

Registered No. 06766848

Wales & West Utilities Finance plc

Annual report and 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)
Grant Hawkins***	(A, R, H, T, E)
Neil Henson*	
Hing Lam Kam**	(R)
Duncan Macrae**	(A, R, H, T, E)
Charles Tsai**	(A, H, E)
Michael Pavia***	deceased 5 December 2022
Mike Davis***	appointed 1 April 2023 (A, R, H, T, E)

Neil McGee**	(T, Alternate Director to Dominic Chan)
Wendy Tong-Barnes**	(Alternate Director to Hing Lam Kam)

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

* *Executive director*

** *Non-executive director*

*** *Independent non-executive director*

Company secretary and registered office

Paul Millar

Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ

Auditor

Deloitte LLP

Abbots House, Abbey Street, Reading, RG1 3BD

Strategic report

The business model

Business environment

Wales & West Utilities Finance plc ("The Company" or "WWUF") is a special purpose vehicle providing long term funding for the activities of its immediate parent company, Wales & West Utilities Limited ("WWU"). WWU operates 1 of the 8 independently owned regional Gas Distribution and Transmission Networks (GDN's) comprising the Wales and South West of England local distribution zones. The gas distribution business comprises the development, administration, maintenance and operation of the Company's GDN and the supply of gas transportation services. WWUF is considered to be one reportable segment.

Results and operating performance

The profit for the year ended 31 March 2023 before taxation amounted to £1,000 (2022: £1,000). The retained profit for the year ended 31 March 2023 amounted to £810 (2022: £810).

The results of the Company for the year ended 31 March 2023 are set out in the profit and loss account on page 18.

Business review

The Company's operating performance over the year has been satisfactory.

Financial review

Basis of accounting

The Company's financial statements present the Company'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 22 and 23, in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom.

Principal risks and uncertainties

The principal risk to the Company is the recovery of funds lent to WWU and the repayment of the bonds issued by the Company as they fall due. This risk remains unchanged, and the Directors are satisfied that WWU and the Company have adequate resources to continue in operational existence for the foreseeable future.

From the perspective of the Company, additional principal risks and uncertainties are integrated with the principal risks of the Wales & West Utilities Holdings Limited group and are not managed separately. Accordingly, the principal risks and uncertainties of the Wales & West Utilities Holdings Limited group, which include those of the Company, are disclosed within the Wales & West Utilities Holdings Limited group consolidated annual report and financial statements for the year ended 31 March 2023. Wales & West Gas Networks (Holdings) Limited is the ultimate parent company of the group which consolidates 100% of the results of the Company. The Directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Wales & West Utilities Holdings Limited Board, the Treasury Committee. The key financial risks disclosed within the Wales & West Utilities Holdings Limited group consolidated annual report and financial statements for the year ended 31 March 2023 include liquidity risk, leverage risk, interest rate risk, inflation risk and credit risk.

The Wales & West Utilities Holdings Limited group, of which the Company is a member, maintains a risk register and this is reviewed and updated regularly. Risks are reviewed by the Board and senior management and appropriate processes put in place to monitor and mitigate them. If more than one adverse event occurs, it is possible that the overall effects of such events would compound the total adverse effects of the Wales & West Utilities Holdings Limited group.

The bonds issued by the Company are guaranteed by WWU and Wales & West Utilities Holdings Limited ("the Group") (WWU's immediate parent company). The associated risk to the Company is that the guarantors will be unable to fulfil their obligations in respect of the issued bonds.

Key performance indicators ("KPIs")

The Directors of the Group manage the Group's operations on a combined basis. For this reason, the Company's Directors believe that analysis using KPIs is neither necessary nor appropriate for an understanding of the development, performance and position of the business of the Company. The development, performance and position of the Group, which includes the Company, are discussed within the Group's consolidated annual report and financial statements and within the consolidated annual report and financial statements of WWU, as its immediate parent company.

