
Profit on disposal of fixed assets		(1.9)	(0.4)
Intangible asset write-down	7	3.7	-
Rentals under operating leases:			
Hire of plant and equipment		4.4	2.8
Other		0.2	0.3
Cost of stock recognised as an expense		7.9	7.6
Other operating income		(4.1)	(3.6)
Net reduction in provisions	3(c),17	(0.7)	(0.1)
Material revenue item – legacy adjustment	3(b)	-	(11.9)
Material items – pension curtailment gain	3(b)	-	(9.4)
Material items – restructuring costs	3(b)	-	0.5
Material items – CMA and judicial review costs	3(b)	-	6.1
Change in accounting policy – SaaS costs	3(c)	-	7.0

Staff costs capitalised includes direct labour costs allocated to business activities based on time taken per employee to undertake (see note 4(b)) and ancillary costs. Provision movements, including amounts charged to the profit and loss account, provisions utilised, discount unwinds, changes to the discount rate and reclassifications are disclosed in more detail in note 17.

Notes to the consolidated financial statements (continued)

3. Operating profit (continued)

(b) Material items

Current Year: There were no Material Items in the current year ended 31 March 2023.

Prior Year: The Material Revenue Item relating to "legacy revenue adjustment" as shown on the Profit and Loss account for the prior year relates to legacy pre RIIO-GD1 amounts in respect of tax clawback of £11.9m. This amount was agreed with Ofgem in late 2020 for inclusion in regulatory revenues in 2021/22. Ofgem has since advised WWU that this inclusion in 2021/22 regulatory revenues was an error by Ofgem, and reduced regulatory revenues in 2022/23 for the pre RIIO-GD1 legacy amount.

The Material Income Item for the prior year of £8.9m relates to the finalised restructuring of the business in preparation for the new price control period RIIO-GD2, which began on 1 April 2021. As part of the review of all our activities and structures in readiness for RIIO-GD2, in the prior year we successfully closed the Defined Benefit section of the pension scheme to future accrual, which resulted in a £9.4m curtailment gain and we completed the voluntary redundancy programme which resulted in an additional £0.5m residual redundancy cost.

The Material Cost Item for the prior year of £6.1m relates to the challenge to the RIIO-GD2 Final Determination, including costs for the Judicial Review.

(c) Changes in accounting policies

During the year, there were no changes to accounting policies.

(d) Auditor remuneration

Services provided by the Group's auditor

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

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Fees payable to the Group's auditor for the audit of the Company 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	382.0	479.0
Total audit fees	387.0	484.0
assurance services related to group reporting	33.0	30.0
assurance services related to interim review	40.0	20.0
assurance services related to regulatory reporting	36.0	33.0
other assurance services	-	23.0
Total non-audit fees	109.0	106.0
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
<u>Fees in respect of the pension Scheme:</u>		
Audit of pension Scheme	37.0	37.0

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

Notes to the consolidated financial statements (continued)

4. Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Fees payable to non-executive Directors	100.0	110.5
Salary payments (including benefits in kind)	533.2	504.7
Performance related bonus (see below)	542.6	519.6
Pension contributions	4.2	10.5
Contributions in lieu of pension	122.6	118.2
	1,302.6	1,263.5

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

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

The amount disclosed in respect of the period ended 31 March 2023 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2022. 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 and is conditional on the director remaining in office on the payment date. At 31 March 2023, £0.7m was accrued in respect of amounts payable under the long term incentive plan for 1 director and members of the executive team (2022: £0.7m).

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

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

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

Highest paid Director:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Salary payments (including benefits in kind)	533.2	504.7
Performance related bonus (see above)	542.6	519.6
Pension contributions	4.2	10.5
Contributions in lieu of pension	122.6	118.2
Total Remuneration	1,202.6	1,153.0
Accrued Company pension (defined contribution)	270.2	277.7

Notes to the consolidated financial statements (continued)

4. Directors and employees (continued)

(b) Staff costs (including Directors)

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Wages and salaries	93.5	81.1
Social security costs	10.4	8.4
Pension costs (note 26)	9.6	8.9
	113.5	98.4

Staff costs are allocated to business activities based on time taken per employee to undertake. On this basis £62.8m of the above staff costs (£61.6m to tangible assets and £1.2m to intangible assets) have been capitalised during the year ended 31 March 2023 (2022: £50.3m).

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

	Year ended 31 March 2023 Number	Year ended 31 March 2022 Number
Regulated gas distribution activities : industrial personnel	1,046	1,028
Regulated gas distribution activities : staff	813	705
Other activities	2	2
	1,861	1,735

5. Finance charges and income

(a) Interest receivable and similar income

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Interest receivable on bank deposits	5.1	0.7

(b) Interest payable and similar expenses

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (as restated)
On external debt	84.2	69.1
On loan notes with affiliates (note 27)	65.1	50.1
Amortised debt issue costs and bond discount	1.7	1.5
On unwinding of discounts on provisions (note 17)	1.6	1.4
Change in provision discount rate (note 17)	(9.1)	(4.1)
Other finance charges/(income) – net pension (note 25)	(2.2)	0.1
Finance lease interest	0.2	0.1
	141.5	118.2

Interest on external debt for the year ended 31 March 2023 includes a charge of £19.9m (2022: £10.6m) for accrued inflation on the RPI linked bond.

Notes to the consolidated financial statements (continued)

5. Finance charges and income (continued)

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
On index-linked derivative contracts – inflation accrual	174.3	56.0
Interest payable, on index-linked swaps	2.3	12.2
Interest receivable, on index-linked swaps	(6.8)	(4.6)
Interest receivable, on interest rate swaps	(0.5)	(3.1)
Interest payable, on interest rate swaps	2.3	-
Accretion of swap extension costs	8.5	(26.7)
Fair value (gain)/loss on index-linked swaps – excluding accruals	(369.4)	181.5
Fair value loss on interest rate swaps – excluding accruals	17.7	10.0
Total fair value movement through profit and loss	(171.6)	225.3

The increase in total gain on RPI linked and nominal interest rate swaps for the year ended 31 March 2023 to £171.6m from a £225.3m loss from the prior year was largely due to higher real interest rates. The analysis above in 5(c) of the total fair value movement of derivatives through profit and loss is provided principally for the benefit of senior debt investors and rating agencies. FRS 102 does not distinguish individual components of fair value movements through Profit and Loss, therefore the only fair value movement for FRS 102 purposes on derivatives is the total gain of £171.6m.

6. Tax on profit/(loss)

(a) Analysis of tax charge in the year

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (as restated)
The charge for taxation is made up as follows:		
Current tax		
UK corporation tax charge on profit of the year	6.2	-
Adjustments in respect of prior years	-	(0.2)
Total current tax charge / (credit)	6.2	(0.2)
Deferred tax		
Origination and reversal of timing differences	54.2	(22.1)
Deferred tax relating to change in tax rate	10.9	80.8
Adjustments in respect of prior years	(1.4)	1.1
Total deferred tax charge	63.7	59.8
Total tax charge on profit / (loss) (note 6(b))	69.9	59.6

The standard rate of UK corporation tax applied to reported profit is 19% (2022: 19%).

A total current tax charge of £6.2m arises in the year to 31 March 2023 comprising a current tax charge of £6.2m attributable to profits before tax in the period year after the utilisation of brought forward losses and a prior period year charge of nil (2022: total credit of £0.2m comprising a nil current tax charge attributable to profits before tax in the period year after the utilisation of brought forward losses and a prior period year credit of £0.2m).

