BLUE TRANSMISSION

Blue Transmission London Array Limited

Annual Report and Financial Statements for the 17 months to 31 March 2014

Registered in England and Wales Company number 8275752

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Strategic report

For the 17 months ended 31 March 2014

Introduction

This Strategic Report, covering the first period of operations since the inception of the Company, explains the operations of Blue Transmission London Array Limited ("the Company") and the main trends and factors underlying the development and performance of the Company during the 17 months ended 31 March 2014 ("the period"), as well as those matters which are likely to affect its future development and performance

The ultimate parent Company of the Company is Blue Transmission Investments Limited, a Company registered in Jersey

The Company's principal activity is to provide an electricity transmission service to National Grid Electricity Transmission plc ("NGET") - the electricity transmission system operator for Great Britain The Company owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore electricity distribution system owned by National Grid Electricity Transmission plc ("NGET")

Background

The Office of Gas and Electricity Markets ("Ofgem"), in partnership with the Department of Energy and Climate Change ("DECC"), has developed a regulatory regime for electricity transmission networks connecting offshore wind farms to the onshore electricity system A key feature of this regime is that each new tranche of transmission assets required by offshore generators will be owned and operated by offshore transmission owners ("OFTOs") OFTOs are subject to the conditions of a transmission licence The process of awarding a transmission licence is through a round of competitive tenders organised by Ofgem

The Company was incorporated on 31 October 2012 and on 9 September 2013 was awarded an Offshore Electricity Transmission Licence ("the Licence") by The Gas and Electricity Markets Authority ("the Authority") This Licence, amongst other matters, permits and requires the Company to maintain and operate the London Array offshore electricity transmission assets for a period of 20 years from the date of the Licence award On 10 September 2013 the Company commenced trading and the transmission licence came into force, and on 18 September 3013 acquired from a consortium of companies ("the consortium") the offshore electricity transmission system that exports the output of the London Array wind farm to NGET's onshore electricity transmission system, pursuant to an agreement signed with the consortium on 10 September 2013

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Company to be certified as complying with the unbundling requirements of the European Parliament Directive concerning common rules for the internal market in electricity ("the third package") The Company has been issued a certificate pursuant to section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements The Company has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report

The Company's offshore electricity transmission system

The Company transmits the electrical power of the London Array wind farm from the offshore connection point of the Company's electrical assets with the electrical assets owned by the wind farm generator to the onshore connection point of the Company's assets with the electricity distribution system of NGET The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes

The London Array offshore wind farm comprises 175 turbines, with a combined capacity of around 630 megawatts ("MW"), and is located in the outer Thames Estuary around 20kms from the Kent and Essex coasts The power that is generated by the wind farm is transported to shore by the Company and connects into the NGET system at Cleve Hill in Kent

The wind farm turbines are interconnected in "strings" by medium voltage (33kV) submarine cables that act as a power collection and transport system The medium voltage cables are then run to the offshore electricity substations that are owned by the Company At the offshore electricity substations the voltage is "stepped up" to 132kV by electrical transformers and then transported to land by four 54km long high voltage submarine cables buried in the sea floor At landfall the submarine cables are joined to land cables that run for 0 7km to the Company's onshore electricity substation at Cleve Hill At the Cleve Hill substation the power factor of the electricity is corrected using reactive compensation equipment and the transported power is then connected into NGET's electricity distribution system

The Company's long term business objectives

The Company is a special purpose vehicle formed to hold the Licence Its non-financial objectives are, therefore, consistent with the objectives of the Licence The Company will achieve these objectives by ensuring its compliance with the Licence, industry codes and legislation and by operating and maintaining its transmission system in accordance with good industry practice

The Company's financial objective is to provide financial returns to shareholders consistent with, or in excess of, the business plan that supported its tender offer for the London Array offshore transmission system The Company will achieve this objective by

- meeting its revenue targets by operating the transmission system at availability levels equal to, or higher than, the Licence target,
- adopting and maintaining a financing structure that is, as a minimum, as efficient as that contemplated by the business plan,
- controlling costs and seeking efficiency improvements

Future Developments

The Company's sole purpose is to hold and operate its offshore electricity transmission system and comply with the transmission licence which it has been awarded, no changes to this objective are likely in the future

Strategic report continued

For the 17 months ended 31 March 2014

Events after the reporting period

Except as disclosed in Note 19 to the financial statements, there have been no unusual or significant events or developments of a regulatory, technical or economic nature that materially affect either the Company's activities or its financial position between the end of the reporting period and the approval of this report.

The Company's operating model

The Company's operating model is to outsource all operational and maintenance ("O&M") activities but to have an 'in-house' asset management capability O&M activities are outsourced to London Array Ltd, and Frontier Power Limited ("FPL") provides certain management services to the Company through a Management Services Agreement ("MSA") As part of its general asset management responsibilities FPL fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Company meets its Licence obligations and complies with good industry practice The Company mitigates the performance risk of its outsourced service providers through contract

Additional technical, accounting and administration support is provided to the Company by its ultimate parent Company, Blue Transmission Investments Limited ("BTI") acting as a service Company so that certain administrative costs can be shared across a number of companies within the same group During the period ended 31 March 2014 the costs incurred by BTI from the 10 September 2013 have been charged to the Company in such a manner that the Company has paid for a fair and equitable proportion of the costs incurred by BTI Since 10 September 2013 there have been a total of four such operating companies participating in this arrangement

The Company's approach to managing the business

The Company's general approach to the management and operation of its business is based on ensuring that the right balance is achieved between cost, quality, performance, innovation and financial returns so as to optimise the cost of its services to the end consumer In doing so the Company

- has a relentless focus on transmission system availability,
- recognises that the inherently hazardous nature of the Company's assets and operations requires an extraordinary focus on Health Safety and the Environment ("HS&E"),
- has the right people working safely to standards using the right processes, technology and systems,
- has implemented a risk management approach that ensures that risks are assessed, managed and reported appropriately,
- has adopted a governance framework that enforces compliance with law, regulations and licence conditions

Principal regulatory, industry contracts and industry code matters

The Company is subject to a number of regulatory and contractual obligations arising from and including the Licence, the Transmission Owner Construction Agreement ("TOCA") with NGET and the System Operator – Transmission Owner Code ("STC") The Company's operations are also subject to a range of industry-specific legal requirements

Summaries of some of the major features of the Licence, industry contracts and electricity code matters are described as follows

Licence obligations

Under the terms of the Licence the Company is required to carry out its licenced activities and have in place governance arrangements that ensure (amongst other obligations) that the Company does not provide cross-subsidies to, or receive cross-subsidies from any other business of the Licensee or of any affiliate In addition, the Licence places restrictions on the Company's activities and how it conducts its transmission activities In carrying out its transmission activities it must do so in a manner that does not confer upon it an unfair commercial advantage, in particular, in relation to any activity that does not relate to the operation of the offshore transmission business

A failure by the Company to materially comply with the terms of the Licence could ultimately lead to the revocation of the Licence The Directors take very seriously their obligations to comply with the terms of the licence and has processes, procedures and controls in place to ensure compliance

Regulated revenue and incentives

The Licence awarded by the Authority to the Company determines how much the Company may charge for the OFTO services that it provides to NGET in any relevant charging year in accordance with a regulatory formula The charging year is from 1 April to 31 March The Licence also provides the Company with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Company's transmission system in any given calendar year versus the regulatory target The regulatory target availability is 98% of the total megawatt hour capacity of the Company's electricity transmission system (as determined by the Company's System Capability Statement) in any given calendar year, or part thereof

Transmission charges are based on the target transmission system availability of 98%, and increase on 1 April following any given calendar year end by reference to the rate of increase in the UK retail price index ("RPI") in the 12 month period through to the previous September The revenue derived from charges based on this target availability represents the Company's "base revenue" For the avoidance of doubt, the Company's transmission charges are not exposed to commodity risk and are not exposed to any generation risk

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As previously noted, the Licence contains mechanisms to incentivise the Company to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system The Company is incentivised on a monthly basis with higher targets, and higher potential penalties or credits, in the winter months, and lower targets, and lower potential penalties or credits, in the summer months These incentive mechanisms help drive the Company to proactively manage transmission system availability by focusing maintenance activities, which could lower transmission system availability, into those months with the lowest targets and related penalties or credits

If the achieved transmission system availability is different to the target availability then there is a mechanism contained within the Licence that could potentially affect the Company's charges and hence its revenue in future periods The Licence provides for adjustments to "base revenue" where the OFTO's system availability performance is different from the target system availability If transmission system availability in any given year is in excess of the target availability level then credits are "earned" and if availability is less than target then penalties accrue The Company is then permitted or required to change its prices to reflect the credits earned or penalties accrued as necessary The maximum credit which the Company can "earn" and collect in charges in any charging year cannot exceed an amount equivalent to 5% of base revenue for the previous charging year, and the maximum penalty that can be reflected in charges cannot exceed an amount equivalent to 10% of base revenue for the previous charging year

Notional penalties and credits are recorded on a monthly basis during the calendar year If at the end of any calendar year there is a cumulative net credit this net credit is eligible for collection by means of an adjustment to charges during the following charging year

In respect of net penalties which are outstanding at the end of the calendar year then, in principle, the charges in respect of the following financial year are lowered by an amount that would reduce the charges for that financial year by the amount of the net penalty However, the reduction in charges can never exceed an amount equivalent to 10% of the base revenue for the previous charging year To the extent that the cumulative net penalty, if applied to the Company's charges, would result in those charges being reduced by an amount that would exceed 10% of the base revenue for the previous charging year, the excess net penalty is carried forward on a cumulative and notional basis and aggregated with additional credits and penalties arising in subsequent years The maximum period that penalties relating to any given calendar year can be carried forward is five years and thereafter they expire

As a result of the arrangements described above, there are a number of risks that the Company faces that affect the level of transmission system availability and therefore affect potential incentive credits and penalties

The principal risks associated with transmission system availability stem from the following

1) the inherent design of the transmission system e g system redundancy,
2) the management of maintenance activities so that the assets are maintained to good industry practice, thereby avoiding unnecessary equipment failure, and where possible the Company seeks to carry out such maintenance without the need for planned outages whilst having regard to the safe operation of those assets, and
3) the management of planned outages of the transmission system having regard to the activities of other interested parties and to bias such outages towards those periods during the period, with the lowest system availability targets and related penalties or credits

The Company mitigates the risk of system unavailability due to equipment failure through the maintenance regime described above, the holding of strategic spares, and a robust contingency plan to respond to any unplanned system outages

In certain circumstances, and in respect of certain costs, such as non-domestic rates relating to the Company's onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the Company is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required

Transmission system capability (capacity)

As described above, the Company is incentivised to provide the maximum transmission system availability as is possible having regard to the safe running of the system The maximum availability of the system is defined in the Licence and is expressed in megawatt hours ("MWhr")

There is a risk that the assets acquired by the Company on 18 September 2013, do not operate in the manner expected, resulting in unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs The Company has minimised this risk by carrying out appropriate due diligence on the assets prior to their acquisition, which included a consideration of the design of the transmission system and a physical inspection of the assets

The Company has provided 99 97% transmission capacity based on the operational maximum capacity of the system, also known as the Transmission Entry Capacity ("TEC") of 630MW – see "Transmission System Availability" below

The Company manages the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice

Transmission system quality of supply

The STC sets out the minimum technical, design and operational and performance criteria that Offshore Transmission Owners must ensure that their transmission system can satisfy For the Company's transmission system the most significant requirements are in respect of the reactive power capability, voltage control and the quality of the power (as measured by harmonic performance) deliverable at the connection point of the Company's transmission system with NGET's transmission system During the period under review, and up to the date of this Report, the

Company has been fully compliant with the STC requirements in respect of reactive power and voltage control

Key performance indicators ("KPIs")

The Company has identified the following KPIs as being instrumental to the management of the transmission business Such KPIs include financial and non-financial KPIs, the KPIs reported cover the operational period (there are no prior year comparatives against which to report)

