Registered No. 05046791

Wales & West Utilities Limited

Consolidated regulatory accounts for the year ended 31 March 2018

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Important information

Important Information

Wales & West Utilities Limited ("the Company") is a regulated gas distribution business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline. The Company operates under a Gas Transporters' Licence granted by The Gas and Electricity Markets Authority (the "Regulator") and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns. Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

The Company is a privately owned Company. Details of the immediate and ultimate parent companies are set out in note 25 to the consolidated regulatory accounts.

The obligation to produce consolidated regulatory accounts

The obligation to produce consolidated regulatory accounts is placed on the Company by Standard Special Condition A30 ("the Condition") of the Gas Transporters' Licence ("the Licence") granted under the Gas Act 1986 (as amended) ("The Gas Act"). The principal requirements of the Condition, in respect of the financial year ended 31 March 2018, are that the consolidated regulatory accounts must:

- fairly represent the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributed to, that business. Taxation, capital liabilities and interest thereon are only attributed to individual businesses to the extent that they relate principally to those businesses;
- have the same content and format as the Annual report and consolidated financial statements of the Company and conform to UK Generally Accepted Accounting Practice and the UK Corporate Governance Code, in so far as is reasonably practicable;
- separately show, in appropriate detail, the amounts of revenues, costs, assets, liabilities, reserves or provisions which have been charged from or to any business in the Wales & West Gas Networks (Holdings) Limited Group, or which have been determined by apportionment ("charges and apportionments");
- be subject to audit by the Company's statutory auditor; and
- be published, except for the information on charges and apportionments.

These consolidated regulatory accounts are therefore produced in compliance with, and solely for the purposes of, the Condition. The financial information contained in these consolidated regulatory accounts does not constitute Statutory consolidated financial statements within the meaning of Section 434 of the Companies Act 2006. Statutory consolidated financial statements for Wales & West Utilities Limited ("WWU") ("the Group") for the year ended 31 March 2018, to which this financial information partly relates, will be delivered to the Registrar of Companies. The auditors will make a report under Chapter 3 of Part 16 of the Companies Act 2006 on those statutory consolidated financial statements. The auditor's opinion on the Group's Statutory consolidated financial statements is addressed to, and for the benefit of, the members of the Group and Company and not for any other person or purpose. The auditors have clarified that the opinion on those Statutory consolidated financial statements will be prepared for and only for the Group and/or Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose.

The Statutory consolidated financial statements of the Group can be obtained from the Company Secretary, Wales & West Utilities Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

Important information (continued)

The obligation to produce consolidated regulatory accounts (continued)
Consolidated regulatory accounts have been prepared for Wales & West Utilities Limited ("WWU") and its wholly owned subsidiary, Wales & West Utilities Finance plc ("WWUF") (together referred to as "the Group"), in order to disclose the external borrowings which the Group has entered into to fund the Company's activities; accordingly no Company balance sheet is included within these consolidated regulatory accounts.

All of the trading activity of the Group is performed by the Company, whereas the external borrowings have been entered into by the Company and its wholly owned subsidiary, Wales & West Utilities Finance plc.

In addition, the Company owns the entire issued share capital of Wales & West Utilities Pension Scheme Trustees Limited, a Company incorporated in England and Wales (registered number 05750643), which is non-trading and comprises 2 shares of £1 each. The registered office address of Wales & West Utilities Pension Scheme is Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

Regulatory ring-fence
The Company Licence contains special "ring-fence conditions", which include requirements on the Company:

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

If the Company is in material default of any of the ring-fence conditions it can be prohibited from declaring and paying a dividend.

Transportation business
The transportation business comprises the development, administration, maintenance and operation of the Company's gas distribution network and the supply of gas transportation services.

Metering business
The metering business comprises the provision of metering services, which includes the provision, installation and maintenance of gas metering equipment. It is subject to price control in respect of the provision of domestic services.

De-minimis
The de-minimis activities of the Company are not subject to price control, but must be carried on within the terms of the Licence. These terms include restrictions on the level of those activities with respect to the overall level of the regulated businesses, unless The Regulator has otherwise consented.

Other activities
Other activities as set out in Standard Special Condition A30 paragraph 1(f) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in accordance with sub-paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing). These activities specifically include the service agreements entered into with National Grid Transco. These activities would otherwise have been classed as de-minimis. All de-minimis and other activities arise as a result of the transportation business. These activities are not subject to price control.