The deferred tax charge relating to a change of tax rate of £10.9m in the period year to 31 March 2023 is due to the increase in the statutory tax rate to 25% from 19% which came into effect from 1 April 2023. This increase in the tax rate was substantively enacted on 24 May 2021 and is therefore reflected in the deferred tax for the current year.

The deferred tax assets and liabilities that make up the closing net deferred tax liability of £376.0m (2022: £335.6m) are set out in note 17(d) – Deferred tax.

Notes to the consolidated financial statements (continued)

6. Tax on profits/(losses) (continued)

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

The difference between the total tax charge and the amount calculated by applying the weighted average rate of corporation tax in the UK of 19% (2022: 19.0%) to the profit/(loss) before tax is explained below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (as restated)
Profit/(loss) before tax	263.1	(176.9)
Profit/(loss) before tax multiplied by the weighted average rate of corporation tax in the UK of 19% (2022: 19.0%)	50.0	(33.6)
Effects of:		
expenses not deductible for tax purposes	12.1	12.0
income not taxable in determining taxable profits	(1.7)	(0.5)
change in tax rate	10.9	80.8
adjustment to current tax in respect of prior periods	-	(0.2)
adjustment to deferred tax in respect of prior periods	(1.4)	1.1
Current tax charge for the year (note 6(a))	69.9	59.6

The actual tax charge for the year ended 31 March 2023 of £69.9m and effective tax rate of 26.6% (2022: £59.6m and effective tax rate of -33.7%) is higher than the expected tax charge at the statutory rate of £50.0m (2022: tax credit 33.6m) mainly as a result of the disallowance of interest on shareholder loans of £65.1m and rate differences of £10.9m as explained in note 6(a) (2022: mainly as a result of the disallowance of interest on shareholder loans and provisions of £62.1m and rate differences of £80.8m).

The net reversal of recognised deferred tax assets and liabilities expected unwind in the year to 31 March 2024 is a net charge of £19.8m (2022: £25.7m). This relates mainly to the reversal of deferred tax assets in respect of the fair value of derivatives recognised on balance sheet at 1 April 2016.

Due to the change in discount rate methodology discussed in note 17, this gave rise to an increase in the total tax charge for the year ended 31 March 2022 of £0.5m (from £59.1m to £59.6m) comprising £nil current tax and £0.5m deferred tax. This gave rise to a decrease in the total tax charge for the year ended 31 March 2021 of £2.8m (from £17.5m to £14.7m) comprising £0.2m current tax and £2.6m deferred tax.

Notes to the consolidated financial statements (continued)

7. Intangible fixed assets

Group

		Gas Transporters' Licence £m	IT software £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2022		229.0	64.5	21.8	315.3
Balance reclassification	(i)	-	69.6	-	69.6
Additions		-	-	10.3	10.3
Write-down	(iii)	-	-	(3.7)	(3.7)
Disposals	(ii)	-	(50.7)	-	(50.7)
Transfers in year	(iv)	-	1.1	(1.1)	-
At 31 March 2023		229.0	84.5	27.3	340.8
Accumulated amortisation					
At 1 April 2022		86.6	39.2	-	125.8
Balance reclassification	(i)	-	69.6	-	69.6
Disposals	(ii)	-	(50.6)	-	(50.6)
Charge for the year		5.1	3.0	-	8.1
At 31 March 2023		91.7	61.2	-	152.9
Net book amount					
At 31 March 2023		137.3	23.3	27.3	187.9
At 31 March 2022		142.4	25.3	21.8	189.5

Company

The Company had no intangible fixed assets at 31 March 2023 or at 31 March 2022.

At 31 March 2023 the Group held an intangible fixed asset of £137.3m (2022: £142.4m) in respect of The Gas Transporters' Licence which is being amortised over 45 years. The other intangible fixed assets held are IT software and assets under construction. The majority of assets under construction relate to the transition to cloud based IT systems, including our ERP system to S4 Hana.

- (i) In 2016, when the intangible asset IT software was first separately disclosed, the IT asset values were transferred from the other asset classes (mainly plant and equipment) at net book value, as opposed to at cost and accumulated depreciation. As the fixed asset SAP module has been migrated onto a new platform in May 2023, the above note has now been brought in line with the proposed migrated fixed asset register reflecting the assets' nature. This has resulted in an additional £69.6m cost and accumulated amortisation being separately disclosed. There is no impact to the net book values disclosed in either note or the corresponding balance sheets (Company and Group). See note 8 for the offset.
- (ii) Subsequent to this disclosure change, the fixed asset register was data cleansed and IT software with an original cost of £50.7m and amortisation of £50.6m was disposed of.
- (iii) During the year, a £3.7m charge to operating expenditure has been recognised following the Group's decision to terminate the development of an IT software solution.
- (iv) Transfers in the year comprise costs which are capitalised from assets under construction in the year.

Notes to the consolidated financial statements (continued)

8. Tangible fixed assets

Group		Freehold land and buildings	Leasehold land and buildings	Gas distribution network assets	Vehicles, plant and equipment	Assets under construction	Total
		£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2022		23.6	6.5	3,459.3	207.0	114.0	3,810.4
Balance reclassification	(i)	-	-	(3.9)	(65.7)	-	(69.6)
Additions		-	-	2.5	2.6	184.0	189.1
Disposals	(ii)	-	-	-	(21.2)	-	(21.2)
Transfers in year	(iv)	4.3	-	225.6	17.1	(247.0)	-
At 31 March 2023		27.9	6.5	3,683.5	139.8	51.0	3,908.7
Accumulated depreciation							
At 1 April 2022		3.6	5.2	853.7	180.5	-	1,043.0
Balance reclassification	(i)	-	-	7.0	(76.6)	-	(69.6)
Charge for the year	(iii)	0.5	0.0	67.4	11.8	-	79.7
Disposals	(ii)	-	-	-	(21.1)	-	(21.1)
At 31 March 2023		4.1	5.2	928.1	94.6	-	1,032.0
Net book amount							
At 31 March 2023		23.8	1.3	2,755.4	45.2	51.0	2,876.7
At 31 March 2022		20.0	1.3	2,605.6	26.5	114.0	2,767.4

- (i) In 2016, when the intangible asset IT software was first separately disclosed, the IT asset values were transferred from gas distribution network assets (£3.9m) and vehicles, plant and equipment (£65.7m) at net book value, as opposed to at cost and accumulated depreciation. As the fixed asset SAP module has been migrated onto a new platform in May 2023, the above note has now been brought in line with the proposed migrated fixed asset register. This has resulted in an additional £69.6m cost and accumulated amortisation being separately disclosed. As part of the reclassification, £10.9m of accumulated depreciation was also reclassified from vehicles, plant and equipment to gas distribution assets.

There is no impact to the net book values disclosed in either note or the corresponding balance sheets (Company and Group). See note 7 for the offset.

- (ii) In preparation for the migration of the fixed asset register to the new SAP platform, a data cleansing exercise was started in the year. Fully depreciated assets with an original cost of £17.0m were disposed of. The remaining £4.2m disposals were for the original cost of assets in the normal course of business.
- (iii) The depreciation charge in the year for tangible fixed assets was £79.7m (2022: £77.9m), however, £4.1m (2022: £3.8m) of this was directly attributable to capital works and was subsequently capitalised. The net depreciation charge to the income statement was therefore £75.6m (2022: £74.1m).
- (iv) Transfers in the year comprise costs which are capitalised from assets under construction in the year.