	Definition	Objective
Financial KPIs		
Operating profit plus interest income	Profit before costs of financing and taxation £15,819k	To increase+
Cash available for debt service++	Net cash inflows from operating activities plus cash inflows from investing activities++ £17,593k	To increase+
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year (a part period) to 31 December 2013 99 97%	To exceed the Licence target availability 98%
Ensure that the quality of electricity at the export connection point is compliant with SQSS and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion	To be compliant Compliant since 18 September 2013 for voltage control, harmonics and reactive power
HS&E	1) Zero lost time accidents ("LTIs") for employees and contractors, 2) Zero reportable environmental incidents, 3) Compliance with transferred obligations under London Array's Marine Management Organisation ("MMO") Licence	1) Zero LTIs, 2) Zero reportable environmental incidents, 3) Compliance with MMO Licence All of the above objectives have been met

+ After making appropriate adjustments for part years, and where events give rise to unusual patterns of income, expenditure and/or one-off events

++After adjustment for the initial acquisition cost of the OFTO assets

The Company's operational performance

The Company's prime operational objectives are to maximise transmission system availability and to ensure that the quality of electricity at the onshore connection point is compliant with the SQSS and the STC having regard in all respects to the safety of employees, contractors and the general public at large

In support of these objectives the Company has developed a comprehensive asset management policy and framework that is consistent with British Standard Institution PAS 55-1 2008 The policy and framework are derived by applying a risk assessment model that considers the probability, and consequences, of failure to determine overall risk to components within the generic asset classes that comprise the OFTO assets offshore platform, offshore substation; offshore cable, onshore cables and onshore substation

During the period the Company has successfully implemented its asset management policy and framework, and has carried out its asset management activities in accordance with that policy Maintenance activities have been successfully carried out in accordance with the maintenance plan, and the Company has developed its network outage plan and this has been submitted to, and approved by, NGET

Transmission system availability

The performance of the Company's transmission system for the performance year (part period) ended 31 December 2013 was as tabulated below

MW hours	Note	Performance Year ended 31 December 2013[1]
Maximum system availability (capability – MWhrs)	(a)	1,587,600
Actual system availability (MWhrs)		1,587,067
Actual system availability (%)		99 97%
Regulatory target system availability (%)		98%
Availability credits (MWhrs)		
Availability credits at 31 October 2012 and 1 April 2013		-
Net availability credits for the performance year[1]		58,620
Net availability credits at 31 March 2014	(b)	58,620

[1] The performance year was a part period from asset transfer date 18 September 2013 to 31 December 2013

a) The maximum system availability of the Company's transmission system as declared to NGET during the performance period

b) Net availability credits at 31 March 2014 represent "banked" availability credits through to 31 December 2013 Consequently, this excludes any potential credits that have arisen between 1 January 2014 and 31 March 2014 as these potential availability credits are not eligible to be "banked" until 31 December 2014

There have been no unplanned outages during the performance year (part period) of the offshore transmission system

There have been some short duration outages caused by faults and rectification of auxiliary control of some of the Static Var Compensation equipment

Quality of supply

The quality of supply constraints agreed with NGET (See "Transmission system quality of supply above") require the Company to transmit electricity within certain parameters in relation to voltage control, reactive power, and harmonic distortion A failure to meet these quality of supply constraints could result in NGET requiring the Company's transmission system to be disconnected from its electricity distribution system, resulting in loss of transmission availability and reduced incentive credits or performance penalties The Company closely monitors compliance with these quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Company to meet these quality of supply obligations

During the operational period the Company has met its obligations to transmit electricity compliant with these operational obligations The Company has continued to comply with these obligations through to the date of this report

Health, safety, and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety, and the environment Safety is critical both to business performance and to the culture of the Company The operation of the Company's assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled Our objective is to eliminate or minimise those risks to achieve zero injuries or harm, and to safeguard members of the general public

The Board is pleased to report that, during the period under review there were no health or safety incidents that required reporting under applicable legislation and that contractor "lost days" arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 were zero

The Company is committed to reducing the environmental impact of its operations to as low as practically possible The Company will do so by reducing the effect its activities have on the environment by respecting the environmental status and biodiversity of the area where the Company's assets are installed, considering whole life environmental costs and benefits in making business decisions, looking for ways to use resources more efficiently through good design, use of sustainable materials, responsibly refurbishing existing assets, and reducing and recycling waste, and continually improving management systems to prevent pollution and to reduce the risk of environmental incidents

During the period under review, the Company identified that a short section of one of the undersea cables operated by the Company had become exposed as a result of the action of scour and this has been reported to the relevant competent authorities The cause of the scouring is currently under investigation and the Company is working with its technical advisers to develop remediation options, one of the possible options being to "do nothing" With the exception of this one event there were no other environmental incidents or matters required to be reported to any to any relevant competent authority and that the Company has complied with the Marine licence obligations transferred to it when the transmission assets were acquired by the Company

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Stakeholder relationships

The potentially hazardous nature of Company's operations and the environmentally sensitive nature of the locations where its assets are located require the Company to engage and communicate with a wide audience of stakeholders and to establish good relationships with them As well as industry participants and local and national government bodies this audience includes Port Authorities, the emergency services, the maritime community, environmental agencies and organisations, landowners and the general public Accordingly the Company has defined and implemented a stakeholder engagement and communications plan The Directors consider that stakeholder relationships are satisfactory

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company have been discussed and referenced in this Strategic Report alongside a discussion of the operational and financial performance of the Company

Other

All the Directors of the Company are male

The Company's financial performance

The financial performance of the Company for the 17 months ended 31 March 2014, and its financial position as at 31 March 2014, was satisfactory and is summarised below In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k There are no comparatives presented as the Company was incorporated at the start of the reporting period The Company reports its results in accordance with International Financial Reporting Standards ("IFRS"), the currency used in reporting these financial statements is GBP

	£'000
Operating profit	15,741
Other finance income	78
Operating profit plus other finance income	15,819
Finance costs	(14,398)
Profit before taxation	1,421
Taxation	(304)
Profit after taxation	1,117
Net cash inflow from operating activities and investing activities[1]	17,593
Cash inflows to finance acquisition of the Transmission owner asset and initial working capital requirements	496,021
Cash flows relating to acquisition of Transmission owner asset	(468,141)
Net cash flows used in financing activities[2]	(20,359)

[1] Excluding acquisition of Transmission owner asset
[2] Excluding all proceeds from funding activities

Operating and finance income

Operating and finance income is derived from the Company's activities as a provider of transmission services to its sole customer - NGET

Finance income for the period amounted to £13,715k and represents the finance income that would have been generated from an efficient standalone "transmission owner" The finance income generated relates to the period of operations of the Company from the date the Transmission owner asset was acquired (18 September 2013) through to 31 March 2014 The finance income has been recorded in accordance with the principal accounting policies adopted by the Company A discussion of the critical accounting policies adopted by the Company is shown in the accounting policies section of the financial statements commencing on page 34

Operating income for the period amounted to £4,064k and represents the operating income that would be generated by an efficient provider of operating services to NGET, our sole customer Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner The operating income generated relates to the period of operations of the Company from the date the Transmission owner asset was acquired (18 September 2013) through to 31 March 2014 The operating income has been recorded in accordance with the principal accounting policies adopted by the Company

Operating costs

Operating costs for the period amounted to £2,038k The most significant costs included within these costs being management service costs (£245k) primarily reflecting the setting up of operations, costs associated with operations and maintenance (£696k), non-domestic rates (£257k) and insurance (£592k)

Operating profit

Operating profit being the residual of operating income, finance income and operating costs amounted to £15,741k All operating profit was earned in the period 10 September 2013 through to 31 March 2014

Other finance income

Other finance income of £78k relates solely to interest earned on bank deposits

Finance costs

Finance costs amounted to £14,398k The vast majority of the finance costs relates to the interest cost of servicing senior debt holders £10,341k and holders of subordinated debt £3,761k Interest expense and other financial costs principally arise from the cost of debt used to finance the acquisition of the Transmission owner asset – described below under "Cash flows"

Taxation

The net taxation charge on profit before taxation for the period is £304k and relates solely to deferred taxation There was no current taxation arising in the period as the Company incurred taxable losses The taxation charge for the period has been computed at 23% and adjusted to 20% following a remeasurement of deferred taxation balances at 31 March 2014

A taxation credit of £3,312k has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at the 31 March 2014 The taxation credit relates solely to deferred taxation as the Company incurred taxable losses during the period This taxation credit has been computed at 23% and adjusted to 20% following a remeasurement of deferred taxation balances at 31 March 2014

Profit after taxation

Profit for the period after taxation amounted to £1,117k

Cash flows

Net cash flows from operations amounted to £17,515k reflecting the amounts invoiced and received from NGET in relation to the provision of transmission services from 18 September 2013 through to 31 March 2014 net of cash outflows relating to operating activities incurred during the period of operation from 10 September 2013 through to 31 March 2014

Net cash flows used in investing activities amounted to £468,063k and included £468,141k associated with the acquisition of the Transmission owner asset

Cash available for debt servicing defined as net cash inflows from operations less net cash outflows used in investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset), and includes interest income received of £78k , amounted to £17,593k Net cash inflows from financing activities amounted to £496,021k which comprised cash inflows of £412,548k from senior debt holders, £82,638k from holders of subordinated debt, and £835k by way of equity share capital These cash inflows were used to finance the acquisition of the Transmission owner asset and to finance the initial working capital requirements of the Company

Payments to service senior debt holders during the period amounted to £20,319k No payments to subordinated debt holders were made in the period No taxation or dividends were paid in the period

Balance sheet and consideration of financial management

Going concern

Having made enquiries, the Directors consider that the Company has adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company More details of the Company's funding and liquidity position are provided under the headings "Current funding structure" and "Going concern, Liquidity and treasury management" below

Balance sheet

The Company's balance sheet at 31 March 2014 is summarised below

	Assets	Liabilities	Net assets/ (liabilities)
Non-current Transmission owner asset	466,483	-	466,483
Non-current deferred taxation	3,008	-	3,008
Current assets and liabilities+	6,502	(1,683)	4,819
Non-current decommissioning provision	-	(5,035)	(5,035)
Total before net debt	475,993	(6,718)	469,275
Net debt	25,114	(505,686)	(480,572)
Totals at 31 March 2014	**501,107**	**(512,404)**	**(11,297)**

+ Excluding those current assets and liabilities included within net debt

Transmission owner asset and decommissioning provision

The Transmission owner asset is a financial asset and is carried at the cost directly attributable to the acquisition of the London Array offshore transmission system at the date of acquisition, plus finance income and adjusted for any amounts that have been invoiced to NGET which are deemed to be attributable to the carrying value of that asset The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Company A discussion of the critical accounting policies adopted by the Company that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 34

The Transmission owner asset was acquired on 18 September 2013 from a consortium of investors The total costs of acquisition of this asset amounted to £473,076k which included an estimate of the costs of decommissioning the Transmission owner asset at the end of its economic useful life in 2033 The estimated cost of decommissioning included in the initial acquisition cost amounted to £11,835k, and represents the discounted value of the estimated costs expected to be paid out to decommission the Transmission owner asset when it is expected to be decommissioned in 2033 At 31 March 2014 the carrying value of the decommissioning provision amounted to £5,035k

Non-current deferred taxation

The Company has recognised a deferred taxation asset of £3,008k which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the period, including taxable losses

In the opinion of the Directors, based on their enquiries and the forecasts available to them, it is probable that the deferred taxation asset recognised in respect of these temporary differences will be recoverable against future taxable profits that are expected to arise in the future from the Company's operations

Net debt

Net debt is defined as all borrowings (senior and subordinated debt) plus any interest accruals, the carrying value of all financial derivative contracts that are marked to market (interest rate swaps and UK Retail Price Index (RPI) related swaps) less cash and deposits

During the period the Company raised £495,186k from senior and subordinated debt holders, which together with equity contributions amounting to £835k, was used to finance the acquisition of the Transmission owner asset and the initial working capital requirements of the Company At 31 March 2014 net debt stood at £480,573k and included £16,561k relating to the carrying value of financial derivatives that were marked to market at that date

A discussion of the capital structure and the use of financial derivatives is provided below

Current funding structure

The Company is funded by a combination of senior debt, subordinated debt, and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator, and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000

Senior debt comprises a loan from the European Investment Bank ("EIB") together with loans from a syndicate of commercial lenders All senior debt is serviced on a quarterly basis and is expected to amortise over the life of the project through to September 2032 The total principal carrying value of EIB and commercial lenders loans outstanding at 31 March 2014 net of unamortised issue costs amounted to £402,727k