Strategic report (continued)

Financing

As at 31 March 2023, the Company had in issue a series of guaranteed bonds, the majority of which are listed on the London Stock Exchange with the exception of the £375.0m Guaranteed bond maturing in August 2038 and the £250.0m Guaranteed bond maturing in May 2041 which are listed on the Luxembourg Stock Exchange. Details of these bonds are set out below:

Nominal value £m	Coupon %	Class	Issue date	Redemption date
300	5.75%	A	31 March 2010	29 March 2030
100	2.496% Index-linked	A	31 March 2010	22 August 2035
150	4.625%	A	4 November 2011	13 December 2023
150	5.00%	A	4 November 2011	7 March 2028
375	3.00%	A	3 August 2018	3 August 2038
250	1.875%	A	28 February 2020	28 May 2041

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

The cumulative net proceeds of the guaranteed bond issues at 31 March 2023 of £1,320.3m (2022: £1,319.4m) that have been advanced to WWU, the immediate parent company are detailed below and in note 4 – Fixed Assets:

Nominal value £m	Date of loan	Redemption Date	Original Loan amount £m	Loan repaid £m	Amortised cost, fees and discount £m	
400.0	10 July 2009*	On demand	952.4	(565.0)	9.3	396.7
300.0	4 November 2011	On demand	395.1	(100.0)	4.0	299.1
300.0	3 August 2018	3 August 2038	296.8	-	0.6	297.4
75.0	3 September 2019	3 August 2038	85.4	-	(1.8)	83.6
250.0	28 February 2020	28 May 2041	242.5	-	1.0	243.5
<u>1,325.0</u>			<u>1,972.2</u>	<u>(665.0)</u>	<u>13.1</u>	<u>1,320.3</u>

*The loan agreement dated 10 July 2009 was subsequently revised on 31 March 2010

The cumulative redemption proceeds received from WWU, the immediate parent company to settle the guaranteed bonds to date amount to £665.0m as detailed below:

Nominal value £m	Bond repayment date	Redemption date	Amount repaid £m	Note
200	2 December 2016	2 December 2016	200.0	
115	27 March 2018	17 December 2018/2036	115.0	
250	23 March 2020	30 November 2021	250.0	
100	6 April 2021	13 December 2023	100.0	(i)
<u>665</u>			<u>665.0</u>	

Strategic report (continued)

- (i) On 30 March 2021, WWU 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, the Company acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, the Company extinguished an equivalent amount of debt owed by WWU to it.

The ratings of the Company's guaranteed bonds are unchanged for the years ended 31 March 2023 and 31 March 2022, as summarised in the following table:

At 31 March 2023			At 31 March 2022		
Bond Class	Standard & Poor's	Fitch	Bond Class	Standard & Poor's	Fitch
A	A-	A-	A	A-	A-

Future developments

The Company has considered the continued impact of Covid -19, climate change and the future role of the gas distribution network and does not anticipate any material adverse impact on its principal activities.

The Company is a special purpose vehicle providing long term funding for the activities of WWU. The Directors do not envisage any material changes in the activity of the Company for the foreseeable future. Other than those matters referred to above, there were no significant developments within the Company that occurred during the financial period under review.

The Company expects to continue as a special purpose vehicle providing long term funding and aims to maintain this position into the future.

Employees

The Company has no direct employees and therefore has not included a Statement on Employee Engagement. Employees of WWU, the immediate parent Company, undertake work on behalf of WWU and are remunerated through WWU.

Strategic report (continued)

The Board and its Corporate Governance Framework

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 Company 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 Company and the Group are appropriately informed by s172 factors. These factors and the Corporate Governance Framework of the Group are disclosed in more detail in the accounts of the immediate parent company Wales & West Utilities Limited (see note12).

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 Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

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 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, webcasts and the Annual General Meeting. Discussions with shareholders cover a wide range of topics including financial performance, strategy, outlook, governance and ethical practices.

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.

Fair, balanced and understandable

The Directors consider the financial statements, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have carefully considered the events and trends during the year ended 31 March 2023 and the way in which these matters have been presented in the financial statements.

This strategic report 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 their annual report to the shareholder of Wales & West Utilities Finance plc ("the Company"), together with the audited financial statements for the year ended 31 March 2023 as presented on pages 18 to 30.

Principal activities

The Company is a public company limited by shares and is a 100% subsidiary of Wales & West Utilities Limited ("WWU"). Details of the immediate and ultimate parent companies are set out in note 12 to the financial statements.

The Company is a special purpose vehicle providing long term funding for the activities of its immediate parent company, WWU. The Company has one operating segment, and the chief operating decision maker is the Board of Directors as supported by the Treasury Committee.

WWU is a regulated gas transportation business and operates under a Gas Transporters' Licence granted by the Gas and Electricity Markets Authority and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns.

The Gas Transporters' Licence under which WWU operates contains special "ring-fence conditions" around the assets and business of WWU, which includes the shares in the Company. These include requirements on WWU:

- to only carry out certain activities;
- to ensure that it has sufficient management and financial resources to carry out its business;
- to use reasonable endeavours to maintain an investment grade credit rating as the issuer of corporate debt; and
- to deal on an arm's length basis and on normal commercial terms with other companies in the Group and not to give new guarantees for them.