Company

The Company had no tangible fixed assets at 31 March 2023 or at 31 March 2022.

Notes to the consolidated financial statements (continued)

8. Tangible fixed assets (continued)

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 2023 the net book amount of these assets held under finance leases was £3.5m (2022: £2.2m). Other than finance leases on cars, no other tangible or intangible fixed assets have restricted title or have been pledged as security for liabilities. Included within the freehold land and buildings net book amount at 31 March 2023 is £2.8m (2022: £2.8m) in respect of land which is not depreciated. Of the £1.3m leasehold land and buildings (2022: £1.3m), £1.0m is classified as a long leasehold (>50 years) (2022: £1.0m), and £0.3m (2022: £0.3m) is a short leasehold.

9. Fixed asset investments

Group	Unlisted investments £m
Cost and net book value	
At 31 March 2023 and 31 March 2022	<u>0.1</u>

The unlisted fixed asset investment of £0.1m (2022: £0.1m) represents the Group's shareholding in Xoserve Limited, at cost, a private Company limited by shares, incorporated in England and Wales (registered number 05046877). The Group's shareholding represents 10% (2022: 10%) of the ordinary issued share capital of Xoserve Limited. The principal activity of Xoserve Limited, a company incorporated in England and Wales, is as the Gas Transporters' Agent providing centralised information and data services for Gas Transporters and Gas Shippers in Great Britain. Xoserve's registered office address is Lansdowne Gate, 65 New Road, Solihull, B91 3DL.

Company

The Company fixed asset investments were written down to £nil at 31 March 2023.

Interests in Group undertakings

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

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

All Companies are private Companies limited by shares and incorporated in England and Wales, United Kingdom ("UK"). The registered office address for all Companies in the Wales & West Gas Networks Holdings Limited Group is Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

Notes to the consolidated financial statements (continued)

10. Stocks

Group

	31 March 2023 £m	31 March 2022 £m
Raw materials and consumables	4.2	4.1

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

Company

The Company had no stock at 31 March 2023 or at 31 March 2022.

11. Debtors

	Group 31 March 2023 £m	31 March 2022 £m	Company 31 March 2023 £m	31 March 2022 £m
Amounts falling due within one year				
Trade debtors	2.5	2.1	-	-
Accrued income	48.8	40.6	-	-
Corporation Tax	0.4	0.4	0.4	0.4
Other debtors	1.8	0.3	-	-
Prepayments	5.4	4.3	-	-
	58.9	47.7	0.4	0.4

12. Creditors

		Group 31 March 2023 £m	31 March 2022 £m	Company 31 March 2023 £m	31 March 2022 £m
(a) Other creditors falling due within one year					
External borrowings	13	149.9	50.0	-	-
Obligations under finance leases	13	0.7	0.7	-	-
Payments received on account		27.4	23.0	-	-
Trade creditors		9.5	14.9	-	-
Other taxation and social security		18.7	13.1	-	-
Corporation tax		7.6	0.9	-	-
Other creditors		2.2	1.7	-	-
Accruals		143.0	91.9	-	-
Amounts due to parent undertakings	26	0.8	0.8	0.8	0.8
Swap fair value liability		84.5	-	-	-
		444.3	197.0	0.8	0.8
(b) Amounts falling due after more than one year					
External borrowings	13	1,646.1	1,775.6	-	-
Loan notes with affiliates	13,14	697.8	677.3	-	-
Swap fair value liability	14(e)	835.4	1,165.2	-	-
Obligations under finance leases	13	2.2	0.9	-	-
Trade creditors		0.6	0.5	-	-
Other creditors		0.5	1.0	-	-
		3,182.6	3,620.5	-	-

For the year ended 31 March 2022, the Corporation tax creditor was restated from £1.1m to £0.9m, for the Group, due to the change in discount rate methodology as discussed further in notes 6 and 17.

Notes to the consolidated financial statements (continued)

13. External Borrowings

	Group	
	31 March	31 March
	2023	2022
	£m	£m
Repayable as follows:		
In less than one year	150.6	50.5
In more than one year but not more than two years	1.4	0.7
In more than two years but not more than five years	559.3	559.6
In more than five years	1,785.4	1,893.7
	2,496.7	2,504.5
Less: amounts owed to affiliated entities	(697.8)	(677.3)
	1,798.9	1,827.2

As at 31 March 2023 the £2,496.7m (2022: £2,504.5m) of external borrowings comprised senior secured bonds of £1,386.7m (2022: £1,365.9m), subordinated loan notes issued to affiliated companies of £697.8m (2022: £677.3m), senior secured EIB term loans of £309.9m (2022: £309.9m), a senior secured private placement of Class B notes with MetLife of £99.8m (2022: £99.8m), senior secured drawn National Westminster Bank plc revolving credit facility of £nil (2022: £50.0m), a debit balance on senior secured revolving bank facilities of £0.4m (2022: £nil) relating to unamortised upfront fees and obligations under finance leases of £2.9m (2022: £1.6m).

Group

Senior secured bonds

- i) At 31 March 2023 WWUF had in issue senior secured guaranteed bonds with a nominal value of £1,325.0m (2022: £1,325.0m) and a book value of £1,386.7m (2022: £1,365.9m). Included in the guaranteed bonds book value is £66.4m (2022: £46.5m) of accrued inflation on the index-linked bond, unamortised bond fees and discount of £4.2m (2022: £5.1m) and £0.5m (2022: £0.5m) attributed to amortised cost accounting.

As at 31 March 2023, the guaranteed bonds have legal maturities ranging between December 2023 and May 2041 as outlined in the following table:

Nominal value £m	Coupon %	Class	Issue date	Redemption date	Note	Book value £m 31 March 2023	Book value £m 31 March 2022
300	5.75%	A	31 March 2010	29 March 2030		296.9	296.8
100	2.496%	A	31 March 2010	22 August 2035	(a)	166.2	146.2
150	4.625%	A	4 November 2011	13 December 2023	(b)	149.9	149.6
150	5.00%	A	4 November 2011	7 March 2028		149.2	148.9
300	3.00%	A	3 August 2018	3 August 2038		297.4	297.3
75	3.00%	A	3 September 2019	3 August 2038		83.6	84.0
250	1.875%	A	28 February 2020	28 May 2041		243.5	243.1
1,325						1,386.7	1,365.9

- a) The movement in the £100.0m nominal index-linked bond represents accrued inflation of £19.9m on the index-linked bond for the year (2022: £10.6m) and £0.1m (2022: £0.1m) in respect of amortised discount and bond fees. Included in the book value of the index-linked bond is £66.4m of accrued inflation (2022: £46.5m) less £0.2m (2022: £0.3m) of unamortised discount and bond fees.
- b) On 30 March 2021, the Group announced the final results of a tender offer for £100m of WWUF's £250m 4.625% Class A nominal bond maturing on 13 December 2023. The bonds were purchased at 111.460% of their par value, and included accrued interest of £1.445m. A charge for £11.5m was made in the consolidated profit and loss account of WWU, representing the excess of the consideration paid above the book carrying amount of the bonds. The total consideration paid was £112.9m on the settlement date, 6 April 2021. On the same day, WWUF acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by WWU to it.