Directors and advisers

Directors

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

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

* Independent non-executive director

Company Secretary and registered office

Paul Millar

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

Independent auditor

Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

Principal bankers

Barclays Bank plc

One Churchill Place, London, E14 5HP

Strategic report

Strategy and objectives

Wales & West Utilities Limited group's ("Company" or "Group" as the context requires) strategy is to continue to maintain the gas distribution network for which it is responsible in Wales and the South West of England as required under its Gas Transporters' Licence and by the Health and Safety Executive ("HSE"), whilst providing appropriate levels of customer and consumer service. Maintenance of the gas distribution network includes development to increase the number of consumers connected as well as regular repair and replacement to ensure that it is kept in a good operational state.

Information in respect of the regulatory environment is included within "the business model" section below.

These consolidated regulatory accounts present the Group's results for the year ended 31 March 2018 and the comparative results for the year ended 31 March 2017 as reported under Financial Reporting Standard 102 ("FRS 102").

The Group reports financial and non-financial key performance measures to the extent necessary for an understanding of the development, performance and position of the Group on pages 11 to 13.

The business model

Business environment

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

The Company operates one of the independently owned regional gas distribution networks comprising the Wales and South West of England regional distribution zones. The other seven regional distribution networks are owned by independent operators. Together these eight networks represent the large majority of the gas distribution network in Great Britain. The gas distribution business comprises the development, administration, maintenance and operation of the Company's gas distribution network and the supply of gas transportation services.

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

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

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

Regulatory environment

The gas distribution business of the Company is regulated by the Office of Gas and Electricity Markets ("Ofgem"). Ofgem operates under the direction and governance of The Gas and Electricity Markets Authority ("The Regulator"), which makes all major decisions and sets policy priorities for Ofgem. The mechanism for regulation of the Company's activities in gas distribution and metering is derived from:

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

As a regulated business the Company is subject to price controls set by Ofgem which define its allowed revenues. The current eight year price control commenced on 1 April 2013 under Ofgem's RIIO (Revenue = Incentives, Innovation and Outputs) principles (the RIIO-GD1 price control). This price control defined allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on the Company's investment in the gas infrastructure asset.

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

Ofgem is currently undertaking a review of the existing RIIO framework ahead of the RIIO-GD2 price control, which will take effect from April 2021. Ofgem has issued a RIIO-2 Framework consultation to which the Company has responded and the Company expects guidance from Ofgem in relation to the sector during July 2018. The Company remains fully engaged with Ofgem, and the wider industry, to ensure that the RIIO framework remains balanced, sustainable and one that will support investment and customers.

The Company is required to submit a RIIO-GD2 business plan to Ofgem during the autumn of 2019 and will continue to engage with stakeholders over the next 12 months to ensure we develop a well justified and stakeholder led business plan.

In maintaining the gas distribution network, the Company expects Ofgem to set Revenue allowances to cover efficient costs. It also anticipates earning incentive income through exceeding certain targets set by Ofgem as part of the RIIO-GD1 price control.

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

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

The business model

Results and operating performance

All of the trading activity of the Group is performed by the Company, whereas the external borrowings have been entered into by the Company and its wholly owned subsidiary, Wales & West Utilities Finance plc. Consolidated regulatory accounts have been prepared in order to disclose the external borrowings which the Group has entered into to fund the Company's activities.

Operating profit amounted to £153.4m for the year ended 31 March 2018 (2017: £183.4m). After net interest of £141.0m, which includes an index-linked and interest rate swap credit of £32.4m (2017: net interest of £359.5m, includes an index-linked and interest rate swap charge of £182.7m) the consolidated profit before taxation amounted to £12.4m for the year ended 31 March 2018 (2017: loss of £176.1m). The consolidated loss attributable to shareholders amounted to £0.6m for the year ended 31 March 2018 (2017: loss of £118.3m).

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

The loss before taxation for the year ended 31 March 2018 excluding the fair value credit of £32.4m on derivatives amounted to £20.0m (2017: profit of £6.6m excluding the fair value charge of £182.7m).

The results of the Group for the year ended 31 March 2018 and the comparative year ended 31 March 2017 are set out in the consolidated profit and loss account on page 40.

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

Part of network improvement includes replacement work within capital investment. The Company laid 378kms of gas mains and undertook work on the related gas service pipes running from the gas mains to the properties of gas consumer's at a gross cost of £68.5m during the year ended 31 March 2018 against which consumers contributed £1.2m (2017: 425kms at a gross cost of £79.6m against which consumers contributed £3.0m). Consumer contributions are included within turnover.