The EIB loan carries a fixed rate coupon while the loans from the syndicate of commercial lenders are at variable rates linked to the 3 month Libor rate, and in each case require servicing on a quarterly basis In addition, the Company has entered into a series of interest rate swaps with fellow or subsidiary undertakings of the commercial lenders for the same notional amount as the original commercial lenders loans and in the same proportion, which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon The commercial lenders loans, and related interest rate swaps, amortise at the same rate over the life of the loan/swap arrangements Further details of the interest rate swaps are shown below

The subordinated loan ranks behind the senior debt and is held by the Company's immediate parent undertaking, Blue Transmission London Array (Holdings) Limited ("BTLAH") The subordinated loan was issued by BTLAH on a commercially priced basis, and carries a fixed rate coupon At 31 March 2014 the total principal carrying value of the subordinated loan outstanding amounted to £82,638k

Ordinary equity share capital amounted to £835k at 31 March 2014

Going concern, liquidity, and treasury management

As indicated previously, the Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Company is a going concern, and has adequate resources in the foreseeable future to meet its on-going obligations, including the servicing of debt holders, as those obligations fall due This conclusion is based on a number of factors which are summarised below

The expected cash in-flows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under "Regulated revenue and incentives" In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is very low As at 31 March 2014 there were no sums outstanding from NGET and from 31 March to the date of this report all amounts due from NGET had been received on time

The Company enjoys certain protections afforded under the Licence granted to the Company In particular, provided that the Company can demonstrate that it has applied good industry practice in the management of the Company and its assets, then in the event that an unforeseen incident results in the Company suffering a loss in excess of £1,000k (in so far as it relates to its activities under the Licence) it can apply to the Authority for an income adjusting event In these circumstances the Company can recover any loss it has suffered

The Company has also put in place prudent insurance arrangements primarily in relation to property damage and business interruption, such that it can make claims in the event that an insurable event takes place and thereby continue in business

The licence protections together with the insurance arrangements put in place reduce uncertainties and address certain risks regarding potential loss of income and/or loss/destruction of assets that arise from remote and/or catastrophic events

The Company has also entered into certain hedging and other contractual arrangements that have been put in place to achieve a high degree of certainty (and thereby reduce uncertainty) as to the likely cash out-flows that are expected to occur over the life of the project

The hedging arrangements are explained in more detail below under "Hedging arrangements" In summary 1) the net cash flows that arise in relation to the combined effect of the interest rate swap arrangements and the commercial lenders variable rate loans means that the Company can forecast with certainty the net impact of these cash outflows over the life of the project, and 2) the RPI swaps have the impact of effectively converting a high proportion of the variable cash flows arising from the Company's transmission services activities into a known and rising series of cash flows over the life of the project The highly certain cash inflows arising from 2) are available to meet the certain cash outflows arising from 1)

Other contractual arrangements with third parties have been entered into that have a pricing mechanism that features linkages to RPI or other indices, which has the effect of reducing the uncertainty as to the quantum and frequency of cash outflows arising As a consequence, it is the opinion of the Directors that the costs and related cash flows associated with these arrangements are more likely than not to vary in a similar manner with the principal cash inflows generated by the Company in relation to its transmission services that are not subject to the RPI swaps arrangements

The Company also has access to a liquidity facility of £9,000k that it can access in the event that it has an insurable or income adjusting event This covers the possible liquidity requirements of the Company while the insurance claim / income adjusting event is settled

Finally, under the terms of the subordinated loan agreement, absent certain matters of default, the loan notes do not have to be redeemed until 2033 Therefore, there is no requirement for the Company to service this debt earlier than this date, although it is expected that it will do so

Credit rating

It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt As at 9 September 2013 a private rating was received from a reputable rating agency acceptable to the Authority which confirmed that the senior debt to be issued was investment grade with stable outlook The rating agency will carry out regular and periodic reviews of the rating

During the rating agency's assessment of the Company's credit rating, amongst other matters, the rating agency will and has considered the cash flows expected to arise over the term of the project, the regulatory environment within which the Company operates, the nature of the principal contractual arrangements in place, the insurance arrangements, and the credit risk of all material counterparties in arriving at their assessment of the appropriate credit rating

It is the Directors assessment, that having regards to the principal risks and uncertainties regarding cash flows, the creditworthiness of counterparties, the regulatory environment, the insurance arrangements and other matters that are discussed in this Strategic report, that there are reasonable grounds to believe that the rating agency will continue to confirm that the Company's senior debt investment grade status in the foreseeable future based on the information available to the Directors at the date of this annual report

On-going funding requirements

The Company does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding Loan servicing and other obligations of the Company are expected to be met by the cash inflows generated by the Company Consequently, based on the current capacity of the existing transmission system operated by the Company there is minimal refinancing risk

To the extent that a requirement for significant expenditure is required in the future as a result of additional capital works being required to provide incremental capacity, there is a mechanism in the Company's transmission licence to allow the Company to increase its charges in respect of such expenditure The Directors would expect that such additional expenditure would be capable of funding based on the increased cash flows arising from such additional expenditure No such additional expenditure is planned or expected in the foreseeable future

Surplus funds

The Company invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's At 31 March 2014, the Company had £25,114k on deposit of which £21,103k was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes The remaining cash and cash equivalents require the consent of the Company's lenders prior to use, but are held for general corporate purposes A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions"

The Company has some variability of cash flows in relation to the interest it earns on its investments, as typically these investments are held in deposits with a typical maturity of 3 months or less and earn variable rates of interest However, in the context of the other cash flows generated by the Company these amounts are insignificant

Hedging arrangements

General

It is the policy of the Board that the Company will only enter into derivative financial instruments for the purpose of hedging an economic risk No derivative financial instruments will be entered into unless there is an underlying economic position to be hedged No speculative positions are entered into

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 90%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows This arrangement meets the definition of a derivative financial instrument The Company entered into these derivative arrangements on 10 September 2013 with a start date of 31 March 2014 and with the final payment date expected on 10 September 2032

This period closely matches the period over which the Company enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the vast majority of cash flows from the project are expected to be generated

As previously described (see "Regulated revenue and incentives"), under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its sole customer, NGET, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the increase in RPI over the previous 12-month period measured from September to September Where there is a reduction or no increase in RPI over the relevant period, then the charges remain unchanged from the previous year The use of derivative arrangements ("RPI swaps") has the effect of exchanging the vast majority of variable cash inflows derived from the Company's transmission services (impacted by changes in actual RPI) in exchange for a known and predetermined stream of rising cash flows over the same period

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge The vast majority of the Company's cash outflows relate to borrowings that effectively carry a fixed coupon (after interest rate swaps – see below) so that both the resultant principal repayments and coupon payments are predetermined The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the Company can meet its obligations under the terms of the Company's borrowing arrangements and therefore reduce the risk of default The Directors believe that RPI swaps have a highly effective hedging relationship with the forecast cash inflows that are considered to be highly probable, and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such

The carrying value of the RPI swaps liability at 31 March 2014 was £8,483k A corresponding entry has been recorded in other comprehensive income

Interest rate swaps

As referenced earlier (see "Current funding structure") the Company has entered into a series of interest rate swaps with fellow or subsidiary undertakings of the commercial lenders for the same notional amount as the original commercial lenders loans and in the same proportion which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon The commercial lenders loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements

The Directors believe that the use of these interest rate swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge The net commercial effect of these arrangements is to convert all of the commercial lenders variable rate borrowings into fixed rate borrowings The vast majority of the Company's cash inflows (after RPI swaps) can be predicted with a high degree of certainty (thereby reducing uncertainty) for the reasons explained above under RPI swaps This has the effect that the Company is able to service, with a high degree of confidence, all of the certain and known fixed senior debt cash outflows (after interest rate swaps) from the highly certain cash inflows (after RPI swaps) Therefore, the risk that the senior debt cash outflows required to be serviced cannot be met from the cash inflows generated is significantly reduced

The effect of using interest rate swaps in the manner utilised by the Company eliminates any interest risk that the Company might otherwise have been subject to

The Directors believe that the interest rate swap hedging relationship is highly effective, and that the forecast cash inflows are highly probable and, as a consequence, have concluded that these interest rate derivatives meet the definition of a cash flow hedge and have formally designated them as such

The carrying value of the interest rate swaps liability at 31 March 2014 was £8,078k A corresponding entry has been recorded in other comprehensive income

Lending covenants and other restrictions

The Company is subject to certain covenants and conditions under lending agreements with the senior debt holders The Company entered into the lending agreements to allow it to fund the acquisition of the Transmission owner asset Under these lending agreements, a Global Agent has been appointed to represent the senior debt holders and to monitor compliance by the Company with the conditions of the lending agreements it has entered into In addition, a Technical Adviser and an Insurance Adviser have also been appointed under the terms of the lending agreements to support the Global Agent in the discharge of the Agent's duties The covenants and conditions of the lending agreements include (but are not limited to) the following

1) the Company is required to operate on the basis of a financial plan while the lending agreements are in place (20 years) which the Global Agent has approved and subject to certain allowances, any deviation from that plan requires the approval of the Global Agent The financial plan is refreshed on a quarterly basis and revised on an annual basis as required,

2) the Company is required to deliver financial and other information at specified intervals (typically quarterly) to the Global Agent,

3) the lending agreements specify the bank accounts that the Company is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose With the exception of one bank account, all withdrawals from bank accounts require the consent of the Global Agent,

4) the Company is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover, loan life cover, and in respect of incremental investments it cannot exceed a specified gearing ratio,

5) the Company is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements Typically this results in the Company investing in term deposits with maturities not exceeding three months,

6) the Company is required to maintain adequate insurances at all times,

7) the Company is required to meet all the conditions contained within the lending agreements before any servicing of the subordinated debt holders can take place or any distributions can be made to shareholders

If the Company materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, then the Company is in default of the lending agreements In these circumstances the amounts due under the lending agreements are immediately due and payable or are repayable on demand

Since entering into the lending agreements the Company has materially complied with all of the lending covenants and conditions and has continued to do so through to the date of this report

Accounting policies

The financial statements present the results of the Company using the accounting policies outlined in the financial statements and are in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union IFRS permits certain choices and the following material choices have been made as follows

Presentation of financial statements

The Company uses the nature of expense method for the presentation of its income statement and presents its balance sheet showing net assets and total equity

In the income statement the Company presents a sub-total of operating profit, being the total of operating income, finance income and operating costs Finance income represents the income derived from the operation of the Company's Transmission owner asset and is included within operating profit to reflect the fact that this is one of the principal revenue generating activities of the Company, and relates to the Company's principal operating activity as a provider of electricity transmission availability services

Financial Instruments

The Company has elected to apply hedge accounting to its standalone derivative financial instruments

Critical accounting policies

The application of accounting principles requires the Directors of the Company to make estimates, judgements, and assumptions that are likely to affect the reported amounts of assets, liabilities, revenue, and expenses, and the disclosure of contingent assets and liabilities in the financial statements Better information, or the impact of an actual outcome, may give rise to a change as compared with any estimates used, and consequently the actual results may differ significantly from those estimates The impact of revised estimates, or the impact of actual outcomes, will be reflected in the period when the better information or actual outcome is known

Strategic report continued

For the 17 months ended 31 March 2014

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments The accounting policies section of the financial statements commences on page 34

Approved on behalf of the Board

M Armanini Director

25 June 2014

Directors' report

For the 17 months ended 31 March 2014

In accordance with the requirements of the Companies Act 2006 the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below

Directors

The Directors serving throughout the period and subsequently (unless otherwise indicated) were

Andrew Clapp	Resigned 30 September 2013
Makoto Hattori	Resigned 23 May 2013
Masanori Kohama	
Michele Armanini	
Masami Saeki	Appointed 23 May 2013, resigned 27 February 2014
Graham Farley	Appointed 21 November 2013
Gary Thornton	Appointed 27 February 2014

Directors' and Officers' liability insurance cover is arranged

Principal activities and business review

A full description of the Company's principal activities, business, and principal risks, and uncertainties is contained in the Strategic Report on pages 2 to 22, which is incorporated by reference into this report