Dividend on ordinary shares

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2023 (2022: £nil).

Directors

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

The change in directors during the year under review, and up to the date of signing the annual report and financial statements, was the death of Mr Michael Pavia on 5 December 2022 and the appointment of Mr Mike Davis on 1 April 2023.

In accordance with the Articles of Association of the Company, three Directors Charles Tsai, Neil McGee and Neil Henson, all of whom have expressed a willingness to continue in office, retire by rotation and will seek re-appointment on the same day. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Company secretary

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

Directors' service contracts and remuneration

No director received any remuneration in respect of their service as a director of the Company during the year or the prior year.

Directors' interests

There were no significant contracts subsisting during or at the end of the year with the Company in which any director is or was materially interested.

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

Contributions for political purposes

During the year ended 31 March 2023, there have been no political donations (2022: £nil).

Report of the Directors (continued)

Directors' liability insurance

Wales & West Utilities Limited, the parent Company has entered into deeds of indemnity for the benefit of each director of the Company in respect of liabilities to which they may become liable in their capacity as a director of the Company 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 year and also at the date of approval of the annual report and financial statements.

Future developments

Details of future developments can be found in the Strategic report on page 5 and form part of this report by cross-reference.

Corporate Governance Statement

The Company has only debt securities listed on the London Stock Exchange and Luxembourg Stock Exchange, as such; the full corporate governance disclosures set out in the UK Corporate Governance Code are not required. The Company has included the following statements in accordance with Disclosure Rules and Transparency Rules.

Internal control over financial reporting

The Board reviews the effectiveness of the Group's system of internal control, including risk management systems and financial and operational controls. These controls are also part of the internal controls of the Company.

In carrying out its review of the effectiveness of the Group's systems of internal control, the Board considered the following key features which operated during the year:

- the internal audit and risk management function conduct various checks on internal financial controls throughout the year;
- the internal financial controls of each business department are reviewed periodically based upon a cyclical, risk based approach pre-determined by the Group's Audit Committee, a committee of the Board. The internal audit and risk management function provides written reports of its findings to the Audit Committee confirming that the internal financial controls have been reviewed and highlighting any departures from the controls system that the Group has determined to be appropriate practice;
- management regularly monitors and considers developments in accounting regulations and best practice in financial reporting and, where appropriate, reflects developments in the annual financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting;
- the financial results of each business department are subject to review by the Group finance function as well as the individual business departments;
- the draft consolidated financial statements of the Group are reviewed by an individual independent from those individuals who were responsible for preparing the financial statements. The financial statements are further reviewed by senior members of management, as well as external auditors; and
- the Audit Committee and the Board review the annual financial statements. The Audit Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the Group's consolidated financial statements.

The Board, through the Audit Committee, confirms that it has reviewed the effectiveness of the Group's system of internal control and risk management which were in place during the financial year ended 31 March 2023, and confirms that these systems have remained in place up to the approval of these financial statements. The Board will continue to take steps to embed internal control and risk management further into the operations of the Group and to deal with any areas which come to the attention of management and the Board.

Report of the Directors (continued)

The Company has taken advantage of exemption DTR 1B.1.3(2) from the requirement of DTR 7.1 to appoint an Audit Committee for the Company as the Audit Committee of the Group covers the activities of the Company.

Going concern

The Company's financial statements have been prepared on the basis that the Company is a going concern. In arriving at their decision to prepare the financial statements on a going concern basis, the Directors have considered the unconditional and irrevocable guarantees by the immediate parent company, Wales & West Utilities Limited, and its immediate parent company, Wales & West Utilities Holdings Limited.

The Directors are cognisant of the following disclosures included in the accounts of Wales & West Utilities Limited: *"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".*

Further information on the Wales & West Utilities Holdings Limited going concern assumption is contained in the Wales & West Utilities Holdings Limited financial statements.

Disclosure of information to auditor

In the case of each of the persons 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 Company'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 Company'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' responsibility statement

The Directors are responsible for preparing the Annual report and the 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 accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of 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 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 members of Wales & West Utilities Finance plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Wales & West Utilities Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its results 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 profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 13.

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).