The replacement work was undertaken either because:

(i) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains up to and including 8" in diameter and within 30 metres of a property are to be replaced with plastic alternatives within a period of 30 years from 2002; or

(ii) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains above 8" and less than 18" in diameter, within 30 metres of a property and in excess of a defined risk threshold are to be replaced within a period of 30 years from 2002; or

(iii) the overall condition of the metallic main warranted replacement; or

(iv) of a request (usually through a local authority as a result of a highways project) to move the gas infrastructure.

The business model (continued)

Business review

The Group's operating performance over the past year has been satisfactory, with all Ofgem's standards of performance being achieved. In particular, external targets for mains abandoned and replaced were met, as were targets in response to reported possible gas escapes, both within one and two hour time frames. The Ofgem standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met. Other targets include those relating to the achievement of Ofgem outputs and are measured and reported in Ofgem's RIIO-GD1 Annual Reports. In 2017/18 all Ofgem targets have been met by the Company (2016/17: All targets met). There were 1,555 complaints during the year ended 31 March 2018 (2017: 1,708). The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

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

Financial review

Basis of accounting

The consolidated regulatory accounts present the Group's results for the year ended 31 March 2018 with comparatives for the year ended 31 March 2017 and the financial position as at 31 March 2018 and 31 March 2017. They have been prepared using the accounting policies shown on pages 46 to 52 in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom and Republic of Ireland.

The consolidated regulatory accounts have the same content, with the exception of a Company balance sheet, and format as the statutory consolidated financial statements of the Group and conform to Generally Accepted Accounting Practice in the United Kingdom, in so far as is reasonably practicable.

Business unit reporting

The Group provides a breakdown of those results and balances into a number of different business activities as required by the Gas Transporter's Licence within these consolidated regulatory accounts. Note 1 - Turnover provides an analysis of income derived from regulated activities, non-regulated activities and from customer contributions.

Cash flow forecasting

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

Liquidity, resources and capital expenditure

Net cash inflow from operating activities for the year ended 31 March 2018 amounted to £223.8m (2017: £231.7m).

Investing activities absorbed net cash of £129.9m (2017: £133.6m) and net cash inflow from financing activities amounted to £516.6m. Financing activities, included £645.0m for the loan notes issued to affiliated companies and £48.0m for the Class B bond buy back during the year ended 31 March 2018 (2017: £165.4m outflow, which included £200.0m for the repayment of a £200.0m guaranteed bond at par on the redemption date of 2 December 2016 and a European Investment Bank loan of £150.0m).

The business model (continued)

Financial review (continued)

Pension Scheme

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

The calculation of the gross pension liability of £560.9m (2017: £622.2m) has a number of areas of judgement, with the key assumptions being the discount rate, inflation rate and assumptions around mortality as stated below:

- Discount rate - 2018: 2.50%, (2017: 2.50%)
- Inflation rate - 2018: 3.15%, (2017: 3.20%)

During the year, the Company updated its assumptions around mortality from the Continuous Mortality Investigation ("CMI") 2015 model to the CMI 2017 model, to reflect the latest available information. The change to the CMI model reduced scheme liabilities by circa 2.5% and has led to a gain of £17.4m recognised in the statement of comprehensive income. The mortality base table assumption is consistent with that used for both the 2016 triennial funding valuation and the 31 March 2017 valuation. Details of the movements in the pension Scheme are set out in note 24.

Shareholder deficit

Shareholder deficit at 31 March 2018 amounted to £575.0m (2017: £640.0m) as a result of a retained loss of £0.6m for the year ended 31 March 2018 (2017: retained loss of £118.3m), interest on intercompany loan of £42.7m released to reserves (2017: £53.2m) and an actuarial gain on the pension Scheme net of deferred tax of £22.9m (2017: £0.6m net actuarial loss). Details of the ownership of the Company are included in note 25. There were no movements in the authorised or issued share capital of the Company in the year.

Borrowings and financing

Details of net borrowings of £2,121.7m (2017: £1,489.3m) are disclosed in notes 11 and 12. At 31 March 2018, £681.5m of cash at bank was held by the Group (2017: £71.0m), which included £645.0m following the issue of loan notes to affiliated companies on 27 March 2018 (note 12 (iv) and note 26(d)).

On 4 April 2018, £645.0m of cash was used to repay an equivalent amount of the intercompany loan from the Company's immediate parent, Wales & West Utilities Holdings Limited and further intercompany loan repayments were made within the UK group. On 4 April 2018, Wales & West Gas Networks (Holdings) Limited, the ultimate parent Company, paid £645.0m comprising repayment of the £96.8m shareholder loan, £5.4m accrued interest thereon and a £542.8m dividend to West Gas Networks Limited and Western Gas Networks Limited; the UK incorporated joint equal shareholders of the UK Group, as part of a restructuring to simplify the UK Group's internal borrowing arrangements. See note 27 – Post balance sheet events.