Notes to the consolidated financial statements (continued)

13. External borrowings (continued) Senior secured bonds

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

- ii) At 31 March 2023 the Group had borrowed funds with a nominal value of £310.0m (2022: £310.0m) under its EIB term loan facilities and £nil (2022: £50.0m) under its class B NWB revolving credit. The book value of the debt at 31 March 2023 is £309.9m (2022: £359.9m) after deducting unamortised debt fees of £0.1m (2022: £0.1m). These loans benefit from the same security and guarantee arrangements as the senior secured bonds.

The table below details the tranches of funds drawn:

Nominal value £m	Bank	Fixed/ Floating	Coupon	Class	Drawdown date	Maturity date	Book value in £m at	
							31 March 2023	31 March 2022
60.0	EIB	Floating	0.455% + SONIA + CAS	A	21 August 2015	31 March 2026	60.0	60.0
100.0	EIB	Floating	0.452% + SONIA + CAS	A	30 November 2015	31 March 2027	100.0	100.0
100.0	EIB	Fixed	2.10%	A	27 January 2017	31 March 2026	99.9	99.9
50.0	EIB	Fixed	1.99%	A	22 March 2017	31 March 2027	50.0	50.0
-	NWB	Floating	SONIA + 1.55%	B	7 June 2021	6 June 2024	-	50.0
310.0							309.9	359.9

"SONIA" is the Sterling Overnight Index Average, "LIBOR" is the London Interbank Offer Rate and CAS is the Credit Adjustment Spread

At 31 March 2023, the Group had borrowed £nil (2022: £nil) under its £125m of revolving credit facilities with four core banks. On 6 July 2022, the Group replaced the £125m committed revolver facilities due to expire in February 2023 with new, sustainability linked, 3 year committed revolver facilities for £125m due to expire in July 2025 and with options to extend for a further two years subject to lender consent. On 22 May 2023, the Group extended the expiry date of this facility by one year to July 2026. There were no changes to participant lenders.

- iii) At 31 March 2023 the Group held a private placement of Class B loan notes with Metlife. These loan notes have a nominal value of £50.0m (2022: £50.0m) maturing 31 March 2026 and £50.0m (2022: £50.0m) maturing 30 September 2026. These loan notes have a fixed coupon of 3.06% paid annually and a book value at 31 March 2023 of £99.8m (2022: £99.8m).
- 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 four members of the Hong Kong based consortium that jointly own West Gas Networks Limited (UK) and Western Gas Networks Limited (UK) (see note 27 - Immediate and ultimate parent companies and 27(d) related party transactions). The loan notes carry a coupon of SONIA (plus a fixed Credit Adjustment Spread) + 6.5% and interest is payable bi-annually in June and December. The loan notes are registered on the Official List of the International Stock Exchange in Jersey.

At 31 March 2023, the Group had borrowed £645.0m (2022: £645.0m) in the form of loan notes from affiliated companies. The book value of the debt at 31 March 2023 is £697.8m on an amortised cost basis (2022: £677.3m) after deducting unamortised debt fees of £0.2m (2022: £0.2m) and capitalising unpaid interest of £53.0m (2022: £32.5m).

Notes to the consolidated financial statements (continued)

13. External borrowings (continued)

The table below details the loan notes' balances with those affiliated companies at 31 March 2023 and 31 March 2022:

Loan note holders	% share	Nominal value £m	Book value at	
			31 March 2023 £m	31 March 2022 £m
Affiliated entity	30%	193.5	209.3	203.2
Affiliated entity	30%	193.5	209.3	203.2
Affiliated entity	30%	193.5	209.3	203.2
Affiliated entity	10%	64.5	69.9	67.7
	100%	645.0	697.8	677.3

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

During the year ended 31 March 2023, interest of £65.1m (2022: £50.1m) was charged on these loans. During the year ended 31 March 2023 £10.5m loan interest was paid to affiliates (2022: £60.0m). At 31 March 2023 £67.6m of interest is accrued and is included in accruals (2022: £33.5m included in accruals).

- 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 2023 was £2.9m (2022: £1.6m).
- vi) On 7 June 2021, WWU entered into a £50.0m Class B revolving credit facility with NWB maturing 6 June 2024. Floating rate interest on drawn amounts under this facility is SONIA + 1.55%. The drawn balance on this facility at 31 March 2023 was £nil (2022: £50.0m) as the opening balance was repaid in full on 4 April 2022. On 1 June 2023 this £50m revolving facility was replaced with a new £50m 3 year facility, maturing in 2026.

Company

The Company had no external borrowings at 31 March 2023 or at 31 March 2022.

14. Financial instruments and risk management

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

Notes to the consolidated financial statements (continued)

14. Financial instruments and risk management (continued)

(a) Categories of financial instruments

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

Group and Company		31 March 2023 £m	31 March 2022 £m
	Note		
Financial assets held at amortised cost			
Trade and other debtors	11	58.5	47.3
Cash and cash on deposit	21, 22	199.4	282.8
Total financial assets at amortised cost		257.9	330.1
Financial assets at fair value			
Derivative financial instruments	14(e)	40.5	34.7
Total financial assets		298.4	364.8

		31 March 2023 £m	31 March 2022 £m
	Note		
Financial liabilities held at amortised cost			
Trade and other creditors	12 (a, b)	12.8	18.1
Accrued interest on bonds, bank loans and loans with affiliates		85.3	49.2
Obligations under finance leases	13	2.9	1.6
Guaranteed bonds	13	1,386.7	1,365.9
External borrowings – bank loans and fees	13	309.9	359.9
External borrowings – other loan notes	13	99.4	99.8
Loans with affiliates*	27(d)	697.8	677.3
Total financial liabilities at amortised cost		2,594.8	2,571.8
Financial liabilities at fair value			
Derivative financial instruments	14(e)	919.9	1,165.2
Total financial liabilities		3,514.7	3,737.0

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

Notes to the consolidated financial statements (continued)

14. Financial instruments and risk management (continued)

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

	Note	31 March 2023 £m	31 March 2022 £m (as restated)
Interest income and expense			
Total interest income for financial assets at amortised cost	5(a)	(5.1)	(0.7)
Total interest expense for financial liabilities at amortised cost	5(b)	141.5	118.2
Index linked and interest rate fair value swap movements			
On derivative financial assets measured at fair value through profit or loss	5(c)	(21.5)	6.9
On derivative financial liabilities measured at fair value through profit or loss	5(c)	(150.1)	218.4
		(171.6)	225.3

(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 2023 £m	31 March 2022 £m
Fixed nominal rate	536.0	536.0
Fixed real rate	1100.3	1100.3
Floating rate	98.7	148.7
Total	1,735.0	1,785.0

Fixed nominal rate

Within fixed nominal rate debt at 31 March 2023 is £150.0m (2022: £150.0m) of fixed rate debt drawn with the EIB, £286.0m (2022: £286.0m) of fixed rate bonds and £100.0m (2022: £100.0m) of privately placed loan notes with MetLife.

Fixed real rate

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (2022: £100.0m of 2.496% index-linked bonds) and £1,000.3m of fixed nominal rate and floating rate borrowings (2022: £1,000.3m) matched with index-linked swaps.

Floating rate

Borrowings with a floating rate comprise £nil (2022: £50.0m) drawn on the NWB Class B revolving credit facility and £98.7m (2022: £98.7m) floating rate EIB debt not matched with index-linked swaps.