Material interests in shares

Blue Transmission London Array Limited is a wholly owned subsidiary undertaking of Blue Transmission London Array (Holdings) Limited, which itself is a wholly owned subsidiary undertaking of Blue Transmission London Array (Investments) Limited, which itself is a wholly owned subsidiary undertaking of the ultimate parent Company Blue Transmission Investments Limited

The Company has issued 834,730 ordinary shares of £1 since incorporation during the period ended 31 March 2014 to its immediate parent undertaking for £835k

Returns to parent undertaking

On 10 September 2013, the Company issued £82,638k unsecured Loan Notes 2033 to its immediate parent undertaking During the period 10 September 2013 to 31 March 2014 no payments were made in relation to these loan notes and the principal outstanding on these loans amounted to £82,638k at 31 March 2014

No dividends were paid during the period and the Directors are not proposing a final dividend

Donations and research and development

No charitable or political donations were made during the period and expenditure on research and development activities was £nil

Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on pages 18 to 20 in the Strategic Report

Greenhouse gas emissions

The operation of the Company's facilities requires the consumption of electricity The Directors have not calculated the number of tonnes of CO_2 (equivalent) which have thereby been emitted on the grounds that the responsibility for these facilities rests with the O&M provider

Directors' report continued

For the 17 months ended 31 March 2014

Going concern

Having made enquiries, the Directors consider that the Company has adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company More details of the Company's funding and liquidity position are provided in the Strategic Report under the headings "Current funding structure" and "Going concern, liquidity and treasury management"

The Company's strategy, long term business objectives and operating model

The Company's strategy, long term business objectives and operating model are set out in the Strategic Report and includes an explanation of how the Company will generate value over the longer term

Future developments

Details of future developments are contained in the Strategic Report

Employee involvement and Directors emoluments

The Company does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Company's Operating Model" in the Strategic Report on page 4

The Directors receive no emoluments from the Company

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware, and each Director has taken all reasonable steps to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information

Approved on behalf of the Board

M. Armanini Director

25 June 2014

Blue Transmission London Array Limited
Northwest Wing,
Bush House,
Aldwych,
London, WC2B 4EZ

Corporate governance statement

As a subsıdıary undertakıng of Blue Transmıssıon Investments Lımıted ("BTI") the Company operates wıthın the corporate governance framework of BTI and ıts subsıdıary undertakıngs ("the Group") Consequently, an understandıng of the Group's governance framework ıs requıred to understand the Company's posıtıon wıthın that framework

None of the members of the Group have a premıum lıstıng of equıty shares, and therefore they are not subject to the UK Corporate Governance code

Appoıntments to the board of Dırectors of BTI and ıts subsıdıary undertakıngs are governed by a shareholders agreement ("the Agreement") between the two shareholders of BTI that joıntly control the Company through a common class of ordınary shares, Dıamond UK Transmıssıon Corporatıon Lımıted (a subsıdıary of Mıtsubıshı Corporatıon) and BIF Offshore Wındkraft Holdıngs Lımıted (a subsıdıary of 3ı plc) No Dırectors of BTI or ıts subsıdıary undertakıngs are remunerated The Agreement requıres that all boards wıthın the Group comprıse four Dırectors, wıth two Dırectors appoınted by each shareholder Consequent upon these arrangements between the shareholders, no Group Company has a nomınatıon commıttee and the performance of the boards ıs not evaluated

The Agreement ensures that boards are balanced, wıth no one shareholder havıng majorıty representatıon, and allows the Group to draw on the respectıve fınancıal and operatıonal expertıse of each of ıts shareholders Accordıngly, the Dırectors have the relevant expertıse and experıence, drawn from theır ınvolvement ın a wıde range of ınfrastructure companıes, to defıne and to develop the strategy of the Company so as to meet ıts objectıves and to generate or preserve value over the longer term The Dırectors regularly revıew the effectıveness of the Group's rısk management and ınternal control framework and are satısfıed that they are effectıve

None of the Dırectors has declared a conflıct of ınterest, as would be requıred by Sectıon 175 of the Companıes Act 2006, and the Company's Artıcles of Assocıatıon

Appoıntments to the board are made ın accordance wıth the shareholders agreement whıch does not ınclude a polıcy on the dıversıty of board members

BTI

Meetıngs of the board of BTI

BTI ıs governed by a board of four non-executıve Dırectors, none of whom are ındependent There are no executıve or ındependent Dırectors The BTI board does not have a separately appoınted chaırman Meetıngs are chaıred by a member of the BTI board and are convened as requıred, but usually not less than four tımes per annum The BTI board ıs accountable to the shareholders of BTI for the good conduct of the Group's affaırs, ıncludıng those of the Company

Corporate governance statement continued

Audit committee

The Group does not have an internal audit function The Directors have concluded that the cost of such a function would be disproportionate to the benefits BTI has an Audit Committee The purpose of the Audit Committee is to assist the board of BTI and that of the Company in the effective discharge of their responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency In so doing, the Audit Committee acts independently of the management of BTI and its subsidiary undertakings, and seeks to safeguard the interests of its shareholders by

- monitoring the integrity of financial and financial regulatory reports issued by BTI and its major subsidiary undertakings with the objective of ensuring that these reports present a fair, clear, and balanced assessment of the position and prospects of the Group, BTI or major subsidiary undertakings including the Company as the case may be,
- reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures,
- considering any significant issues and the extent to which they have been disclosed in the relevant annual report and financial statements of all Companies in the Group, including a consideration of the critical accounting policies adopted by the Company (a discussion of which is included on pages 38 to 42)
- reviewing and approving the internal control and risk management policies applicable to the Group,
- maintaining an appropriate relationship with the external auditors, and
- assessing the objectivity and independence of the external auditor by considering the nature and extent of non-audit services, a consideration of the effectiveness of the audit process including a recommendation to the Boards of BTI and other Group Companies as to the reappointment of the auditor to the Company (who was appointed at or prior to the commencement of operations in 2013)

A representative of the auditor is normally invited to attend meetings of the Committee, the auditor also has unrestricted access to the Audit Committee

The Committee is satisfied as to the auditor's objectivity and independence following enquiry and discussion with the auditor and with management

The Company

Board and management meetings

The Company is governed by a Board of four non-executive Directors, none of whom are independent The Board does not have a separately appointed chairman Meetings are chaired by a member of the Board and are convened as required, but usually not less than four times per annum The Company Board is responsible for monitoring the effectiveness of the day to day operation and management of the Company's regulated transmission business

The Company's operating model is to outsource all O&M activities but to have an 'in-house' asset management capability FPL provides the 'in-house' asset management capability, and other services, through a MSA with BTI The Company has acceded to the MSA Additional technical support and accounting & administration support is provided to the Company via its ultimate parent Company, BTI FPL holds regular management meetings which review the operational and financial performance of the Company and risk issues FPL submits a monthly management report to the Directors of the Company

Directors and their attendance at Company board meetings

The Directors of the Company are as shown below Board meetings were held on 5 occasions during the period under review Attendance by the Directors at Board meetings, expressed as a number of meetings attended out of a number eligible to attend are shown below

Andrew Clapp	Resigned 30 September 2013	1 of 1
Makoto Hattori	Resigned 23 May 2013	0 of 0
Masanori Kohama		6 of 6
Michele Armanini		5 of 6
Masami Saeki	Appointed 23 May 2013, resigned 27 February 2014	0 of 5
Graham Farley	Appointed 21 November 2013	3 of 3
Gary Thornton	Appointed 27 February 2014	2 of 2

Compliance Committee

The Company has a Compliance Committee The Compliance Committee is a permanent internal body having an informative and consultative role, without executive functions, with powers of information, assessment, and presentations to the Board Following consultation with the Gas and Electricity Markets Authority, on 13 August 2013 the Board appointed Robert Tivey as Compliance Officer Mr Tivey is not engaged in the management or operation of the Company's licensed transmission business system, or the activities of any associated business The Compliance Officer is required to report to the Compliance Committee, Audit Committee, and the Boards of the Company and BTI at least once annually

The principal role of the Compliance Officer is to provide relevant advice and information to Directors of the Company, the compliance committee and consultants and other third parties providing services to the Company The Compliance Officer is required to facilitate compliance with the Licence as regards the prohibition of cross subsidies, restriction of activities, and financial ring fencing, the conduct of the transmission business and restriction on the use of certain information In addition, the Compliance Officer is required to monitor the effectiveness of the practices, procedures and systems adopted by the Company in accordance with the compliance statement required by amended standard condition E12 - C2 of the Licence (Separation and Independence of the Transmission Business)

Members of the Compliance Committee and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the period under review were as follows

Andrew Clapp	Resigned 30 September 2013	0 of 0
Makoto Hattori	Resigned 23 May 2013	0 of 0
Masanori Kohama		1 of 1
Michele Armanini		1 of 1
Masami Saeki	Appointed 23 May 2013, resigned 27 February 2014	0 of 1
Graham Farley	Appointed 21 November 2013	1 of 1
Gary Thornton	Appointed 27 February 2014	0 of 0

Compliance statement

The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from www bluetransmission com) that addresses how the Company has addressed its Licence obligations

Health, safety and environment advisory committee

The Board recognises that the nature of the Company's business requires an exceptional focus on health, safety and the environment Accordingly the Board of Blue Transmission Investments Limited has a Health, Safety and Environmental Advisory Committee which considers health, safety and environment matters relating to Blue Transmission London Array Limited The committee is responsible for

- ensuring that the Company's health and safety policy statement, and environmental policy statement, are being adhered to,
- setting of health, safety and environmental targets for the Company,
- monitoring health, safety and environmental performance of the Company against planned targets,
- encouraging greater awareness throughout the Company of the importance of health, safety and the environment, and higher achievement in health, safety, and environmental performance, and
- providing a link between the Board, the management services Company, Blue Transmission London Array Limited, and the Company's O&M providers that have the day to day responsibility for the management of health, safety and environment.

Corporate governance statement continued

Members of the Health, Safety and Environment Supervisory Committee and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the period under review were as follows

Andrew Clapp	Resigned 30 September 2013	0 of 0
Makoto Hattori	Resigned 23 May 2013	0 of 0
Masanori Kohama		1 of 1
Michele Armanini		1 of 1
Masami Saeki	Appointed 23 May 2013, resigned 27 February 2014	0 of 1
Graham Farley	Appointed 21 November 2013	1 of 1
Gary Thornton	Appointed 27 February 2014	0 of 0

Approved on behalf of the Board

M. Armanini Director

25 June 2014

Statement of Directors' responsibilities

For the 17 months ended 31 March 2014

The Directors are responsible for preparing the Directors' Report, the Strategic 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 prepared these financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union 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 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 International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Board of Directors is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, that disclose with reasonable accuracy at any time the financial position of the Company, and which allow 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 Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

In accordance with Section 418 of the Companies Act 2006, Directors' Report shall include a statement, in the case of each Director in office at the date the Directors' Report is approved, that

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Directors' responsibility statement

Each of the Directors of the Company confirms that, to the best of his knowledge

- the annual report and accounts taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy together with a description of the principal risks and uncertainties it face,
- the financial statements which have been prepared in accordance with International Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company

By order of the Board

M. Armanini Director

25 June 2014

Independent Auditors' Report to the members of Blue Transmission London Array Limited

For the 17 months ended 31 March 2014

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit and cash flows for the 17 month period then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by Blue Transmission London Array Limited, comprise

- the balance sheet as at 31 March 2014,
- the income statement and statement of comprehensive income for the 17 month period then ended,
- the cash flow statement for the 17 month period then ended,
- the statement of changes in equity for the 17 month period then ended,
- the accounting policies, and
- the notes to the financial statements, which include other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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 no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Caroline Roxburgh

Caroline Roxburgh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27 June 2014

Accounting Policies

For the 17 months ended 31 March 2014

A. Basis of preparation of financial statements under IFRS

These financial statements have been prepared in accordance with IFRS as issued by the IASB and as adopted by the European Union They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for 17 month period ended 31 March 2014, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments The financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets, and liabilities and the reported amounts of revenue and expenses during the reporting period Actual results could differ from these estimates

This is the first reporting period of the Company being for the 17 months ended 31 March 2014 ("the period"), and consequently there are no prior period comparatives