On 4 May 2018 WWU borrowed, £50.0m of Class B debt from the National Westminster Bank plc expiring on 4 May 2021. The loan carries a coupon of LIBOR + 1.25% and interest is payable bi-annually in May and November. See note 27 – Post balance sheet events.

On 23 July 2018, WWU (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m. See note 27 – Post balance sheet events.

<u>The business model (continued)</u>

Financial review (continued)

Borrowings and financing (continued)

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

Appropriate index-linked swap and interest rate swap contracts are used to achieve the target interest risk profile. FRS 102 requires these swaps to be valued at 'fair value', which is calculated using market based interest rate information at the year end.

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

The net fair value liability, including accruals for swap accretion and current swap interest payable and receivable, of the interest and index-linked swap contracts held by the Company at 31 March 2018 was £914.4m (2017: net liability of £934.5m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward LIBOR and RPI rates. Details of the swap maturity dates and break clauses are included within note 13 - Financial instruments and risk management.

Details of the Group's approach to financial risk management are set out in the Strategic report on pages 15 to 17.

Wales & West Utilities Finance plc ("WWUF") is a wholly owned subsidiary of the Company and is the funding vehicle for raising funds to support the long term bond debt financing requirements of the Group. At 31 March 2018, WWUF had in issue a series of guaranteed bonds, all of which are listed on the London Stock Exchange. Further debt from the European Investment Bank was raised directly by the Company. Details of the guaranteed bond issuances are set out below:

Nominal value	Coupon	Class	Issue date	Redemption date
£250m	6.25%	A	10 July 2009	30 November 2021
£300m	5.75%	A	31 March 2010	29 March 2030
£100m	2.496% Index linked	A	31 March 2010	22 August 2035
£67m	6.75%*	B	31 March 2010	17 December 2018/2036*
£250m	4.625%	A	4 November 2011	13 December 2023
£150m	5.0%	A	4 November 2011	7 March 2028

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

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

The cumulative net proceeds of the issue of these bonds, including the redeemed bond, of £1,347.5m, were lent by WWUF to the Company to repay its existing financing and for general corporate purposes.

The business model (continued)

Financial review (continued)

Borrowings and financing (continued)

On 2 December 2016, the Company repaid £200.0m of the loan to WWUF. The funds were used to repay the guaranteed bond with a nominal value of £200.0m which matured on 2 December 2016.

On 27 March 2018, the Company purchased, through a tender offer, £48.0m nominal value of the 6.75% £115.0m Class B bonds maturing on 17 December 2036. The bonds were purchased at 104.134% of their par value, and included accrued interest of £0.9m. The total consideration paid was £50.9m. The premium paid of £2.0m is included within interest payable see note 4(b), representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day, WWUF acquired from the Company the bonds which it bought and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by the Company to it.

Taxation

The Company operates entirely within the United Kingdom and is subject to all the main tax charges which fall under UK legislation. These include Corporation tax, VAT, national insurance, regulatory licence fees, local authority fees (New Roads and Streetworks Act) and relevant rates.

Corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year. The £2.5m current corporation tax credit for the year ended 31 March 2018 includes a £0.1m credit reflecting the amounts due from Wales & West Gas Networks (Holdings) Limited by way of group relief surrendered and a £2.4m prior period corporation tax credit; reflecting adjustments of £2.6m credit for the allocation of disallowed interest under the worldwide debt cap provisions offset by a £0.2m charge to reflect an increase to the amounts due from group companies in respect of group relief surrendered and the finalisation of the tax returns for earlier years (2017: £11.0m credit; £7.2m credit in respect of amounts due from group companies relating to group relief surrendered of £7.0m and the allocation of disallowed interest under the worldwide debt cap provisions of £0.2m).

The overall taxation position for the year has moved from a tax credit of £57.8m in 2017 to a tax charge of £13.0m in 2018 mainly as a result of the profit in the year. The effective rate of tax of 126.9% for the year ended 31 March 2018 is higher than the statutory rate of 19% largely due to the transfer pricing adjustments imputed of £52.6m (2017: (32.8%) is lower than the statutory rate of 20% largely due to the transfer pricing adjustments imputed of £52.9m resulting in an incremental charge of £10.6m less the credits arising mainly as a result of transitional adjustments to FRS102 in respect of deferred tax (£22.6m), current tax (£3.8m) and rate differences of (£6.1m)).