Notes to the consolidated financial statements (continued)

14. Financial instruments and risk management (continued)

(c) Interest rate profile of fixed rate borrowings

After taking account of swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 March 2023 and 31 March 2022, excluding intra-group indebtedness and loan notes issued to affiliates, together with the weighted average period for which the rate is fixed, was:

Currency	Weighted average interest rate		Weighted average period for which rate is fixed	
	31 March 2023 %	31 March 2022 %	31 March 2023 Years	31 March 2022 Years
Sterling: Fixed nominal rate	2.22	2.22	11.0	12.0
Fixed real rate	3.86	3.49	8.8	9.8
Floating rate	3.89	1.23	3.4	3.7

(d) Borrowing facilities

	31 March 2023 £m	31 March 2022 £m
Committed borrowing facilities	485.0	485.0
Drawn	(310.0)	(360.0)
Undrawn committed facilities	175.0	125.0

The drawn facilities at 31 March 2023 of £310.0m represent £310.0m of EIB loans and £nil of Class B debt drawn under the NWB revolving credit facility (2022: £360m drawn representing £310.0m of EIB loans and £50.0m of Class B debt from the NWB term loan).

The £175.0m of undrawn facilities at 31 March 2023 (2022: £125.0m) comprised committed revolver facilities with core banks. In addition there are standby liquidity facilities of £90.0m (2022: £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.

On 6 July 2022, the Group replaced the £125m committed revolver facilities due to expire in February 2023 with new, sustainability linked, 3 year committed revolver facilities for £125m due to expire in July 2025 and with options to extend for a further two years subject to lender consent. On 22 May 2023, the company extended the expiry date of this facility by one year to July 2026. There were no changes to participant lenders.

(e) Fair values of financial instruments

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and bank loans approximates to book values due to the short maturity of these instruments after reflecting £nil (2022: £nil) of unamortised debt fees.

The fair value of the listed guaranteed bonds has been calculated using the 31 March 2023 quoted prices (2022: 31 March 2022 quoted prices).

The fair values of the derivative financial instruments represent the present value of expected future cash flows from those instruments, discounted at forward interest rates. The fair values do not represent a termination cost as at 31 March 2023

Notes to the consolidated financial statements (continued)

14. Financial instruments and risk management (continued)

Group	31 March 2023		31 March 2022	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Guaranteed bonds	(1,386.7)	(1,162.5)	(1,365.9)	(1,411.5)
Loans with affiliates	(697.8)	(645.0)	(677.3)	(645.0)
Bank loans	(309.9)	(310.0)	(359.9)	(360.0)
Other loan	(99.8)	(100.0)	(99.8)	(99.8)
Obligations under finance leases	(2.9)	(2.9)	(1.6)	(1.6)
Cash at bank	199.4	199.4	282.8	282.8
	(2,297.7)	(2,021.0)	(2,221.7)	(2,267.4)
Derivative financial instruments held to manage the interest rate profile				
Index-linked swaps liability	(906.7)	(973.2)	(1,164.8)	(1,240.1)
Index-linked swap asset	28.4	28.4	12.7	12.7
Interest rate swap asset	12.1	12.4	22.0	22.5
Interest rate swap liability	(13.2)	(13.2)	(0.5)	(0.5)
	(3,177.1)	(2,966.6)	(3,352.3)	(3,472.8)

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

Group and Company

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

The Group has entered into RPI-linked interest rate swaps to achieve stable real interest costs and to support mitigation of the impact of volatility from the RPI-linked regulated revenues earned to 31 March 2021. Future regulated revenues will be linked to CPIH.

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

The fair value of derivative contracts at 31 March 2023 and 31 March 2022 is shown below:

	31 March 2023 £m	31 March 2022 £m
Fair value of financial derivatives		
Fair value of swap liability	(986.3)	(1,240.6)
Fair value of swap asset	40.7	35.2
Net fair value of financial derivatives	(945.6)	(1,205.4)

The difference between the fair value of derivative financial instruments of £945.6m disclosed above and the book value of derivative financial instruments as disclosed in note 14(e) of £879.4m reflect the unamortised element of swap restructure costs of £66.5m (2022: £70.2m) less the credit adjustment on the swap asset of £0.3m (2022: £0.5m).

Index-linked swaps

As at 31 March 2023, the Group held index-linked swaps with a notional principal of £1,000.4m (2022: £1,000.4m). The interest rates on the pay leg of these swaps at 31 March 2023 ranged between 2.01% and 4.85% (2022: 2.01% and 4.85%). The maturity dates of these swaps range between November 2023 and November 2039 (2022: between November 2023 and November 2039). These maturities are subject to break clauses.

Notes to the consolidated financial statements (continued)

14. Financial instruments and risk management (continued)

Of the total notional of £1,000.4m, £645.4m (2022: £645.4m) of these swaps have mandatory self-executing break dates and are phased as follows:

Calendar year of break clause	31 March 2023 £m	31 March 2022 £m
2026	136.0	136.0
2028	145.3	145.3
2029	141.3	141.3
2030	43.8	43.8
2031	47.0	47.0
2032	51.2	51.2
2033	57.0	57.0
2034	15.8	15.8
2036	4.0	4.0
2038	4.0	4.0
	645.4	645.4

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

The remaining £355.0m (2022: £355.0m) of index-linked swaps do not have any such break dates and expire in 2023, 2035 and 2039 (2022: 2023, 2035 and 2039).

Interest rate swaps

As at 31 March 2023, the Group held interest rate swaps with a notional principal of £680.4m (2022: £680.4m), which offset the floating SONIA/LIBOR receive legs on the index-linked swaps. The interest rate on the pay legs of £180.4m notional of these swaps at 31 March 2023 is floating SONIA plus a fixed credit adjustment spread (2022: floating LIBOR). The remaining £500.0m notional have a floating pay leg interest rate of SONIA. The maturity dates of these swaps range between November 2023 (£84.5m due to be repaid within one year as per note 12) and March 2030 (2022: between November 2023 and March 2030).

15. Capital commitments

Group	31 March 2023 £m	31 March 2022 £m
Tangible fixed assets	21.3	16.3
Intangible fixed assets	4.9	1.4
Capital purchases contracted for but not provided for	26.2	17.7

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

Company

The Company had no capital commitments at 31 March 2023 or at 31 March 2022.

Notes to the consolidated financial statements (continued)

16. Leasing commitments

At 31 March 2023 and 31 March 2022 commitments in respect of total future minimum lease payments under non-cancellable operating leases were as follows:

Group	31 March 2023 £m	31 March 2022 £m
Land and buildings		
Within one year	-	0.1
Between two and five years	0.1	0.1
After five years	0.1	0.1
	0.2	0.3

Company

The Company had no operating lease commitments at 31 March 2023 or at 31 March 2022.

17. Provisions for liabilities

Group		31 March 2023 £m	31 March 2022 £m	31 March 2022 £m
	Note		(as restated)	(as reported)
Insurance provision	(a)	7.2	9.8	7.7
Environmental and holder demolition provision	(b)	15.7	24.9	16.4
Wayleaves provision	(c)	7.1	6.1	6.9
Deferred tax	(d)	376.0	335.6	337.7
Other provisions	(e)	20.2	22.2	22.2
		426.2	398.6	390.9

Company

The Company had no provisions at 31 March 2023 or at 31 March 2022.