B. Transmission availability arrangements

The Company owns and operates an electricity transmission network which electrically connects an off-shore wind farm generator to the onshore electricity transmission operator (NGET) The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available ("transmission availability charges") to the wind farm generator thereby allowing the wind farm generator to transmit its electricity

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12 an interpretation issued by the IFRS Interpretations Committee Consequently, the accounting for charges made by the Company for transmission network availability is consistent with that interpretation

The major characteristics that result in the application of IFRIC 12 include the following

- the regulatory arrangements determine the price charged by the Company for its transmission availability services, and
- the regulator has granted a licence to operate the transmission system for an exclusive period of around 20 years and retains the rights to grant a transmission licence to a future operator

A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12 The Transmission owner asset includes the cost of acquiring the Transmission network asset from the constructor of the network, those costs incurred that are directly attributable to the acquisition of the transmission network, and the estimated cost of decommissioning the transmission network at the end of its estimated useful life The Transmission Owner asset has been classified as a financial asset and is accounted for as described below – see C – Financial Instruments

B. Transmission availability arrangements continued

In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways

- as an adjustment to the carrying value of the Transmission owner asset – see C Financial Instruments below,
- as finance income - see G Operating and finance income below,
- as operating income - see G Operating and finance income below

Transmission availability payments are recognised at the time the transmission service is provided

The value of amounts invoiced for transmission availability services in any one year is determined by a regulatory agreement that allows the transmission system operator to invoice an amount primarily relating to the expected availability of the transmission system during that year, together with the recovery of certain costs Where the level of availability of the transmission system or the costs that are permitted to be recovered is different to that expected this might result in an adjustment to charges in a subsequent accounting period Such potential adjustments to future charges are not recognised in the financial statements as assets or liabilities, until such time as prices are changed to reflect these adjustments, and consequently there is no impact on the income statement until such time as prices are changed

C. Financial instruments

Financial assets, liabilities, and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on the trade date

Trade and loan receivables, including time deposits and demand deposits, are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected Indications that the trade or loan receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment

Trade payables are initially recognised at fair value and subsequently measured at amortised cost

The Transmission owner asset is classified as a financial instrument and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as referenced above – see B Transmission availability arrangements Finance income relating to the Transmission owner asset is recognised in the income statement as a separate line item – "Finance income", see G Operating and finance income below

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which reflects the proceeds received, net of direct issue costs Subsequently all borrowings are stated at amortised cost, using the effective interest rate method Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest rate method

C. Financial instruments continued

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability Gains and losses arising from the changes in fair value are included in the income statement in the period they arise

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts

There are no embedded derivatives in host contracts that are not considered to be closely related, consequently, no embedded derivatives are separately accounted for as derivative financial instruments

D. Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps) The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows

The Company has also entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps")

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in equity and any ineffective portion is recognised immediately in the income statement Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss

E. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time, value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted Tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired Impairments are recognised in the income statement and, where material, are disclosed separately

F. Income taxation

Income taxation comprises current and deferred taxation Income taxation is recognised where a taxation asset or liability arises that is permitted to be recognised under generally accepted accounting principles All identifiable taxation assets or liabilities are recognised in the income statement except to the extent that the taxation arising relates to other items recognised directly in equity, in which case such taxation assets or liabilities are recognised in equity

Current taxation

Current taxation assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount of taxation are those that are enacted, or substantively enacted, by the balance sheet date

Deferred taxation

Deferred taxation is provided using the balance sheet liability method, and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit

Deferred taxation liabilities are generally recognised on all taxable temporary differences, and deferred taxation assets are recognised to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilised

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates (and tax laws) that have been enacted, or substantively enacted, by the balance sheet date

Unrecognised deferred taxation assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred taxation asset to be recovered

G. Operating and finance income

General

As indicated above, see B Transmission availability arrangements, amounts invoiced in respect of transmission availability charges, net of value added tax, are attributed to operating income, finance income or as an adjustment to the carrying value of the Transmission owner asset in the manner described below Finance and operating income reflect the principal revenue generating activity of the Company, that being revenue associated with the provision of transmission availability services and consequently, are presented as separate line items within the Income statement before other costs and net interest costs

Operating income

Operating income represents the income derived from the provision of operating services to the Company's sole customer, NGET Such services include those activities that result in the efficient and safe operation of the Company's transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring the transmission assets on behalf of a standalone transmission owner

G. Operating and finance income continued

An estimate has been made as to the appropriate revenue that should be attributable to a standalone operator with responsibility for operations, maintenance, and insurance

Finance income

Finance income arising from the provision of transmission availability services represents the return that an efficient standalone "transmission owner" would expect to generate from the holding of the Transmission owner asset and an estimate has been made as to the appropriate return that such an owner would generate having regard to the risks associated with those arrangements The return that is generated on this asset is allocated to each period using the effective interest rate method

H. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash, and subject to an insignificant change in value

I. Decommissioning costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission network associated with the safe decommissioning of that network Provision for these costs is based on future estimated expenditures, discounted to present values Changes in the provision arising from revised estimates or discount rates, or changes in the expected timing of expenditures, are recognised in the income statement The unwinding of the discount and changes arising from revisions to the discount rate are included within the income statement as a component of the net interest charge Changes in estimates arising from revised cost assessments are included within operating costs

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty

The preparation of financial statements requires management to make accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period Actual results could differ from these estimates

Assumptions and estimates are reviewed on an on-going basis and any revisions to them are recognised in the period the revision occurs The following is a summary of the critical accounting policies adopted by the Company together with information about the key judgements, estimations and assumptions that have been applied

i) Transmission availability arrangements – income and related asset recognition

The Directors after due enquiry have identified that the characteristics of the regulatory, legal and contractual arrangements that give rise to transmission availability charges are consistent with the principles contained within IFRIC 12 Consequently, the accounting for charges made by the Company for transmission network availability is consistent with that interpretation

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

i) Transmission availability arrangements – income and related asset recognition continued

As a consequence of this decision, the following outcomes follow

a A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12, and

b In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset

An alternative accounting analysis could result in a significantly different accounting outcome which would affect the amounts and classification of asset and liabilities in the balance sheet and alter the income recognition and presentation of amounts included within the income statement

The Company has determined that the Transmission owner asset will be recovered over a period of 20 years from the date of Licence grant (10 September 2013), being the principal period over which the Company is permitted to levy charges for transmission availability This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project

ii) Operating and finance income

Operating income

Operating income represents the income derived from the provision of operating services to our sole customer, NGET Such services include those activities that result in the efficient and safe operation of those assets and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner Estimates and judgements have been made by management to estimate the appropriate amount of revenue that would be attributable to this income classification as if this service were provided by an independent standalone operator with responsibility for operations, maintenance and insurance To the extent that an alternative judgement or estimate was made as to the reasonable level of revenue attributable to such an operator, then in the case of the Company, the level of income attributed to finance income (see below) would be amended

Finance income

Finance income arising from the provision of transmission availability services represents an estimate of the return that an efficient standalone and independent "transmission owner" would expect to generate from the holding of the Transmission owner asset Estimates and judgements have been exercised by management to determine an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements The return that is generated on this asset is allocated to each period using the effective interest rate method To the extent that an alternative judgement or estimate was made as to the reasonable level of return attributable to such a

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

ii) Operating and finance income continued

transmission asset owner, then in the case of the Company, the level of income attributed to operating income (see above) would be amended

iii) Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates and movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into The Company fair values its derivative financial instruments and records the fair value of those instruments on its balance sheet

Movements in the fair values of the Company's derivative financial instruments may be accounted for using hedge accounting where the requirements of hedge accounting are met under IFRS including the creation of compliant documentation and meeting the effectiveness testing requirements If a hedge does not meet the criteria for hedge accounting, or where there is some degree of ineffectiveness, then the change in fair value in relation to these items will be recorded in the income statement Otherwise, in respect of the Company's derivative financial instruments, these changes in fair value are recognised in other comprehensive income

The Company's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income If these hedging criteria had not have been met these movements would have been recognised in the income statement

As referred to above, the Company carries its derivative financial instruments in its balance sheet at fair value No market prices are available for these instruments and consequently the fair values are derived using financial models developed by a third party that is independent of the Company, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments Where observable market data is not available, as in the case of valuing the Transmission owner asset, unobservable market data is used which requires the exercise of management judgement

iv) Income taxation

Current taxation

The taxation charge or credit arising on profit before taxation and in respect of gains or losses recognised through other comprehensive income reflect the tax rates in effect or substantially enacted at the balance sheet date as appropriate The determination of appropriate provisions for taxation requires the Directors to take into account anticipated decisions of HM Revenue and Customs which inevitably requires the Directors to use judgements as to the appropriate estimate of taxation provisions

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

iv) Income taxation continued

Deferred taxation

Deferred taxation is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit

Judgements are required to be made as to the calculation and identification of temporary differences and in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising This exercise of judgement requires the Directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset

v) Impairment of assets

The carrying value of those assets recorded in the Company's balance sheet at amortised cost could be materially reduced if the value of those assets were assessed to have been impaired Impairment reviews are performed in the event that circumstances change which might indicate that an asset has been impaired In principle, such impairment reviews considers the fair value and or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the balance sheet Any reduction in value arising from such a review would be recorded in the income statement

Impairment reviews involve the significant use of assumptions Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows

vi) Decommissioning Provision

Provisions are made for certain liabilities where the timing and amount of the liability is uncertain The Company's only provision relates to the estimated costs of decommissioning the Company's offshore transmission system at the end of its expected economic life – being 20 years These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet The plan for decommissioning these assets has been approved by Department of Energy and Climate Change and published on the Company's web site (www bluetransmission com) and include many assumptions

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

vi) Decommissioning Provision continued

The estimates and judgements used in determining the carrying value of this provision include, but are not limited to, the following

- the estimated economic useful life of the transmission system is assumed to be 20 years being the period the Company has exclusive rights to operate under the Licence and the period which is expected to generate the vast majority of cash flows relating to the ownership of the system,
- estimates of costs relating to the appropriate and safe removal, disposal, recycling and making safe of the transmission system having regard to market prices and access to the appropriate level of technology,
- discount rate appropriate to the 20 year life of the assets being decommissioned The Company has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to the decommissioning provision every five years, reflective of the long term nature of this liability, rather than re-evaluating the discount rate over a shorter time period

The estimates are based on management estimates with the use of technical consultants and are subject to periodic revision The initial estimated discounted cost of decommissioning the offshore transmission system is included within the carrying value of the Transmission owner asset All subsequent changes to estimates in relation to estimated gross cost of decommissioning or the appropriate discount rate are reflected in the income statement

K. Accounting developments

i) Accounting standards as applied to these financial statements

In preparing these financial statements the Company has complied with IFRS, International Accounting Standards (IAS) and Interpretations applicable for accounting periods ending by 31 March 2014

K. Accounting developments continued

ii) Accounting standards, amendments interpretations issued but not adopted

New accounting standards, amendments to standards and interpretations which have been issued but which have not been adopted by the Company, together with reasons for non-adoption, are as follows

- IFRS 10, 'Consolidated financial statements' The Company has no interests in any other entity
- Amendments to IFRS 10, 11 and 12 on transitional guidance The Company has no interests in any other entity
- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities The Company has no interests in any other entity
- IFRS 11, 'Joint arrangements' The Company has no interests in any other entity
- IFRS 12, 'Disclosures of interests in other entities' The Company has no interests in any other entity
- Amendment to IAS 19, 'Employee benefits' The Company has no employees
- IFRIC 20, 'Stripping costs in the production phase of a surface mine' Not relevant to the Company's activities
- IAS 27 (revised 2011) 'Separate financial statements' The Company has no interests in any other entity
- IAS 28 (revised 2011) 'Associates and joint ventures' The Company has no interests in any other entity
- Amendment to IAS 32, 'Financial instruments Presentation', on offsetting financial assets and financial liabilities The Company does not offset assets and liabilities The Company does not offset assets and liabilities unless there is a contractual right of set-off