Deferred corporation net tax charges are recognised as deferred tax net liabilities of £207.1m at 31 March 2018 (2017: £187.0m). The deferred tax is calculated based on enacted rates at the time the asset or liability is expected to unwind. The corporation tax rate will be reduced to 17% on 1 April 2020.

Fixed assets

Freehold land and buildings are carried in the consolidated regulatory accounts at depreciated historic cost of £18.0m (2017: £16.4m).

Investment in the network is essential for ensuring the security of the gas supply and the safety of the public. Gross capital expenditure in the Company's network was £126.6m for the year ended 31 March 2018 (2017: £142.4m).
As permitted by FRS 102, WWU has elected for gas distribution network assets within tangible fixed assets to be measured at their fair value of £2,288.0m at 31 December 2014, the date of transition, and for that fair value to be used as the deemed cost of the item going forward.

Contractual relationships
The Group has contractual relationships with many parties including directors, employees, suppliers, banking groups, debt investors, group companies and affiliated companies (see note 12 (iv)). Amongst the suppliers is Xoserve Limited, the sole company which provides gas throughput and billing information to the Group, which is used by the Group in setting its regulated gas distribution charges to gas transporters. The investment in Xoserve was £0.1m at 31 March 2018 (2017: £0.1m) – see note 7 – Fixed asset investments.

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

- On 4 April 2018, WWU repaid £645.0m of its intercompany loan from its immediate parent, Wales & West Utilities Holdings Limited.
- On 4 May 2018 WWU borrowed, £50.0m of Class B debt from the National Westminster Bank plc expiring on 4 May 2021. The loan carries a coupon of LIBOR + 1.25% and interest is payable bi-annually in May and November.
- On 23 July 2018, WWU (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m.
- On 27 July 2018, Wales & West Utilities Finance plc ("WWUF") agreed pricing on a new Class A bond for a nominal amount of £300.0m under that company's £5,000.0m multicurrency secured guaranteed bond programme. The bond will be issued on 3 August 2018, carries interest at 3.0% p.a. and is repayable on 3 August 2038.

Other than those matters referred to above which are detailed in note 27 – Post balance sheet events, there were no significant developments within the Group that occurred during the financial year under review and prior to approval of the consolidated regulatory accounts.

The Group expects to continue to safely maintain and develop the Gas Distribution Network for the benefit of stakeholders in accordance with its Gas Transporters' Licence granted by the Regulator. The Group has a good record against its key performance measures as set out below and aims to maintain this position into the future.

Ofgem is currently undertaking a review of the existing RIIO framework ahead of the RIIO-GD2 price control, which will take effect from April 2021. The Company is required to submit a RIIO-GD2 business plan to Ofgem during the autumn of 2019 and will continue to engage with stakeholders to ensure it develops a well justified and stakeholder led business plan.

Key performance measures
The Group uses a number of key measures of operational and financial performance to plan and monitor its business activities. These measures are principally focused on the safe and effective operation of the gas network infrastructure asset. Measures of operational performance include:
- process safety – safety of the gas transportation assets;
- occupational health and safety – injuries, near misses and ill health;
- environment – waste disposal, energy usage and use of natural resources;
- the management of controllable costs in relation to the regulated business and non-regulated business;
- the achievement of service levels and the minimisation of complaints;
- achievement of capital and replacement programme targets and cost efficiency; and
- the reliability of the gas distribution network and other customer facing quality of service measures.

Key performance measures (continued)

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

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with consumers, Ofgem and the public. Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies. The Group is required by Ofgem to meet a number of different service targets ("Overall Standards"), including attendance at gas escapes and notifying consumers in advance of planned interruptions and responding to complaints. The Company's Licence also requires it to meet certain service targets for connections. Performance against these standards is reported to senior management every month and is reportable to Ofgem on an annual basis. Compensation payments are made to consumers under the Gas (Standards of Performance) Regulations 2005, in the regrettable event that certain service standards are not met. Compensation payments for the year ended 31 March 2018 amounted to £0.2m, which included £0.1m of additional compensation as WWU voluntarily choose to double the Ofgem compensation rates during 2017 (2017: £0.1m).

The Company measures service quality to assess the performance of management and staff in serving consumers, including a quarterly survey which is undertaken by an independent market research company, the results of which are published on the Company's website and are reported to Ofgem.