Long-term provisions (insurance, environmental & holder demolition and wayleaves) have been discounted using the long term gilts rate of 3.8% (2022: restated to 1.82% from 5.7%). In prior years, the Group discounted these long-term provisions using the weighted average cost of capital based on the equity and debt leverage of the Group adjusted for industry risk rates. In light of the cashflow always having been risk adjusted, in FY23, the Group changed the rate used to discount its provisions to a long-term risk free rate, using the long term gilts rate as a proxy. This change was also applied to the comparatives for the year ended 31 March 2022 as well as the retained earnings brought forward from 2021. This gave rise to a reduced financing charge for the year ended 31 March 2022 of £4.1m (£342.8m from £346.9m) with a corresponding tax charge of £0.5m (£59.6m charge increase from £59.1m), and reduced retained earnings brought forward of £12.1m (as disclosed per the Statement of Changes in Equity on page 42).

The provisions in prior years were also retrospectively re-stated to the revised discounted cashflows, which gave rise to the reduction of operating costs by £1.0m in the year ended 31 March 2022 and £2.3m in the year ended 31 March 2021 due to the release of these provisions. This, combined with the change to the discount rate for the year end 31 March 2022, giving rise to a combined increase of £9.8m across the comparative provisions (a) to (c), as detailed in the tables below, and a corresponding deferred tax credit of £2.1m (see note 6).

An increase of 1% in the discount rate would result in a decrease of insurance provisions of approximately £0.6m (2022: £0.6m). A 10% increase in cash outflows would result in an increased insurance provision of £0.7m (2022: £0.6m). An increase of 1% in the discount rate would result in a decrease of environmental provisions of approximately £1.8m (2022: £3.5m). A 10% increase in cash outflows would result in an increased environmental provision of £1.5m (2022: £2.2m). An increase of 1% in the discount rate would result in a decrease of the wayleaves provisions of approximately £0.4m (2022: £0.4m). A 10% increase in cash outflows would result in an increased wayleaves provision of £0.7m (2022: £0.6m).

Notes to the consolidated financial statements (continued)

17. Provisions for liabilities (continued)

(a) Insurance provision Group

	Note	31 March 2023 £m	31 March 2022 £m (as restated)	31 March 2022 £m (as reported)
At 1 April		9.8	7.5	5.0
Unwinding of discount	5 (b)	0.4	0.2	0.2
Change in discount rate	5 (b)	(1.3)	(0.6)	-
Utilised in the year		(0.3)	1.4	1.4
(Released) / Charged in the year	3 (b)	(1.4)	1.3	1.1
At 31 March		7.2	9.8	7.7

The insurance provision is the estimate of liabilities in respect of past events incurred by the business. In accordance with insurance industry practice, these estimates were based on experience from previous years and there is, therefore, no identifiable payment date. The provision has been discounted to its estimated net present value using a nominal long-term risk free rate of 3.8% (2022 restated: 1.82%). The anticipated timing of the cash flows for insurance claims is expected to be incurred over the period until 2050.

(b) Environmental and holder demolition provision Group

	Note	31 March 2023 £m	31 March 2022 £m (as restated)	31 March 2022 £m (as reported)
At 1 April		24.9	28.3	15.9
Unwinding of discount	5 (b)	0.9	0.9	0.9
Change in discount rate	5 (b)	(7.0)	(3.0)	-
Utilised in the year		(2.3)	(0.1)	(0.1)
Released in the year	3 (b)	(0.8)	(1.2)	(0.3)
At 31 March		15.7	24.9	16.4

The environmental and holder demolition provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. During 2023 the remaining three gas holders started to be dismantled and the sites remediated, at a cost of £1.5m. The provision has been discounted to its estimated net present value using a nominal long-term risk free rate of 3.8% (2022 restated: 1.82%). The anticipated timing of the cash flows for statutory decontamination is expected to be incurred over the period until 2050.

(c) Wayleaves provision Group

	Note	31 March 2023 £m	31 March 2022 £m (as restated)	31 March 2022 £m (as reported)
At 1 April		6.1	6.6	6.7
Unwinding of discount	5 (b)	0.4	0.3	0.3
Change in discount rate	5 (b)	(0.8)	(0.5)	-
Utilised in the year		(0.1)	(0.1)	(0.1)
Charged / (Released) in the year	3 (b)	1.5	(0.2)	-
At 31 March		7.1	6.1	6.9

Notes to the consolidated financial statements (continued)

17. Provisions for liabilities (continued)

The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves. The provision has been discounted to its estimated net present value using a nominal long-term risk free rate of 3.8% (2022 restated: 1.82%). The provision is expected to be utilised over the period until 2037. From time to time, there may be a requirement for additional rectification due to the identification of further ineffective easements or wayleaves. None of these have historically been individually significant and it is not possible to determine the value of such future rectification until the individual circumstances of each rectification arise.

(d) Deferred tax Group

	Note	31 March 2023 £m	31 March 2022 £m (as restated)
At 1 April (as restated)		335.6	257.5
Charged to profit and loss account	6(a)	63.7	59.8
(Credited) / charged to comprehensive income	25	(23.3)	18.3
Total net deferred tax liability at 31 March		376.0	335.6

Deferred tax liability analysed as follows:

Accelerated capital allowances	430.1	454.2
Timing difference in respect of intangibles	34.3	36.3
Tax losses carried forward	(26.6)	(58.3)
Future tax relief on swap liabilities	(55.9)	(76.0)
Short-term timing differences on general provisions	(4.9)	(6.1)
Pension asset/(liability)	(1.2)	18.5
Research and Development Expenditure Credit	-	(0.1)
Future tax relief in respect of corporate interest restriction	0.2	(32.9)
Total net deferred tax liability at 31 March	376.0	335.6

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

(e) Other provisions

	31 March 2023 £m	31 March 2022 £m
At 1 April	22.2	17.9
Charged in the year	0.0	16.0
Utilised / Released in the year	(2.0)	(11.7)
At 31 March	20.2	22.2

Other provisions relate to development claims, regulatory matters. Development claims relate to potential claims from third parties and suppliers where there is uncertainty in terms of timing and value of their ultimate settlement.

Notes to the consolidated financial statements (continued)

17. Provisions for liabilities (continued)

Other regulatory matters relate to potential non-adherence to obligations as at 31 March 2023. Discussions with this counterparty are on-going and a material provision has been provided in these accounts.

The Group has adopted the exemption available in paragraph 21.17 of FRS102 not to disclose all of the information required by paragraph 21.14 in respect of other provisions, because not to do so is considered by the business as seriously prejudicial to the outcome of the regulatory matters outlined above.

18. Called up share capital

	31 March 2023 £m	31 March 2022 £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 £0.01p each	-	-

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

The interests of the shareholders in the shares and loan notes of the company as at 31 March 2023 and at 31 March 2022 were:

	Shareholding %	Share Capital £
West Gas Networks Limited	50%	14,513
Western Gas Networks Limited	50%	14,513
	100%	29,027

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 CK Asset Holdings Limited (10%).