Income statement

For the 17 months ended 31 March 2014

	Notes	17 month period ended 31/03/2014 £'000
Operating income	2	4,064
Finance income	2	13,715
Total income		**17,779**
Operating costs	3	**(2,038)**
Operating profit		**15,741**
Other finance income	4	78
Finance costs	4	(14,398)
Net interest expense		**(14,320)**
Profit before taxation		**1,421**
Income taxation charge	5	(304)
Profit attributable to equity shareholders		**1,117**

The notes on pages 49 to 65 form part of these financial statements

The results reported above relate to continuing operations

Statement of comprehensive income

For the 17 months ended 31 March 2014

	Notes	17 month period ended 31/03/2014 £'000
Profit for the period		**1,117**
Other comprehensive income		
Items that may be subsequently reclassified to Profit and Loss:		
Net loss taken to equity in respect of cash flow hedges	11	**(16,561)**
Deferred taxation on cash flow hedges	5	**3,312**
Total comprehensive loss for the period attributable to equity shareholders		**(12,132)**

Balance sheet

As at 31 March 2014

Company number 8275752

	Notes	2014 £'000
Non-current assets		
Transmission owner asset	6	**466,483**
Deferred taxation asset	7	**3,008**
Total non-current assets		**469,491**
Current assets		
Prepayments		**1,128**
Transmission owner asset	6	**5,374**
Cash and cash equivalents	8	**25,114**
Total current assets		**31,616**
Total assets		**501,107**
Current liabilities		
Borrowings	9	**(7,573)**
Trade and other payables	10	**(5,443)**
Total current liabilities		**(13,016)**
Non-current liabilities		
Borrowings	9	**(477,792)**
Derivative financial liabilities	11	**(16,561)**
Decommissioning Provision	12	**(5,035)**
Total non-current liabilities		**(499,388)**
Total liabilities		**(512,404)**
Net liabilities		**(11,297)**
Equity		
Called up share capital	13	**835**
Retained earnings	14	**1,117**
Cash flow hedge reserve	14	**(13,249)**
Total shareholders' equity		**(11,297)**

The financial statements set out on pages 34 to 65 were approved by the Board of Directors on 25 June 2014 and were signed on its behalf by

M. Armanini Director

Statement of changes in equity

For the 17 months ended 31 March 2014

	Called up share capital £'000	Cash flow hedge reserve £'000	Retained earnings reserve £'000	Total equity £'000
At 31 October 2012	-	-	-	-
Issue of ordinary shares	835	-	-	835
Recognised income and expense	-	(13,249)	1,117	(12,132)
At 31 March 2014	**835**	**(13,249)**	**1,117**	**(11,297)**

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory and borrowing obligations, including a requirement to ensure it has sufficient resources and facilities to enable it to carry on its business, plus a requirement to use all reasonable endeavours to maintain an investment grade credit rating

The cash flow hedge reserve recognises the effective portion of cash flow hedges whilst any ineffectiveness is taken to the income statement

Cash flow statement

For the 17 months ended 31 March 2014

	Notes	17 month period ended 31/03/2014 £'000
Cash flows from operating activities		
Profit for the year after taxation		**1,117**
Adjustments for		
Net interest charges		14,320
Taxation charge		304
Non-cash movement relating to finance income		1,219
Changes in working capital		555
		16,398
Net cash flow generated from operating activities		**17,515**
Cash flows used in investing activities		
Acquisition of Transmission owner asset		**(468,141)**
Interest received		**78**
Net cash flow used in investing activities		**(468,063)**
Cash flows from financing activities		
Proceeds from senior loans received⁺	15	**412,548**
Proceeds of subordinated loans received	15	**82,638**
Proceeds of share issues		**835**
Repayment of senior loans	15	**(9,978)**
Interest paid		**(10,341)**
Other bank charges		**(40)**
Net cash flow generated from financing activities		**475,662**
Net increase in cash and cash equivalents		**25,114**
Cash and cash equivalents at the start of the period		**-**
Cash and cash equivalents at the end of the period	15	**25,114**

⁺ Net of issue costs amounting to £6,543k

Notes to the financial statements

For the 17 months ended 31 March 2014

1. Operating segment

The Board of Directors is the Company's chief operating decision-making body The Board of Directors has determined that there is only one operating segment – electricity transmission The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities[1]) The Company and segmental results, balance sheet and relevant cash flows can be seen in the income statement, the balance sheet and cash flow statement on page 44, 46 and 48 respectively Additional notes relating to the Company and segment are shown in the notes to the financial statements on pages 49 to 65

The electricity transmission operation of the Company comprises the transmission of electricity from a wind farm located in the Thames Estuary off the coasts of Essex and Kent, and then connecting directly into the local distribution system at an electricity substation at Cleve Hill near the village of Graveney in North Kent

All of the Company's sales and operations take place in the UK

All of the assets and liabilities of the Company arise from the activities of the segment

[1] After adjustment for the initial cash acquisition cost of the Transmission owner asset of £468,141k

2. Operating and finance income

Operating income of £4,064k and finance income of £13,715k relate in their entirety to the Company's activity as a provider of electricity transmission services to the Company's principal customer – NGET

3. Operating costs

Operating costs are analysed below

	17 month period ended 31/03/2014 £'000
Operations and maintenance	**696**
Insurance costs	**592**
Non-domestic rates	**257**
Management services fees	**245**
Auditors remuneration	**44**
Other	**204**
Total	**2,038**
Auditors remuneration comprises	
Audit services	**11**
Tax services	**26**
Other services supplied pursuant to legislation[1]	**7**
Total	**44**

[1] These represent fees payable for services in relation to engagements which are required to be carried out by the auditor In particular this includes fees for audit reports on regulatory returns

Notes to the financial statements continued

For the 17 months ended 31 March 2014

4. Net interest expense

Net interest expense is as expense is as tabulated below	17 month period ended 31/03/2014 £'000
Interest income	
Interest on bank deposits	78
	78
Interest expense and other financial costs	
Interest on bank loans	(10,341)
Interest on other borrowings	(3,761)
Other financial costs	(296)
	(14,398)
Net interest expense	(14,320)

5. Income taxation charge

a) Taxation on items included in the income statement

The net taxation charge for the period is £304k and the composition of that charge is described below

The taxation charge on current year profits arising in the period represents deferred taxation and has been computed at 23% There is no current taxation included in the income statement

The taxation charge for the period differs from the main rate of corporation tax in the UK of 23% for the reasons outlined below

	17 month period ended 31/03/2014 £'000
Profit before taxation	1,421
Taxation at 23% on profit before taxation	327
Effects of·	
- expenses not deductible for tax purposes	23
- change in tax rates on deferred tax	(46)
Taxation charge for the period	304

b) Taxation on items included in other comprehensive income

The net taxation credit on items included in other comprehensive income for the period is £3,312k and comprises a credit on items arising in the current year computed as 23% of £3,809k and a charge of £497k arising from a change in corporation taxation rates The taxation credit on items arising in the period represents deferred taxation There is no current taxation included in other comprehensive income

5. Income taxation charge continued

c) Rates of taxation - current and future years

In Finance Act 2013 the rate of corporation tax was reduced to 23% for the period from 1 April 2013 to 31 March 2014, to 21% for the period from 1 April 2014 to 31 March 2015 and to 20% from 1 April 2015 These changes were enacted on 17 July 2013 and as such deferred tax at the balance sheet date has been recognised at the rate of 20% on the basis that all temporary differences are expected to reverse after 1 April 2015

6. Transmission owner asset

The movement in the carrying value of the transmission owner asset is shown in the table below

	£'000
At 31 October 2012	-
Additions - period to 31 March 2014	473,076
Adjustment to the carrying value*	(1,219)
At 31 March 2014	**471,857**
Comprising	
Amounts falling due within one year	5,374
Amounts falling due after more than one year	466,483
	471,857

* Arising from the application of the effective interest rate method and reflected through finance income in the income statement

The Transmission owner asset is carried at amortised cost The estimated fair value of the Transmission owner asset at 31 March 2014 was £560,920k The basis for estimating the fair value of the Transmission owner asset is to estimate the net cash flows arising over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate of 4 99% per annum

7. Deferred taxation asset

The net deferred taxation asset recognised in the balance sheet arises as follows

	Fair value losses on derivatives £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
At 31 October 2012	-	-	-	-
Movements period to 31 March 2014	3,312	(7,984)	7,680	3,008
At 31 March 2014	**3,312**	**(7,984)**	**7,680**	**3,008**

Other deferred taxation assets relate primarily to temporary differences arising from current taxation losses

No portion of the deferred tax balance is likely to be recovered or settled in the 12 months following the balance sheet date

8. Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £25,114k Short-term deposits are made for various periods of between one day and 3 months, depending on the timing of cash requirements, and earn interest at the respective short-term deposit rates

Cash and cash equivalents include amounts of £21,103k which the Company can only use for specific purposes and with the consent of the Company's lenders The remaining cash and cash equivalents require the consent of the Company's lenders prior to use, but are held for general corporate purposes

The estimated fair value of cash and cash equivalents approximates to their carrying value

9. Borrowings

The following table analyses borrowings

	2014
	£'000
Current	
Bank loan – fixed rate	3,775
Bank loans – variable rate	3,798
	7,573
Non-current	
Bank loan – fixed rate	196,691
Bank loans – variable rate	198,463
Other borrowing	82,638
	477,792
Total borrowings	485,365

In one year or less	7,573
In more than one year, but not more than two years	10,589
In more than two years, but not more than three years	10,808
In more than three years, but not more than four years	12,162
In more than four years, but not more than five years	13,516
In more than five years other than by instalments	430,717
	485,365

The fixed rate bank loan is with the European Investment Bank and carries an interest rate of 4 14% per annum The loan amortises over the period through to 10 September 2032

All the variable rate bank loans are with a consortium of banks under a commercial facility agreement and carry an interest rate linked to the three month LIBOR rate All of these loans amortise over the period through to 10 September 2032

The fixed rate loan and the bank loans under the commercial facility taken together comprise the "senior debt" and are secured, by means of a debenture, over all of the assets of the Company via fixed and floating charges, as required under the terms of a debenture document

9. Borrowings continued

The other borrowing relates to amounts owed to the Company's immediate parent undertaking, (BTLAH) This other borrowing is unsecured, carries a fixed coupon of 8 21% per annum and is contractually repayable on 31 October 2033

All borrowings are carried at amortised cost Fair value information in relation to borrowings is shown in note 17

As at 31 March 2014, the Company had a committed credit facility of £9,000k which is undrawn

There have been no instances of default or other breaches of the terms of the loan agreements during the period in respect of all loans outstanding at 31 March 2014

10. Trade and other payables

Trade and other payables are as tabulated below

	2014
	£'000
Trade payables	460
Other taxes	1,007
Accrued expenses	3,976
	5,443

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value All trade and other payables are recorded at amortised cost

11. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices The Company's use of derivative financial instruments is described below

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 90%) of variable cash inflows arising from the operation of the Company's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties These arrangements meet the definition to be classified as derivative financial instruments The Company entered into these derivative arrangements on 10 September with a forward start date for the calculation of the relevant rates commencing on 31 March 2014 and ending on 10 September 2032

Under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its sole customer, NGET, an agreed amount for the services it provides This amount is uplifted each year commencing 1 April by an amount computed by reference to the average increase in RPI over the previous 12-month period measured from September to September Where there is a reduction, or no increase, in the retail price index over the relevant period, then the charges remain unaltered from the previous year These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period

11. Derivative financial instruments continued

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges The vast majority of the Company's cash outflows relate to borrowings (after interest rate swaps – see below) that carry a fixed coupon so that both the principal repayments, and coupon payments (after interest rate swaps – see below) are predetermined The purpose of these hedges is to generate highly certain cash inflows so that the Company can meet its obligations under the terms of its borrowing arrangements

The Directors believe that the hedging relationship is highly effective and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap derivatives meet the definition of a cash flow hedge and have formally designated them as such

Interest rate swaps

The Company has entered into a series of interest rate swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements The interest rate swaps were entered into on 10 September 2013 and expire on 10 September 2032

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at market value The carrying value of all derivative financial instruments at 31 March 2014 was £16,561k comprising a liability of £8,483k for RPI swaps and a liability of £8,078k for interest rate swaps All of the movements during the period in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a charge of £16,561k

Further details regarding financial instruments and their related risks are given in note 17