All regulatory standards of performance were achieved in the year to 31 March 2018 and the preceding years as shown below. Key operational performance measures were:

	Ofgem Target	**2017/18**	2016/17	2015/16	2014/15	2013/14
Responding to gas escapes						
1 hour target for uncontrolled escapes	97.0%	**98.0%**	98.5%	98.6%	98.5%	98.3%
2 hour target for controlled escapes	97.0%	**98.6%**	99.4%	99.6%	99.6%	99.4%
Standards of performance						
Issuing quotations	90.0%	**99.7%**	99.0%	99.2%	98.7%	98.7%
Offer dates for work start and finish	90.0%	**99.9%**	99.9%	99.9%	99.0%	99.9%
Jobs completed on agreed dates	90.0%	**97.2%**	95.9%	94.2%	93.9%	94.6%
Responding to complaints	90.0%	**99.9%**	99.9%	99.9%	99.9%	99.8%
Customer complaints						
Number of complaints		**1,555**	1,708	1,776	2,900	2,519
Number of jobs undertaken		**272,721**	283,089	229,158	242,954	234,584
Percentage complaints		**0.6%**	0.6%	0.8%	1.2%	1.1%
Upheld complaints*						
Ombudsman service		**-**	-	-	-	-

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

Key performance measures (continued)

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

	2017/18	2016/17	Restated 2015/16
	£m	£m	£m
Turnover	**425.2**	433.9	419.1
Operating costs	**(271.8)**	(250.5)	(237.9)
Operating profit	**153.4**	183.4	181.2
Operating profit before depreciation, amortisation, movements in provisions and one-off items	**246.5**	271.2	268.5
(Loss)/profit after tax	**(0.6)**	(118.3)	25.2
Operating cash flows	**223.8**	231.7	247.7

One-off items are those of an unusual or non-recurring nature incurred by the Group and include accrual charges or credits taken through the profit and loss account and restructuring costs disclosed in note 2.

Operating profit for the year ended 31 March 2018 is £30.0m lower than for the year ended 31 March 2017. Turnover has reduced by £8.7m during the year ended 31 March 2018 due to £4.1m lower customer contributions and true-up adjustments within regulated revenues. Costs were £21.3m higher for the year ended 31 March 2018, mainly due to higher business rates of £11.2m and exit capacity charges of £9.0m. These "pass through" cost increases will be recovered through regulated revenues with a two year lag.

Principal risks and uncertainties

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

Approach to risk

The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified below. In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Transporters' Licence, standards of service and obligations with the HSE.

If more than one principal risk event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

On an annual basis, the Board, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes, risks and controls with assurance and support provided by one of the Company's sub-committees, the Audit Committee. A key part of that process is the receipt of a Letter of Assurance from the Chief Executive, which consolidates the key matters of interest raised throughout the year by the management of the Group.

Principal risks and uncertainties (continued)

Within the business, the risk management process continues to be based on assessments of operational (including health and safety), regulatory, financial and other business or project risks. Key business departments prepare and maintain risk registers that capture their key risks and the actions being taken to manage them.

These risk registers support the Company's strategic risk register; this incorporates risks that are viewed as important to the Company from an ongoing risk management and mitigation perspective. Senior management are closely involved in the review process, whether that be through discussion at relevant committees or during review and challenge from the Company's internal audit function on a quarterly basis.

The key business risks facing the Group are set out below and have been identified from an inherent risk perspective as having the potential for a material adverse effect on our business operations and results, financial condition or reputation. With appropriate mitigating controls management attempt to reduce the impact of these risks within the business, but some of these risks are not wholly within their control, and may still have potential to result in a material adverse impact on the Group and its business activities, as may factors besides those listed.

Asset management systems

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

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

Network Assets, Health and Safety

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

Mains replacement targets, Health and Safety Executive

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme (see page 6) applicable to all gas distribution networks, may not be achieved. Non-compliance with the HSE could result in financial penalties and could cause adverse publicity and impact negatively on the reputation of the Group. WWU undertakes the work through a tri-party agreement with two main contractors and has secured a contract until March 2021.

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

Regulation

The gas industry is subject to extensive regulatory obligations with which the regulated business must comply. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of WWU or in the case of financial or workload misreporting, a potential fine and a negative reputational impact. The prices which can be charged for the use of the Company's network are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be allowed over a pre-determined period (historically five years but currently eight years). In addition targeted incentive schemes have been introduced by the Regulator whereby the Group has the opportunity to perform against agreed targets and thereby increase its revenue or incur penalties if performance is below the targets.