Notes to the consolidated financial statements (continued)

19. Net cash inflow from operating activities

Group	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m (as restated)
<u>Continuing operations:</u>		
Operating profit	227.9	165.9
Depreciation of tangible fixed assets	75.6	74.1
Amortisation of intangible fixed assets	8.1	10.0
Profit on disposal of fixed assets	(1.9)	(0.4)
Intangible asset write-down	3.7	-
One off items – restructuring / curtailment gain	-	(9.4)
One off items – provisions release	(3.2)	(1.0)
Net increase in stocks	(0.1)	(0.3)
Net (increase)/decrease in debtors	(8.7)	3.8
Net increase in creditors	9.4	7.9
Difference between pension charge and cash contributions	-	(0.2)
Movements in provisions for liabilities	(5.4)	10.7
Net cash inflow from operating activities	<u>308.7</u>	<u>261.1</u>

Due to the restatement discussed in notes 6 and 17, as well as commentary in the strategic report on page 12, the operating profit for the year ended 31 March 2022 increased by £1.0m from £164.9m to £165.9m. There was no impact on the cash inflow from operating activities as this was offset by the £1.0m corresponding one-off items - provision release. There was no cashflow impact due to the change in the discount rate methodology.

20. Net debt reconciliation

	At 1 April 2022 £m	Cash flows £m	Finance leases £m	Other non- cash £m	At 31 March 2023 £m
Cash at bank and in hand	134.8	(70.4)	-	-	64.4
Cash on deposit	148.0	(13.0)	-	-	135.0
Senior secured bonds	(1,365.9)	-	-	(20.8)	(1,386.7)
Less: accrual for index-linked bond accretion	46.5	-	-	19.9	66.4
Subordinated loans from affiliates	(677.3)	-	-	(20.5)	(697.8)
Senior secured Bank loans	(359.9)	50.0	-	-	(309.9)
Senior secured private placement notes	(99.8)	-	-	0.3	(99.5)
Obligations under finance leases	(1.6)	-	(1.3)	-	(2.9)
	<u>(2,175.2)</u>	<u>(33.4)</u>	<u>(1.3)</u>	<u>(21.1)</u>	<u>(2,231.0)</u>

The increase to net debt during the year ended 31 March 2023 is largely due to the reduction in cash used to pay £78.5m of index linked swaps. The other significant utilisation of cash was for the early repayment of £50m of bank debt, but this did not materially change net debt.

21. Analysis of changes in cash in the year

Group	Note	31 March 2023 £m	31 March 2022 £m
At 1 April	22	134.8	258.6
Net cash (outflow) / inflow	22	<u>(70.4)</u>	<u>(123.8)</u>
At 31 March	22	<u>64.4</u>	<u>134.8</u>

Notes to the consolidated financial statements (continued)

22. Analysis of cash and cash deposits

Group		31 March 2023 £m	31 March 2022 £m	Change in year 31 March 2023 £m	Change in year 31 March 2022 £m
	Note				
Cash at bank	21	64.4	134.8	(70.4)	(123.8)
Cash on deposit		135.0	148.0	(13.0)	(27.0)

Company

The Company held no cash at 31 March 2023 or at 31 March 2022. Any cash deposit with an initial term greater than 3 months is classified as 'cash on deposit'. Current initial deposit terms range from 182 to 365 days.

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Decrease in cash as per cash flow statement	(70.4)	(123.8)
Net transfers from deposit accounts	(13.0)	(27.0)
Obligations held under finance lease	(1.3)	(0.4)
Amortisation of debt issue costs and discount	(0.8)	(1.2)
Amortised cost of bonds - interest	0.2	0.2
Net bank / bond debt repaid	50.0	100.0
Loans with affiliates	(20.5)	(16.7)
Increase in net debt	(55.8)	(68.9)
At 1 April	(2,175.2)	(2,106.3)
At 31 March	(2,231.0)	(2,175.2)

The increase in net debt of £55.8m in the year ended 31 March 2023 is largely due to the £78.5m payment of index linked swaps.

	Note	31 March 2023 £m	31 March 2022 £m
Borrowings	13	(2,496.8)	(2,504.5)
Less: accrual for inflation on index-linked bond	14(e)	66.4	46.5
Debt	20	(2,430.4)	(2,458.0)
Cash at bank and on deposit	21, 22	199.4	282.8
Net debt		(2,231.0)	(2,175.2)

24. Directors' and officers' loans and transactions

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

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

Notes to the consolidated financial statements (continued)

25. 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 2022 was completed by Lane Clark & Peacock and showed a deficit on the technical provisions basis of £49.4m. The calculations carried out to produce the results of that valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities were measured using the projected unit method.

The next triennial valuation of the Scheme is due as at 31 March 2025.

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 2023	31 March 2022
Inflation assumption	3.30% pa	3.65% pa
Discount rate	4.70% pa	2.65% pa
Rate of increase in pensions in payment	3.30% pa	3.65% pa
Rate of increase in salaries	n/a	n/a
Mortality assumptions		
Life expectancy of a male aged 60	26.2	26.2
Life expectancy of a male currently age 40 from age 60	28.1	28.0

The assets in the Scheme (excluding the defined contribution section of the Scheme and the members' Additional Voluntary Contribution Funds (AVCs) have been re-analysed to better reflect the split of the investments.

The assets at 31 March 2023 and the re-analysed assets at 31 March 2022 were:

Asset distribution		31 March 2023		31 March 2022
	% of Total	Fair value £m	% of Total	Fair value £m
Equities	-	-	4.4	24.5
Bonds	2.5	8.5	34.8	193.9
Direct Lending	25.2	85.3	13.6	75.6
Property	5.5	18.7	11.6	64.4
Liability Driven Investment funds	49.1	166.1	30.3	169.0
Absolute Return Fund	8.1	27.2	-	-
Illiquid Multi Strategies	-	-	1.0	5.7
Protection Strategies International	-	-	0.5	3.0
Others	-	-	0.4	2.0
Cash and net current assets	9.6	32.5	3.4	19.2
Total market value of assets	100.0	338.3	100.0	557.3

Notes to the consolidated financial statements (continued)

25. Pension Scheme (continued)

The following amounts at 31 March 2023 and 31 March 2022 were measured in accordance with the requirements of FRS 102:

Balance sheet	31 March 2023 £m	31 March 2022 £m
Total market value of assets	338.3	557.3
Present value of Scheme liabilities	(343.0)	(480.9)
Net (deficit)/surplus in the Scheme	(4.7)	76.4

The Scheme is represented on the balance sheet at 31 March 2023 as a net deficit under FRS 102 of £4.7m (2022: £76.4m net surplus).

By reference to the Scheme Trust Deed and Rules, a surplus in the defined benefit section of the Scheme is considered recoverable by the Group. Accordingly, the Group therefore considers it appropriate to recognise an asset in respect of the Scheme where one arises. There was a net deficit of £4.7m as at 31 March 2023 so no surplus was recognised (2022: £76.4m surplus).

During the year ended 31 March 2023, the Group paid to the Scheme £9.0m in respect of deficit reduction contributions and £0.9m in respect of the voluntary redundancy exercise that took place in March 2021. The corresponding increase in liability arising due to the redundancy exercise was recognised in prior year accounts.

Scheme expenses are met by the Group. The Group has set aside £0.6m outside of the Scheme for the year ended 31 March 2023 in order to meet the Scheme's administration expenses (2022: £0.6m). At 31 March 2023 there were no contributions due to the defined benefit section of the Scheme (2022: £nil).

The Group agreed a revised 9 year deficit recovery plan following the 31 March 2022 actuarial valuation with contributions of £9.0m due for the year ended 31 March 2023, £7.5m for the year ended 31 March 2024, £6.5m per annum until 31 March 2028 and £6.0m per annum until 31 March 2031.