2. 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 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Wales & West Utilities Finance plc (continued)

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the recoverability of loans issued to the parent undertaking and interest accrued.
Materiality	The materiality that we used in the current year was £4.2m which was determined on the basis of approximately 0.1% of total assets held by the company.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team
Significant changes in our approach	There are no significant changes to our approach in the current year

4. 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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the existing financial position of its parent undertaking, Wales & West Utilities Limited ("WWU") and the financing commitments in the period to September 2024 which covers a period of at least 12 months from the date of signing the financial statements.
- Consideration of the unconditional and irrevocable guarantees by the immediate parent company, WWU, and its immediate parent company, Wales & West Utilities Holdings Limited ("Group") to the company in respect of its debt.
- The evaluation of the financing facilities including their nature, repayment terms, and covenants in respect to the company's obligations.
- The assessment of the company's availability of cash and committed facilities and their utilisation over the going concern period.
- The assessment and the scrutiny of the level of the company's debt which is due to be repaid over the going concern period.
- The evaluation of the reasonableness of the cash flow assumptions used in the company's forecasts.
- The assessment of reasonable potential changes to forecasted cash flows over the going concern period.
- The assessment of the historical accuracy of forecasts prepared by the management against actuals achieved.
- The evaluation of the mathematical and clerical accuracy of the model used by the company to prepare the forecasts.
- The assessment of the appropriateness of the disclosures over going concern included in the company's financial statements.

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 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.

Independent auditor's report to the members of Wales & West Utilities Finance plc (continued)

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Recoverability of loans issued to parent undertaking and interest accrued

Key audit matter description	<p>Loans have been issued to the parent undertaking, WWU and although the loans are repayable on demand they are not expected to be settled within 12 months from the balance sheet date. The carrying value of the loans at the year-end was £1,401.3m (2022: £1,380.4m).</p> <p>There is judgement involved in determining the recoverability of these loans based on the financial position and future prospects of the parent undertaking, WWU. This takes into consideration a range of factors such as the trading performance of the parent undertaking, as well as compliance with covenants, and the availability of funds within the group.</p> <p>Accrued interest is determined using a manual calculation. Given the level of judgement involved in determining recoverability of these loans and manual intervention in calculating accrued interest, we consider that there is a potential area for fraud.</p> <p>Further details are included within the strategic report on pages 2 to 5, the critical accounting estimates and judgements within principal accounting policies and note 4 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We gained an understanding of the group's debt structure and evaluated whether the repayment thereof, together with the cash flow impact for the group, aligns with our expectations.</p> <p>We also obtained an understanding of the relevant controls relating to the company's assessment of the loan recoverability and the related interest.</p> <p>We assessed the group's cash flow forecast and evaluated whether repayment is expected within 12 months of the balance sheet date.</p> <p>We considered the longer-term cash flow generation of the group and assessed whether the group is in compliance with the parent company's borrowing covenants. We have also assessed the group's latest credit ratings on external debt to evaluate any long-term credit risk.</p>

We read relevant board meeting minutes and evaluated whether there are any future commitments that may have an impact on the going concern and cash flow forecast of the parent undertaking.

We recalculated the interest accrued, using market observable data and with reference to the underlying signed loan agreements, and assessed whether the calculations are appropriate.

Key observations	Based on the work performed we concluded that the loan issued to the parent undertaking and interest accrued is appropriately stated.
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6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£4.2m (2022: £3.7m)
Basis for determining materiality	Materiality equates to approximately 0.1% (2022: 0.1%) of total assets. In determining materiality, as the company is part of the Wales & West Utilities Limited group, we also considered that this materiality is appropriate for the Wales & West Utilities Limited consolidated financial statements.
Rationale for the benchmark applied	We considered total assets to be an appropriate benchmark for determining materiality given the nature of the entity as a financing vehicle for the wider group.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2023 audit (2022: 60%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the company's overall control environment; and
- our past experience of the audit, including internal control deficiencies identified.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2m (2022: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report to the member of Wales & West Utilities Finance plc (continued)

7. An overview of the scope of our audit

7.1 Scoping

Wales & West Utilities Finance plc is a special purpose vehicle providing long term funding for the activities of its immediate parent company, Wales & West Utilities Limited.