12. Provision

The movement in the provision is analysed below

	Decommissioning £'000
At 31 October 2012	-
Additions	4,935
Unwinding of discount	100
At 31 March 2014	**5,035**

The decommissioning provision is all non-current

The decommissioning provision of £5,035k at 31 March 2014 represents the net present value of the estimated expenditure expected to be incurred at the end of the economic life of the project to decommission the London Array transmission assets The decommissioning expenditure relates to the removal and scrapping of all transmission assets above the level of the seabed, and the burial of all cable ends The gross expenditure expected to be incurred on decommissioning amounts to £11,835k, and is expected to be incurred in 2033

12. Provision continued

The discount rate chosen is a pre-taxation 'risk free' rate with a maturity similar to that of the decommissioning liability This reflects the best estimate of the time value of money risks specific to the liability, as the estimated gross decommissioning costs appropriately reflect the risks associated with that liability

The decommissioning provision arises from the Company's obligations under S105 of the Energy Act 2004 and the contractual obligations relating to the lease of the London Array sea bed granted by the Crown Estate Commissioners and assigned to the Company on 18 September 2013 The decommissioning plan was submitted for approval under S105 of the Energy Act 2004 and was subsequently approved by the Secretary for State for Energy and Climate Change under S106 of the Energy Act 2004 in September 2013

The decommissioning provision is a financial instrument under IFRS, and the fair value of the obligation equates to its carrying value, as the carrying value represents the net present value of the future expenditure expected to be incurred as described above

13. Called up share capital

Share capital is as analysed below

	No (thousands)	£'000
Allotted, called up and fully paid		
31 October 2012	-	-
Issue of shares	835	835
At 31 March 2014	**835**	**835**

The Company has one class of Ordinary Share with a nominal value of £1 each which carries no right to fixed income

At the date of incorporation on 31 October 2012, the Company issued one ordinary share of £1

The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company

14. Reserves

The Company's reserves are analysed below

	Retained earnings £'000	Cash flow Hedge £'000	Total £'000
Retained profit for the period	1,117	-	1,117
Losses on cash flow hedges taken to equity	-	(16,561)	(16,561)
Deferred taxation on cash flow hedges	-	3,312	3,312
At 31 March 2014	**1,117**	**(13,249)**	**(12,132)**

All reserves with the exception of the cash flow hedge reserve are distributable

15. Cash flow statement

a) Reconciliation of net cash flow to movement in net debt

The reconciliation of net cash flow to movement in net debt is as analysed below

	17 month period ended 31/03/14 £'000
Movement in cash and cash equivalents	25,114
Net increase in borrowings+	(485,208)
Change in net debt resulting from cash flows	(460,094)
Non-cash net interest expense included in net debt	(3,918)
Change in fair values of derivatives	(16,561)
Movement in net debt in the period	(480,573)
Net debt at start of period	-
Net debt at end of year	**(480,573)**

+ Arising from the proceeds of loans net of repayments

(b) Analysis of changes in net debt

	Cash and Cash equivalents £'000	Borrowing £'000	Derivatives £'000	Interest Accruals £'000	Total £'000
At 31 October 2012	-	-	-	-	-
Cash flow	25,114	(485,208)	-	-	(460,094)
Change in fair values	-	-	(16,561)	-	(16,561)
Non-cash net interest	-	(157)	-	(3,761)	(3,918)
At 31 March 2014	**25,114**	**(485,365)**	**(16,561)**	**(3,761)**	**(480,573)**

16. Related party transactions

The following information relates to material transactions with related parties during the 17 month period to 31 March 2014 These transactions were carried out in the normal course of business and at terms equivalent to those that prevail in arm's length transactions There were no transactions carried out directly with other operating companies within the BTI Group

	Undertaking	Other	Total
Expenditure			
Interest[1]	3,761	-	3,761
Services received[2,3]	70	4,549	4,619
	3,831	**4,549**	**8,380**
Balances outstanding at 31 March 2014:			
Borrowings payable[1] (principal)	82,638	-	82,638
Interest accrual[1]	3,761	-	3,761
	86,399	-	**86,399**

[1] Relates to funding-related transactions and balances with immediate parent undertaking (BTLAH) all interest has been directly attributed to the Company

[2] Services received from Parent undertakings relate to transactions with the ultimate parent undertaking (BTI) Services amounting to £48k were in respect of services that were directly attributable to the Company and £22k were in respect of services that were allocated to the Company

[3] Services received from "Other" relate to transactions with Macquarie Capital (Europe) Limited amounting to £4,549k that were directly attributed to the Company

A summary of funding transactions with the immediate parent undertaking is shown below

	17 month period ended 31/03/2014 £'000
Borrowings from immediate parent undertaking (principal)	
At 31 October 2012	-
Advances	82,638
At 31 March 2014	**82,638**

Borrowings from the immediate parent undertaking (BTLAH) were negotiated on normal commercial terms and are repayable in accordance with the terms of the unsecured 8 21% loan notes 2033 ("the notes") No repayments of interest or principal were made during the period Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 30 September 2033

Macquarie Capital (Europe) Limited ("Macquarie") was a related party of the Company during the period ended 31 March 2014 as it held 50% of the equity in the Company until 18 September 2013 The services provided to the Company by Macquarie were under normal commercial terms and related to financial advisory services

16. Related party transactions continued

Transactions with the ultimate parent undertaking (BTI) are for administrative, Company secretarial and other such services which are provided on an arms-length basis Where costs can be identified by BTI as directly attributable to the Company these costs have been charged as such Where the costs incurred by BTI are for the general benefit of the Company and other subsidiaries of BTI these costs have been allocated to the Company and other subsidiaries The basis of the allocation of such costs is on the basis of timesheets, where appropriate, and the remaining costs are allocated on a rational basis with the principal drivers of allocation having regard to the complexity and size of operations of the subsidiaries within the Group The Company is one of four such operating subsidiaries of BTI all of which are OFTOs

No amounts have been provided at 31 March 2014 and no expense was recognised during the period in respect of bad or doubtful debts for any related party transactions

17. Information relating to financial instruments and the management of risk

a) Fair value disclosures

The following is an analysis of the Company's financial instruments at the balance sheet date comparing the carrying value included in the balance sheet with the fair value of those instruments at that date None of the Company's financial instruments have quoted prices Consequently, the following techniques have been used to determine fair values as follows

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments,
- Transmission owner asset – based on the net present value of discounted cash flows,
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments,
- Non-current borrowings – based on the carrying amount in respect of variable rate loans and in respect of the EIB fixed rate loan and unsecured 8 21% loan notes 2033 it is based on the net present value of discounted cash flows,
- Derivative financial instruments – based on the net present value of discounted cash flows,
- Financial instrument receivables and payables - approximates to the carrying value because of the short maturity of these instruments,
- Decommissioning provision – approximates to carrying value

The table on the following page compares the carrying value of the Company's financial instruments with the fair value of those instruments at 31 March 2014, using the techniques described above The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value as a result of the short maturity of those instruments Consequently, no financial instruments which fall due within the next twelve months are included in this table

17. Information relating to financial instruments and the management of risk continued

a) Fair value disclosures continued

	Carrying Value £'000	Fair value £'000	Valuation Method (see as follows)
Assets			
Non-current			
Transmission owner asset	466,483	555,546	Level 3
	466,483	555,546	
Liabilities			
Non-current			
Fixed rate bank loan	196,691	196,094	Level 2
Floating rate bank loans	198,463	198,463	Level 2
8 21% loan notes 2033	82,638	78,672	Level 2
Derivative financial instruments	16,561	16,561	Level 2
Provision	5,035	5,035	Level 3
	499,388	494,825	

All amounts are as at 31 March 2014

The best evidence of fair value is a quoted price in an actively traded market, where this data is available then the instrument is classified as having been determined using a level 1 valuation In the event that the market for a financial instrument is not active, alternative valuation techniques are used The Company does not have any financial instruments where it is eligible to apply a level 1 valuation technique

With the exception of the Transmission owner asset and decommissioning provision, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Company's financial instruments these have been valued using models where all significant inputs are based indirectly on observable market data

In the case of the Transmission owner asset and decommissioning provision, these have been valued using a valuation technique where significant inputs such as the assumed discount rate are based on unobservable market data This means that these financial instruments have been classified as having been valued using a level 3 valuation and have been identified as such in the previous table

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the period and there have been no reclassifications or transfers between the various valuation categories during the period

17. Information relating to financial instruments and the management of risk continued

b) Management of risk

The Board has overall responsibility for the Company's risk management framework This risk framework is discussed further in the Strategic Report

The Company's activities expose it to a variety of financial risks, which arise in the normal course of business market risk, credit risk, and liquidity risk The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Company by using financial instruments, including the use of derivative financial instruments – being the RPI swaps and interest rate swaps described in note 11 that are appropriate to the circumstances and economic environment within which the Company operates The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period are explained below

i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices Changes in market price are derived from currency movements, interest rate changes, and changes in prices caused by factors other than those derived from currency or interest rate changes

The Company operates in the UK and has no significant exposure to foreign currency, and therefore this has an immaterial impact on market risk Short-term financial assets and liabilities, such as trade receivables and payables, are not subject to market risk Interest rate risk arises from the use of following financial instruments Transmission owner asset, borrowings, and cash and cash equivalents

The Transmission owner asset is carried at amortised cost, and the carrying value is affected by the rate of interest implicit within the calculation of finance income that has a consequential effect on the carrying value of the Transmission owner asset

The fair value of the Transmission owner financial asset is subject to price risk caused by changes in RPI and/or changes in interest rates

All of the Company's borrowings, net of the impact of the Company's interest rate swap arrangements (see note 11), have been issued at fixed rates which exposes the Company to fair value interest rate risk and, as a result, the fair value of borrowings (net of the interest rate swap arrangements) fluctuate with changes in interest rates All borrowings are carried at amortised cost, and therefore changes in interest rates, in respect of those borrowings, do not impact the income statement or balance sheet

The interest rate swaps used to hedge the Company's variable rate borrowings (see note 11) are considered highly effective hedges of those borrowings, and are carried at fair value in the balance sheet For the reasons outlined above, the Company is exposed to fair value interest rate risk in respect of the net fixed interest hedged position that has been achieved by the use of these derivatives In the opinion of the Directors, these arrangements have reduced cash flow interest rate risk, and further details of these arrangements are outlined in note 11

Cash and cash equivalents all attract interest at variable rates and therefore are subject to cash flow interest rate risk as cash flows arising from these sources will fluctuate with changes in interest rates However, the interest cash flows arising from these sources are insignificant to the Company's activities

17. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

i) Market risk continued

The cash flows arising from the Transmission owner financial asset fluctuate with positive changes in RPI The Company has entered into a series of RPI swaps to significantly reduce this cash flow risk Further details and an explanation of the rationale for entering into these arrangements are explained in note 11

For the reasons outlined in note 11, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the balance sheet The RPI swaps are considered to be effective cash flow hedges

ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations

Credit risk primarily arises from the Company's normal commercial operations that actually, or potentially, arises from the Company's exposure to a) NGET in respect of invoices submitted by the Company for transmission services, b) the counterparties to the RPI swaps described in note 11, c) the counterparties to the interest rate swaps described in note 11, and d) short term deposits There are no other significant credit exposures to which the Company is exposed The maximum exposure to credit risk at 31 March 2014 is the fair value of all financial assets held by the Company Information relating to the fair value of all financial assets is given above – note 17 (a) None of the Company's financial assets are past due or impaired

NGET is the Company's sole customer, and income derived from NGET represents all of the Company's income NGET operates a low risk monopoly business within the UK, and the regulatory regime under which they operate results in a highly predictable, and stable, revenue stream The regulatory regime is managed by The Authority and is considered by the Directors to have a well-defined regulatory framework which is classified as a predictable and a supportive regime by the major rating agencies NGET has an obligation to maintain an investment grade credit rating, which it has currently maintained It is also subject to a regulatory financial 'ring fence' that restricts NGET's ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges Even in the very unlikely circumstance of NGET's insolvency, it is probable that any amounts outstanding would still be recovered This arises because NGET is also a 'protected energy Company' under the terms of the Energy Act 2004, which allows the Secretary of State to apply for an energy administration order which would give priority to the rescue of NGET as a going concern for the benefit of its unsecured creditors