Principal risks and uncertainties (continued)

Regulation (continued)

Ofgem is currently undertaking a review of the existing RIIO framework ahead of the RIIO-GD2 price control, which will take effect from April 2021. Ofgem has issued a RIIO-2 Framework consultation to which the Company has responded and it expects some guidance relating to the sector from Ofgem during July 2018. WWU remains fully engaged with Ofgem at all levels of seniority, and the wider industry, to ensure that the RIIO framework remains balanced, sustainable and one that will support investment and customers. WWU has a business strategy team to support the RIIO-GD2 price control; understand future plans and the potential impacts on the business.

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

Supply chain

An interruption to the supply of critical materials or services could have a significant impact on the Company's ability to repair, maintain, develop and reinforce the network.

Reliance on skilled employees

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

Employee relations

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

Financial risk management

The Company's operations and capital structure expose it to a variety of financial risks that include the effects of commodity risk, credit risk, liquidity risk, interest rate risk, inflation risk, pension deficit and taxation. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs. The Company also uses derivative financial instruments to manage interest rate and inflation risk.

The directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. However, key decisions of the Treasury Committee are referred back to the Board for ratification. The policies set by the Board are implemented by the Company's finance department through the Treasury Committee.

Commodity risk

The Company is exposed to commodity volume risk through the purchase of "shrinkage gas" as a result of its operations. Shrinkage gas is the gas which leaks from the gas distribution network and also includes gas used by the Company and gas stolen from the network. This risk is managed through appropriate commodity purchases in the forward market.

<u>Principal risks and uncertainties (continued)</u>

Financial risk management (continued)

Commodity risk (continued)

The total gross cost of gas purchased for the year ended 31 March 2018 was £5.9m (2017: £5.0m). The gas is purchased through contracts renewed annually and these contracts typically fix the price of gas a day ahead of purchase. Price risk is allowed for under the RIIO-GD1 price control regime and treated as a cost pass through, at the day ahead price, and is therefore substantially mitigated. The volume risk is closely monitored and is also mitigated to a certain extent given the relatively stable flows of gas through the network and consequent consumption volumes.

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

Liquidity risk

The Company maintains adequate liquidity resources through a combination of cash balances (overnight or short term deposits) with approved counterparties and headroom under committed revolver facilities provided by core banks. Liquidity forecasting over short and medium term timescales is embedded within the Finance function as a core process and is periodically updated.

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

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

Credit risk

The Group is exposed to the risk that its counterparties, including shippers, may default on the terms of their agreements. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis.

Exposure against credit limits is monitored daily and credit limits are reviewed at least annually in the case of credit checks and when any security document expires, an Investment Grade Rating changes or trading levels increase. The amount of credit given to gas shippers is governed by the Uniform Network Code ("UNC") regulations and guideline.
These provide for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of prepayment. The UNC criteria allow a maximum credit limit usage of 100% (2017: 100%) which, if exceeded, allows the Company to apply sanctions.

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

Principal risks and uncertainties (continued)

Financial risk management (continued)

Credit risk (continued)

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

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. Volatility in interest rates, real and/or nominal, could result in uncertainty over the Company's future cash flows. This volatility is reduced by a policy of maintaining a fixed nominal or real rate on at least 85% of liabilities on a rolling 5 year basis, 75% of liabilities thereafter, up to the end of the current control period, 31 March 2021. The Company has a policy target for interest rate risk of a minimum of 85% fixed and a maximum of 15% floating.

Inflation risk

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

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

Pension deficit risk

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). The defined benefit section of the Scheme was closed to new entrants in 2005 and 64% of members are either retired or have deferred benefits at 31 March 2018. Since 2005 new employees are entitled to enrol into the defined contribution section of the Scheme.

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

Financial instruments

Appropriate index-linked swap and interest rate swap contracts are used to achieve the target interest risk profile. FRS 102 requires these swaps to be valued at 'fair value', which is calculated using market based interest rate information at the year end. As at 31 March 2018, the Company held index-linked swap contracts with a notional principal of £1,003.8m (2017: £1,003.8m) and interest rate swaps with a notional principal of £234.4m (2017: £234.4m).

At 31 March 2018 the net fair value liability, including accruals for swap accretion and current swap interest payable and receivable, of the interest and index-linked swap contracts held by the Company was £914.4m (2017: £934.5m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward LIBOR and RPI rates. Note 13 - Financial instruments and risk management provides further detail.

Corporate and social responsibility

Health, safety and environment

Process Safety

The Company's objective and obligation is to manage the risk of a major accident or severe gas supply loss. The management of the gas carrying assets is significant and a comprehensive safety management system has been established which is certified to ISO 55001; a Safety Case has been submitted and approved by the Health and Safety Executive. During the year ended 31 March 2018 there were no significant incidents on the gas network (2017: none).