The scope of our work was to perform a statutory audit, through obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our Consideration of the Control Environment

We obtained an understanding of the relevant controls in relation to the financial reporting process. We have not relied on any of the relevant controls.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. 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 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 company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the member of Wales & West Utilities Finance plc (continued)

10. 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.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- company's own assessment - as part of the wider group when consolidated with its parent, of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, directors, internal audit and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to recoverability of loans issued to parent undertaking and interest accrued. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

Independent auditor's report to the member of Wales & West Utilities Finance plc (continued)

11. Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, tax legislation and pension legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified recoverability of loans issued to parent undertaking and interest accrued as a key audit matter related to the potential risk of fraud. The key audit matters

section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

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

Independent auditor's report to the member of Wales & West Utilities Finance plc (continued)

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.2. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the board of directors on 22 October 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 11 years, covering the years ending 31 December 2012 to 31 March 2022. The year ended 31 March 2023 will be our final year as auditor of the company.

14.3. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. 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

Profit and loss account for the year ended 31 March 2023

		Year ended 31 March 2023	Year ended 31 March 2022
	Note	£m	£m
Operating result	1		-
Interest receivable and similar income	2(a)	72.4	62.5
Interest payable and similar expenses	2(b)	(72.4)	(62.5)
Profit before taxation		-	-
Tax on profit	3	-	-
Profit for the financial year		-	-

All operations are continuing.

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

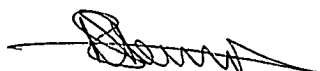
Balance sheet as at 31 March 2023

	Note	31 March 2023 £m	31 March 2022 £m
Fixed assets			
Loans to group undertakings	4	1,401.3	1,380.4
		<u>1,401.3</u>	<u>1,380.4</u>
Current liabilities			
Creditors: amounts falling due within one year	5(a)	(164.4)	(14.4)
Net current liabilities		<u>(164.4)</u>	<u>(14.4)</u>
Total assets less current liabilities		<u>1,236.9</u>	<u>1,366.0</u>
Creditors: amounts falling due after more than one year	5(b)	<u>(1,236.8)</u>	<u>(1,365.9)</u>
Net assets		<u>0.1</u>	<u>0.1</u>
Capital and reserves			
Called up share capital			
Paid share capital	8	-	-
Unpaid share capital	8	0.1	0.1
Profit and loss account		<u>-</u>	<u>-</u>
Total shareholder's funds		<u>0.1</u>	<u>0.1</u>

The financial statements of Wales & West Utilities Finance plc (registered number 06766848) on pages 18 to 30 were approved by the Board of Directors on 24 August 2023 and authorised for issue and were signed on its behalf by:



Graham Edwards
Chief Executive Officer



Neil Henson
Director

Statement of changes in equity for the year ended 31 March 2023

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 31 March 2021	50	34	84
Profit for the financial year	-	1	1
Total comprehensive income	-	1	1
At 31 March 2022	50	35	85
Profit for the financial year	-	1	1
Total comprehensive income	-	1	1
At 31 March 2023	50	36	86

At 31 March 2023, there was no impairment loss recognised in relation to the financial assets of the Company.

Cash flow statement for the year ended 31 March 2023

	Note	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Operating activities			
Net cash flows from operating activities		-	-
Cash flows from investing activities			
Net cash inflow from investing activities		-	-
Cash flows from financing activities			
Interest received		51.6	53.8
Interest paid		(51.6)	(53.8)
Net cash outflow from financing activities		-	-
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-
Net cash inflow		-	-
Analysis of cash and cash equivalents			
Cash at bank		-	-
Total cash and cash equivalents		-	-

Principal accounting policies

The 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 Company accounting policies, which have been consistently applied in both the current year and prior year, is shown below.

Changes in accounting policy

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

General information and basis of accounting

Wales & West Utilities Finance plc (registered number 06766848) 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 6. The Company has one operating segment, and the chief operating decision maker is the Board of Directors as supported by the Treasury Committee.

The financial statements have been prepared under the historical cost convention in accordance with FRS 102 issued by the Financial Reporting Council.

The functional currency of Wales & West Utilities Finance plc is considered to be the pound sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

Wales & West Utilities Finance plc 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 related party transactions with the parent Company.

The consolidated financial statements of WWU, within which this Company is included, can be obtained from the address provided in note 12.

Revenue

Interest income, and other financial instruments, are recognised using the effective interest method.

Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these financial statements, as set out in the Report of the Directors on page 8.

Related party transactions

The Company is a 100% owned subsidiary of WWU and is included in the consolidated financial statements of Wales & West Utilities Holdings Limited. 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 100% owned within the WWUH Group.

Other financial liabilities

Other financial instruments include debt classified as basic under FRS 102 Section 11. Basic 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.

Taxation

Current tax, being UK corporation 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.

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.