Having considered the credit risks arising in respect of the exposures to NGET, the Directors consider that those risks are extremely low, given the evidence available to them At 31 March 2014 amounts past due from NGET amounted to £nil

In respect of the counterparties to the cash flow derivative hedges (RPI and interest rate swaps) these arrangements have been entered into with the same banks (or their subsidiaries) that have provided all of the variable rate borrowings to the Company At 31 March 2014, the fair values attributable to these positions were liabilities amounting to £16,561k and as a consequence there is no credit risk to the Company at this date

17. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

ii) Credit risk continued

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash It is the Company's policy, and a requirement under the Company's lending agreements, that such investments can only be placed with banks and other financial institutions with a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's All of these deposits are subject to insignificant risk of change in value or credit risk

iii) Liquidity risk and Going Concern

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities The Board of Directors manages this risk

As a result of the regulatory environment under which the Company operates, the credit worthiness of the Company's sole customer (NGET), and the RPI swaps that have been put in place, the cash inflows generated by the Company are highly predictable and stable In addition, net of the impact of the interest swap arrangements, all of the Company's senior debt carries a fixed coupon and in the opinion of the Directors, based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is reasonably expected to generate over the whole period of the project During the 17 month period ending 31 March 2014, senior debt-service costs amounted to £20,319k There is no contractual obligation on the Company to service the unsecured borrowing until 10 September 2032 when it is committed to repay the entire balance It is however the Company's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so There were no debt service cash outflows in respect of the unsecured borrowing

In accordance with the conditions of the various lending agreements, the Company is required to transfer funds to certain specified bank accounts and/or hold certain amounts on deposit for specified purposes Access to these bank accounts by the Company is subject to the agreement of the lenders and, in particular, access to amounts held on deposit held for specified purposes is restricted under the lending agreements Such specific purposes include the holding of sufficient funds in restrictive bank accounts to meet senior debt servicing requirements for a period of 3 months in the future The Company's use of these funds is restricted either to the specific purpose contemplated by the lending agreements, or until certain conditions are met or exceeded Where these conditions are met or exceeded then the use of any net cash generated in excess of the minimum necessary to meet the restrictive conditions is unfettered

At 31 March 2014, cash and cash equivalents included £21,103k which are held for specific purposes in the manner described above, and additional amounts of cash and cash deposits amounting to £4,011k whose disbursement requires the consent of the Company's lenders but are available for general corporate purposes

The Company prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Company These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use It is the Company's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due

17. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

In addition to the existing borrowings of the Company, the Company has secured committed credit facilities with a consortium of banks amounting to £9,000k at 31 March 2014 which expire in 2032 These facilities were undrawn at 31 March 2014 and are available to the Company under certain conditions laid down within the Company's lending agreements

During the period the Company has met all of its contractual obligations as they have fallen due and, based on the forecasts prepared by the Directors, expect that the Company will continue to do so for the foreseeable future The Company has met or exceeded its targets in relation to the obligations and lending covenants which it has to senior debt holders, and the forecasts continue to support the reasonable view that these will continue to be exceeded In addition, further liquidity is also available in the form of committed facilities, as referenced above All of these factors have allowed the Directors to conclude that the Company has sufficient headroom to continue as a going concern The statement of going concern is included in the Strategic Report

The contractual cash flows shown in the table on the following page are the contractual undiscounted cash flows relating to the relevant financial instruments Where the contractual cash flows are variable based on a price or index in the future, the contractual cash flows in the table have been determined with reference to the relevant price, interest rate or index as at the balance sheet date

In determining the interest element of contractual cash flows in cases where the Company has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Company selects the shortest available interest calculation periods

Where the holder of an instrument has a choice of when to redeem the following tables are prepared on the assumption the holder redeems at the earliest opportunity

The numbers in the table on the following page have been included in the Company's cash flow forecasts for the purposes of considering Liquidity Risk as described above The table on the following page shows the undiscounted contractual maturities of financial assets and financial liabilities, including interest

17. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

Liquidity risk	31/03/2014 Contractual cash flows	31/03/2014 0-1 years	31/03/2014 1-2 years	31/03/2014 2-5 years	31/03/2014 >5 years
Non-derivative financial assets					
Transmission owner asset	1,011,499	37,544	39,139	125,388	809,428
Cash and cash equivalents	25,114	25,114	-	-	-
	1,036,613	62,658	39,139	125,388	809,428
Non-derivative financial liabilities					
Borrowings +	(626,541)	(26,897)	(29,310)	(90,357)	(479,977)
Trade and other non-interest Bearing liabilities	(5,443)	(5,443)	-	-	-
Provision	(11,835)	-	-	-	(11,835)
	(643,819)	(32,340)	(29,310)	(90,357)	(491,812)
Derivative financial liabilities					
RPI and interest rate swaps	(32,954)	(935)	(1,001)	(3,453)	(27,565)
Net total	**359,840**	**29,383**	**8,828**	**31,578**	**290,051**

+ Including interest payments

iv) Sensitivities

Changes in interest rates and/or RPI affect the carrying value of those financial instruments that are recorded in the balance sheet at fair value The only financial instruments that are carried in the balance sheet at fair value are the standalone derivative financial instruments - RPI and interest rate swaps as described in note 11 above As explained in note 11, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the income statement Changes in the fair value of interest rate swaps and RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner asset, and in the case of the RPI swaps all senior debt variable rate borrowings - are carried at amortised cost Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the financial statements The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Company has no substantive economic impact on the Company because of the corresponding economic impact on the underlying cashflows they are hedging

Any changes in future cash flows in relation to the derivative financial instruments held by the Company, arising from future changes in RPI and/or interest rates, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the underlying

17. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

v) Capital management

The Company is funded by a combination of senior debt, subordinated debt and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000

Senior debt comprises a fixed rate loan from the EIB and a commercial loan facility from a syndicate of commercial lenders which carries a coupon linked to 3 month LIBOR The Company has entered into interest rate swap agreements (see note 11) with fellow or subsidiary undertakings of the commercial lenders for the same notional amount as the original commercial lenders loans and in the same proportion as the commercial loan facility This has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon All of the senior debt and related interest rate derivatives are serviced on a quarterly basis and are expected to amortise over the life of the project through to September 2032 At 31 March 2014, the total principal carrying value of senior debt net of unamortised issue costs excluding any accrued interest amounted to £402,727k

Subordinated debt has been issued to the Company's immediate parent undertaking, BTLAH and carries a fixed rate coupon (see note 16) At 31 March 2014 the total value of the subordinated debt principal outstanding, excluding accrued interest, amounted to £82,638k

Ordinary equity share capital issued during the period amounted to £835k and at 31 March 2014 amounted to £835k

The Directors consider that the capital structure of the Company meets the Company's objectives and is sufficient to allow the Company to continue its operations for the foreseeable future based on current projections, and consequently has no current requirement for additional funding

18. Ultimate parent Company

Blue Transmission London Array Limited's immediate parent Company is Blue Transmission London Array (Holdings) Limited, both are limited companies domiciled in Great Britain and registered in England and Wales The ultimate parent Company and controlling party is Blue Transmission Investments Limited (registered in Jersey) Blue Transmission Investments Limited is the largest and smallest Group which consolidates the financial statements of Blue Transmission London Array Limited

19. Post balance sheet event

The Company has identified a small section of one of the four undersea cables operated by the Company that had become exposed as a result of the action of scour The cause of the scour action is under investigation and the Company is taking advice from its technical advisers and is considering its options in relation to this exposure that range from doing nothing other than monitoring the situation to carrying out a campaign of cable reburial As there is considerable uncertainty as to the nature of any action to be undertaken, no provision has been made in these financial statements in respect of this

Glossary

A

The Agreement

The Shareholders Agreement

Annual General Meeting (AGM)

Meeting of shareholders of the Company, held on an annual basis, to consider ordinary and special business, as detailed in the Notice of AGM

The Authority

The Gas and Electricity Markets Authority

B

Board

The Board of Directors of the Company

BTI

Blue Transmission Investments Limited

BTLAH

Blue Transmission London Array (Holdings) Limited

BTLA

Blue Transmission London Array Limited

C

called up share capital

Shares (common stock) that have been issued and have been fully paid for

carrying value

The amount at which an asset or liability is recorded in the balance sheet

charging year

The period of time in between 1 April in one calendar year, and 31 March, in the following calendar year

Cash Flow Hedges

a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss

the Company, Blue Transmission London Array Limited, BTLA, we, our, or us

The terms 'the Company', 'Blue Transmission London Array Limited', BTLA, 'we', 'our', or 'us' are used to refer to Blue Transmission London Array Limited, depending on context

contingent liabilities

Possible obligations or potential liabilities arising from past events, for which no provision has been recorded, but for which disclosure in the financial statements is made

D

DECC

The Department of Energy & Climate Change, the UK Government ministry responsible for those respective fields

deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or received in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability

derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates, RPI or commodity prices

E

EIB

The European Investment Bank, the European Union's long term lending institution, established by the Treaty of Rome in 1958, with the aim of furthering European integration

equity

In financial statements, the amount of net assets attributable to shareholders

EU

The European Union, consisting of 28 member European national states

F

financial year

For Blue Transmission London Array Limited this is the accounting year ending on 31 March

FPL

Frontier Power Limited – supplier of management services to the Group

Glossary

G

Great Britain

The island of Great Britain comprised of its constituent parts, namely Wales, England, and Scotland

the Group

Blue Transmission Investments Limited and its subsidiary undertakings

H

HS&E

Health, Safety, and the Environment

I

IAS or IFRS

An International Accounting Standard, or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB) IFRS is also used as a term to describe international generally accepted accounting principles as a whole

IASB

International Accounting Standards Board

IFRIC 12

IFRIC 12 Service Concessions Arrangements

IFRS

See IAS

IML

Infrastructure Managers Limited – supplier of administrative and Company secretarial services to the Group

Interest Rate Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange periodic interest payments on a predetermined principal amount The Company pays fixed interest amounts in exchange for receipt of variable interest amounts linked to LIBOR

K

KPIs

Key performance indicators

kV

Kilovolt – an amount of electrical force equal to 1,000 volts

kWh

Kilowatt hours – an amount of energy equivalent to delivering 1,000 watts of power for a period of one hour

L

LIBOR

London Interbank Offered Rate

the Licence

The Offshore Electricity Licence held by Blue Transmission London Array Limited

LTIs

Lost time injury – an incident arising out of Blue Transmission London Array Limited's operations which leads to an injury where the employee or contract normally has time off the following day, or shift following, the incident It relates to one specific (acute) identifiable incident which arises as a result of Blue Transmission London Array Limited's premise, plant, or activities, which was reported to the supervisor at the time, and was subject to appropriate investigation

lost time injury frequency rate

The number of lost time injuries per 100,000 hours worked, over a 12 month period

M

MMO

Marine Management Organisation

MSA

Management Services Agreement

MW

Megawatts – an amount of power equal to one million watts

MWh

Megawatt hours – an amount of energy equivalent to delivering one million watts of power over a period of one hour

Glossary

N

NGET

National Grid Electricity Transmission plc

the Notes (see also subordinated loan, subordinated loan agreement, subordinated debt)

Unsecured 8 21% Loan Notes 2033

O

Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK

OFTO(s)

Offshore Transmission Owner(s)

O&M

Operations and Maintenance

P

Performance year

The period or part thereof (in the case of the commencement and termination years) over which the Company's transmission availability performance is measured – 1 January through to 31 December (or part thereof)

R

RPI

The UK retail price index as published by the Office for National Statistics

RPI Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange cash flows relating to RPI on a predetermined principal amount The Company pays variable cash flows arising from changes in RPI on a predetermined notional amount in exchange for receipt of fixed amounts

S

Senior Debt

All borrowings except those arising under the subordinated loan agreement

STC

Transmission System Code

SQSS

Security and Quality of Supply Standard

Subordinated loan, subordinated loan agreement, subordinated debt

Amounts borrowed by the Company from its immediate parent undertaking, BTLAH which ranks behind the senior debt

T

TEC

Transmission Entry Capacity

TOCA

Transmission Owner Construction Agreement

U

UK

The United Kingdom of Great Britain and Northern Ireland, comprising Wales, England, Scotland, and Northern Ireland