The following amounts have been recognised in the consolidated financial statements for the year ended 31 March 2023 and the year ended 31 March 2022 under the requirements of FRS 102:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit and loss account		
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	-	(2.0)
Pension curtailment gain (material item)	-	9.4
Past service cost *	-	-
Total operating charge	-	7.4
Analysis of amounts charged to other finance costs:		
Net interest credit/(charge) on the net defined liability (note 5(b))	2.2	(0.1)
Total pension credit / (expense)	2.2	7.3

Notes to the consolidated financial statements (continued)

25. Pension Scheme (continued)

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Remeasurements recognised in comprehensive income/(expense)		
Return on Scheme's assets excluding interest income	(203.1)	27.1
Experience gain on obligation	(41.9)	8.0
Changes in demographic assumptions underlying the present value of the obligation	-	7.2
Changes in financial assumptions underlying the present value of the obligation	151.8	30.9
Actuarial (loss)/gain recognised in the statement of comprehensive income/(expense) – pre tax	(93.2)	73.2
Deferred tax credit/(charge) on actuarial loss/gain (note 17(d))	23.3	(18.3)
Actuarial (loss)/gain recognised in the statement of comprehensive income/(expense) – net	(69.9)	54.9

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

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

	31 March 2023 £m	31 March 2022 £m
Opening defined benefit obligations	480.9	577.4
Past service credit – curtailment gain	-	(9.4)
Current service cost	-	2.0
Interest cost	12.1	10.5
Employee contributions	-	-
Benefits paid	(40.1)	(53.5)
Actuarial gain from change in demographic assumptions	-	(7.2)
Actuarial gain from change in financial assumptions	(151.8)	(30.9)
Actuarial loss/(gain) from experience on scheme liabilities	41.9	(8.0)
Closing defined benefit obligations	343.0	480.9

At 31 March 2023, the weighted average duration of the defined benefit obligations was around 16 years (2022: 19 years).

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

Impact on the defined benefit obligation	31 March 2023	31 March 2022
Reducing the discount rate by 0.5%	+ £27.0m	+ £51.0m
Increasing the assumption for RPI inflation by 1.0%	+ £50.0m	+ £79.0m
Increasing the assumption for life expectancy by 1 year	+ £10.0m	+ £18.0m

Notes to the consolidated financial statements (continued)

25. Pension Scheme (continued)

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

	31 March 2023 £m	31 March 2022 £m
Opening fair value of Scheme assets	557.3	560.4
Expected return on assets	14.3	10.4
Employer contributions	9.9	12.9
Employee contributions	-	-
Benefits paid	(40.1)	(53.5)
Actual less expected return on assets	(203.1)	27.1
Closing fair value of Scheme assets	338.3	557.3

With effect from 31 July 2021, the Company agreed with affected members the closure of the defined benefit section of the Scheme to future accrual. This closure resulted in a one off curtailment gain of £9.4m. Such a gain has been included in the comparative results to 31 March 2022.

Defined contribution scheme

The Group also operates a defined contribution section of the Scheme for staff. The employer paid £9.6m during the year ended 31 March 2023 (2022: £6.9m) in respect of defined contribution members.

26. Immediate and ultimate parent companies

Wales & West Gas Networks (Holdings) Limited (UK), Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ is WWU's ultimate parent Company. Wales & West Gas Networks (Holdings) Limited, the "Group", has no controlling party as it is immediately owned by consortium members – See note 18 for details of the ownership of the "Group".

The shares in Wales & West Gas Networks (Holdings) Limited, 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 ("CKH") (30%), CK Infrastructure Holdings Limited ("CKIH") (30%), Power Assets Holdings Limited (30%) and CK Asset Holdings Limited (10%). The 10% shareholding previously held by the Li Ka Shing Foundation was transferred to CK Asset Holdings Limited on 21 May 2021.

27. Related party transactions

a) Xoserve Limited

The Group owns 10% (2022: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid Group as owner of the gas transmission business in the UK. From 1 April 2017 the governance and control of Xoserve is reflective of the principles set out in Ofgem's Funding Governance and Ownership review. Whilst the Company will continue to own its 10% stake in Xoserve, its control of Xoserve will be diminished under this new arrangement.

Xoserve provides gas throughput (meter reading) and billing information to the Company which is used by the Company in setting its regulated gas distribution charges to gas transporters. The net cost to the Company of Xoserve providing these services was £2.2m in respect of the year ended 31 March 2023 (2022: £3.7m), of which £nil was charged to capital (2022: £nil).

b) Seabank Power Limited

The Group provides Seabank Power Limited group ("Seabank Power") with an emergency callout, pipeline inspection and maintenance service. Seabank Power is 25% owned by Cheung Kong Infrastructure Holdings Limited (Hong Kong) and 25% owned by Power Assets Holdings Limited (Hong Kong). Both of these companies hold a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited. These services are provided on normal commercial terms. The income to the Group in respect of services to Seabank Power was £0.1m for the year ended 31 March 2023 (2022: £0.1m).

Notes to the consolidated financial statements (continued)

27. Related party transactions (continued)

c) CK Hutchison Holdings Limited

CK Hutchison Holdings Limited is a company which holds a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited (UK). CK Hutchison Holdings Limited owns 75.67% of CK Infrastructure Holdings Limited, a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 March 2023 the Group was invoiced by Hutchison International Limited for the following services negotiated by CK Hutchison Holdings Limited.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.2m for the year ended 31 March 2023 (2022: £0.2m).

d) Loans from affiliated companies

On 27 March 2018, WWU issued £645.0m, net of fees of £0.2m, of loans to affiliates with a 20 year term expiring on 26 March 2038 to companies associated with the consortium which own the shares of West Gas Networks Limited and Western Gas Networks Limited (See note 26). The loan notes attract interest at SONIA + 0.2766% + 6.5% (2022: LIBOR + 6.5%). At 31 March 2023 the book value of these loans was £697.8m (2022: £677.3m).

During the year ended 31 March 2023, interest of £65.1m (2022: £50.1m) was charged on these loans. During the year ended 31 March 2023 £10.5m loan interest was paid to affiliates (2022: £60.0m). At 31 March 2023 £67.6m of interest is accrued and is included in accruals (2022: £33.5m included in accruals).

The interests of the affiliates in the loan notes of the Group as at 31 March 2023 and at 31 March 2022 were:

Loan note holders	% share	Nominal value £m	31 March 2023 £m	31 March 2022 £m
Affiliated entity	30%	193.5	209.3	203.2
Affiliated entity	30%	193.5	209.3	203.2
Affiliated entity	30%	193.5	209.3	203.2
Affiliated entity	10%	64.5	69.9	67.7
	100%	645.0	697.8	677.3

28. Post Balance Sheet Events

On 22 May 2023 the £125m bank revolver facility was extended by one year to 2026, and on 1 June 2023, the £50m revolver with NatWest was replaced with a new £50m 3 year facility to 2026.

On 25 July 2023, the Group priced £75m of 20 year private placement Notes with New York Life Insurance Company and Associates. Funding is deferred for 3 months to 26 October 2023 with a maturity date of 26 October 2043. The notes carry a fixed coupon rate of 5.98% with interest paid semi-annually. The notes will be treated as Class A debt, which is currently rated A- by Fitch and Standard and Poors.