Principal accounting policies (continued)

Index-linked debt

Index-linked debt is recorded at the proceeds received, net of direct issue costs. Finance charges, including interest and indexation charges, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. This is in line with FRS 102 Section 11, which allows for profit or loss to reflect only the accrued inflation for the period up to the reporting date (i.e. the effective interest rate is not determined by looking forward to expectations of future inflation).

Financial assets - loans and receivables

Financial assets represent loans to group companies that the Company makes in its capacity as an investment company providing funding for the activities of its immediate parent company, WWU. Financial assets are held at amortised cost.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company'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 and realised amounts may differ from these estimates.

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

Critical judgements in applying the Company's accounting policies

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

Intercompany loan owed by the parent company

Amounts owed by the immediate parent company of £1,401.2m at 31 March 2023 (2022: £1,380.4m) – management considers that although the loan is repayable on demand by the immediate parent company, WWU, and has been classified as a current asset, full settlement of the loan is not expected to be within the next financial year.

Key source of estimation uncertainty

The Directors do not consider there to be any 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.

Notes to the financial statements

1. Operating result

Operating result is stated after charging:

(a) Auditor remuneration

Services provided by the Company auditor

During the year the Company obtained the following services from the Company auditor:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Fees payable to the Company auditor for the audit of the financial statements	9.0	9.0

All auditor's fees were paid by the immediate parent company, Wales & West Utilities Limited, and not recharged.

(b) The Company has no employees, except for the Directors, who received no remuneration in respect of their duties to the Company (2022: none). There were no other key management other than the Directors.

2. Interest

(a) Interest receivable and similar income

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
On loans to immediate parent undertaking	51.6	51.2
Recharge of index-linked bond accretion to immediate parent undertaking	19.9	10.6
Recharge of discount and bond issue costs to immediate parent undertaking	0.9	0.7
	72.4	62.5

(b) Interest payable and similar expenses

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Interest payable on bonds	51.6	51.2
Index-linked bond accretion	19.9	10.6
Amortisation of discount and bond issue costs	0.9	0.7
	72.4	62.5

3. Tax on profit

The standard rate of UK corporation tax applied to reported profit is 19% (2022: 19 %). A current tax charge of £190 arises in the year ended 31 March 2023 on the profit before tax of £1,000 (2022: £190 current tax charge on profit before tax of £1,000). The effective tax rate is therefore equal to the actual tax rate of 19% and there is no deferred tax posted in the year.

The UK Government announced in the 2021 Budget on 3 April that the statutory tax rate will be increased to 25% with effect from 1 April 2023. This change in the corporation tax rate will not materially affect the future tax charge.

Notes to the financial statements (continued)

4. Fixed Assets

	31 March 2023	31 March 2022
	£m	£m
Amounts owed by immediate parent undertaking	1,401.3	1,380.4

- a) £1,401.3m of unsecured loans owed to group companies, including £80.9m of accrued interest (2022: £1,380.4m, including £60.9m of accrued interest) has been classified as fixed assets. Although the loan is repayable on demand it is not expected that the amount will be realised within the next 12 months and as such are held on a continuing basis.
- b) The amounts owed by the immediate parent undertaking WWU represent the cumulative net proceeds of the Guaranteed bond issues at 31 March 2023 of £1,320.3m (2022: £1,319.4m) that have been advanced to the immediate parent company, WWU as detailed below:

Nominal value £m	Date of loan	Redemption Date	Original Loan amount £m	Loan repaid £m	Amortised cost, fees and discount £m	At 31 March 2023 £m	Note
400	10 July 2009*	On demand	952.4	(565.0)	9.3	396.7	(iii)
300	4 November 2011	On demand	395.1	(100.0)	4.0	299.1	(vi)
300	3 August 2018	3 August 2038	296.8	-	0.6	297.4	(i)
75	3 September 2019	3 August 2038	85.4	-	(1.8)	83.6	(i)
250	28 February 2020	28 May 2041	242.5	-	1.0	243.5	(ii)
1,325			1,972.2	(665.0)	13.1	1,320.3	

*The loan agreement dated 10 July 2009 was subsequently revised on 31 March 2010.

- (i) On 3 August 2018, WWUF issued a £300.0m 3% fixed 20 year Class A nominal bond. The net proceeds received of £296.8m are after bond discount on issue of £1.2m and associated fees of £2.0m were advanced to WWU on the same day.

On 3 September 2019, the Company issued a £75.0m tap of the £300.0m 3% fixed 20 year Class A nominal bond. The bond was issued above par and the net proceeds received of £85.4m, after transaction costs and fees of £0.6m, were advanced to WWU on the same day

- (ii) On 28 February 2020, the Company issued a £250.0m 1.875% fixed 21+ year Class A nominal bond. The net proceeds received of £242.5m are after bond discount on issue of £5.7m and associated fees of £1.8m were advanced to WWU on the same day.
- (iii) The cumulative redemption proceeds received from WWU, the immediate parent company to settle the guaranteed bonds to date amount to £665.0m as detailed below:

Nominal value £m	Bond repayment date	Redemption date	Amount repaid £m	Note
200	2 December 2016	2 December 2016	200.0	
115	27 March 2018	17 December 2018/2036	115.0	(iv)
250	23 March 2020	30 November 2021	250.0	(v)
100	6 April 2021	13 December 2023	100.0	(vi)
665			665.0	

- (iv) On 27 March 2018, WWU purchased, through a tender offer, £48.0m nominal value of the 6.75% £115.0m Class B bonds maturing on 17 December 2036. The bonds were purchased at 104.13% of their par value, and included accrued interest of £0.9m. The total consideration paid was £50.9m.

Notes to the financial statements (continued)

4. Fixed Assets (continued)

A charge of £2.0m was made in the consolidated profit and loss account of WWU, representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day, the Company acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, the Company extinguished an equivalent amount of debt owed by WWU to it.

On 17 December 2018, WWU exercised a call option in relation to the remainder of the £67.0m nominal Class B bonds. The bonds were redeemed at a par value of £67.0m. On the same day, the Company acquired the bonds from WWU and immediately cancelled them, as required by the bond trust deed.

In consideration for this cancellation, the Company extinguished an equivalent amount of debt owed by WWU to it.

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

On 23 March 2020, the Company exercised its option to redeem the remaining £125.0m nominal value of the 6.25% Class A bonds maturing on 30 November 2021. The bonds were redeemed at 109.6% of their par value. The total consideration paid was £139.4m, included accrued interest of £2.4m, and a £12.0m charge representing the excess of the consideration paid above the book carrying amount of the bonds; and reflected within the consolidated profit and loss account of WWU.

- (vi) On 30 March 2021, the Company 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.

- c) At 31 March 2023 interest accrued, but unpaid amounted to £80.9m (2022: £60.9m).
- d) £37,498 (2022: £37,498) in respect of unpaid share capital is owed by the immediate parent company.
- e) The Company charges an annual management fee of £1,000 (2022: £1,000) in respect of entering into the Company/ WWU loan agreements; consequently £1,000 has been charged in respect of the year ended 31 March 2023 (2022: £1,000). As at 31 March 2023, management fees accrued, but unpaid amounted to £14,000 (2022: £13,000).

5. Creditors

		31 March 2023 £m	31 March 2022 £m
(a) Amounts falling due within one year:			
Interest payable on bonds		14.5	14.4
Guaranteed bonds	6	149.9	-
		164.4	14.4
(b) Amounts falling due after more than one year:			
Index-linked bond accretion	6	66.4	46.5
Guaranteed bonds	6	1,170.4	1,319.4
		1,236.8	1,365.9

Notes to the financial statements (continued)

6. External borrowings

	31 March 2023 £m	31 March 2022 £m
Guaranteed bonds		
Repayable as follows:		
In less than one year	149.9	-
In more than one year but not more two years	-	149.5
In more than two years but not more than five years	149.2	-
In more than five years	1,087.6	1,216.4
	1,386.7	1,365.9

As at 31 March 2023, the Guaranteed bonds had 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	(i)	166.2	146.2
150	4.625%	A	4 November 2011	13 December 2023		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

- (i) The movement in the £100m nominal index-linked bond represents accrued inflation of £19.8m on the index-linked bond for the period (2022: £10.6m) and £nil (2022: £nil) in respect of amortised discount and bond fees. Included in the book value of the index-linked bond is £66.3m of accrued inflation (2022: £46.5m).

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

7. Financial instruments and risk management

(a) Interest rate profile of borrowings

All of the bonds issued by the Company are denominated in Sterling. The weighted average interest rate at 31 March 2023 and 31 March 2022, together with the weighted average period for which the rate is fixed, was as follows:

	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
Fixed rate bonds	3.89	3.89	10.8	11.8
Index-linked bonds	4.27	3.74	12.4	13.4

The effective interest rates disclosed above are before the effect of the RPI index-linked swaps held by the immediate parent, WWU.

Notes to the financial statements (continued)

7. Financial instruments and risk management (continued)

(b) Borrowing facilities

The Company held no undrawn facilities at 31 March 2023 (2022: £nil).

(c) Risk summary

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets are the loans to the immediate parent, WVU, which have fixed interest rates equal to the coupon payable on the guaranteed bonds plus an annual management fee. The Company therefore has no net exposure to movements in interest rates.

(d) Fair values

The fair value of the bonds is summarised in the following table:

	31 March 2023	
	Book value	Fair value
	£m	£m
Primary financial instruments held or issued		
Bonds (notes 5 and 6)	(1,386.7)	(1,162.5)

The majority of the bonds are listed on the London Stock Exchange with the exception of the £375.0m Guaranteed bond maturing in August 2038 and the £250.0m Guaranteed bond maturing in May 2041 which are listed on the Luxembourg Stock Exchange. The fair value of the bonds has been calculated using the 31 March 2023 (2022: 31 March 2022) quoted prices.

8. Called up share capital

	31 March 2023	31 March 2022
	£	£
Authorised:		
50,000 Ordinary shares of £1 each	50,000	50,000
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	2	2
Allotted, called up and paid as to £0.25p per share:		
49,998 Ordinary shares of £1 each	12,500	12,500
Allotted, called up and unpaid as to £0.75p per share:		
49,998 Ordinary shares of £1 each	37,498	37,498
Total allotted share capital	50,000	50,000

In 2009 the Company issued 50,000 ordinary £1 shares, of which 2 were fully paid and the remaining shares paid to the value of £0.25 each. The unpaid share capital of £37,498 (2020: £37,498) is included within the amount due from parent undertaking (note 4 – Fixed Assets - Amounts owed by immediate parent undertaking).

Notes to the financial statements (continued)

9. Analysis of changes in financing in the year

	Note	Share capital 31 March 2023 £m	Share capital 31 March 2022 £m	Long term loans 31 March 2023 £m	Long term loans 31 March 2022 £m
At 1 April	6,10	0.1	0.1	1,365.9	1454.6
Net proceeds of Guaranteed bonds issued	6,10	-	-	-	-
Guaranteed bonds repaid/retired early	6,10	-	-	-	(100.0)
Increase in index-linked bond accretion	6,10	-	-	19.9	10.6
Amortised cost of bonds – interest	10	-	-	-	-
Amortisation of bond issue discount and fees	6,10	-	-	0.9	0.7
At 31 March		0.1	0.1	1,386.7	1,365.9

10. Reconciliation of net cash flow to increase in gross debt

	Note	31 March 2023 £m	31 March 2022 £m
Guaranteed bonds repaid/retired early	6,9	-	(100.0)
Increase in index-linked bond accretion	6,9	19.9	10.6
Amortised cost of bonds - interest	9	-	-
Amortisation of bond issue discount and fees	6,9	0.9	0.7
Increase in gross debt		20.8	(88.7)
At 1 April	6,9	1,365.9	1,454.6
At 31 March	6,9	1,386.7	1,365.9

	Note	31 March 2023 £m	31 March 2022 £m
Gross debt	5,6,9	1,386.7	1,365.9
Inter-company receivables	4	(1,401.3)	(1,380.4)
Net financial assets		(14.6)	(14.5)

11. Directors' and officers' loans and transactions

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

Notes to the financial statements (continued)

12. Immediate and ultimate parent company

The immediate parent company is WWU, a private company limited by shares and registered in England and Wales with registered number 05046791. The ultimate parent and controlling company is Wales & West Gas Networks (Holdings) Limited (UK). Wales & West Network (Holdings) Limited (UK) is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2023. WWU is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. Copies of the annual consolidated financial statements of Wales & West Gas Network (Holdings) Limited and WWU may be obtained from their registered office, The Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

Wales & West Utilities Finance plc is a wholly owned subsidiary of the ultimate parent company, Wales & West Gas Networks (Holdings) Limited. The shares in the ultimate parent company, 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 based in Hong Kong comprising CK Hutchison Holdings Limited (30%), CK Infrastructure Holdings Limited (30%), Power Asset 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.

13. Related party transactions

All of the bonds are unconditionally and irrevocably guaranteed by the immediate parent company, WWU, and its parent, Wales & West Utilities Holdings Limited, pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of WWU to the extent permitted by the Gas Act and its Gas Transporters' Licence. Wales & West Utilities Finance plc meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in relation to the presentation of related party transactions with and between wholly owned subsidiaries.