Occupational Health and Safety

The Company's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to members of the public. During the year ended 31 March 2018, there were three direct labour lost time injuries ("LTI") and two contract labour LTI's (2017: one direct labour LTI and two contract labour LTIs), giving a 12 month frequency rate of 0.10 LTI's/100,000 hours worked for direct labour (2017: 0.03 LTI's/100,000 hours worked).

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

With a deployed work force (including contractors) of around 2,000, a multi-million pound gas mains and services replacement programme and the Company's core role of managing the safe and secure delivery of gas; the safety challenge is significant. The Company meets this challenge by having a comprehensive management system designed and certified to the standard OHSAS 18001, with a structured risk management process at its core.

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

Environment

The Company is also proud of its environmental achievements and again maintained certification to ISO 14001 environmental management. By utilising and developing industry-wide best practices, the Company has reduced its environmental impact. Key areas of focus have been climate change, the reduction in disposal of waste to landfill and the use of quarried stone. Protecting the environment is a key focus for the Company going forward, and the Company is constantly looking for ways to minimise the environmental impact of its past, present and future activities.

The Company continues to manage its portfolio of contaminated land sites. These sites are former gas manufacturing plants and can sometimes have a complex mix of contamination dating back over 100 years. The Company's remediation programme has a main focus on managing environmental risk.

Corporate and social responsibility (continued)

Social and community

The Company aims to be a socially responsible citizen in the region covered by its gas distribution network. The Company is working to help combat fuel poverty in the region by working with Warm Wales (incorporating Integrated Energy Services), a community interest company, and Centrica to invest in network extensions with in-house projects by social landlords and local authorities to further improve energy efficiency and sustainability.

Gender diversity

The Group employed the following mix of staff:

	At 31 March 2018			At 31 March 2017		
Number	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Executive and directors	16	1	17	16	1	17
Senior managers	28	8	36	29	8	37
Other employees	1,130	237	1,367	1,112	225	1,337
Total employees	**1,174**	**246**	**1,420**	**1,157**	**234**	**1,391**

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

The Group is based in the UK and, to the extent that it is appropriate, aims for a workforce that is representative of the societies in which we operate.

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

Employment policies

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

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

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

Corporate and social responsibility (continued)

Employment policies (continued)

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

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation; colleague engagement surveys provide the Group with valuable information upon which to base future policy decision. In 2017 we applied for and achieved Investors in People accreditation at silver level. Investors in People ran the 2018 annual colleague survey on our behalf and achieved a 51% response rate (2017: 69%).

The Group offers equality of opportunity and support for disabled employees and provides a comprehensive occupational health service which seeks to retain colleagues in employment.

The Group’s policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes, abilities, values and behaviours in support of the Group’s operational requirements. Once employed, a development plan is designed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group’s operational requirements. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well-being of the Group’s workforce with a wide reaching Well Being Strategy, which was relaunched in March 2017, with focus in the year on supporting psychological health.

Training and development

The Group has consistently sought to recruit and retain the best employees in its geography in order to provide the level of service which is expected.

The Group measures success in this area through employee retention. The Group had a voluntary staff turnover rate of 8.0% during the year ended 31 March 2018 (2017: 3.0%), this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average in UK industry during 2016 was 16.5%.

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

Corporate and social responsibility (continued)

Employment policies (continued)

The WWU Apprenticeship Programme is a three to five year training period, depending on the course of study undertaken. There are three purpose built in-house training centres for the apprentices to develop their practical and technical skills. Recruitment is undertaken on a targeted basis, ensuring that apprentices are recruited to areas of need.

The age profile of the Industrial workforce is high and the Group will see a large number of leavers during the next five years and beyond. Our apprentice population has been recruited into the areas of “Emergency”, “Mechanical Engineering” and “Electrical and Instrumentation”; in 2015 we extended our apprentice recruitment into the areas of “Build and Repair” and “Replacement” thereby covering all operational work streams. All our apprenticeships are in key technical areas where skills are not readily available in the external market and training times can be up to five years.

Ensuring continuity of the key skills required within the Industry and enabling a full and proper knowledge transfer to take place will ensure that the Group is well placed to effectively undertake this work going forward. Working with our sector skills council, Energy & Utility Skills and other key partners, we are able to effectively and proactively plan for the future. The number of apprentices employed since WWU started trading in 2005 is 164 (2017: 143), meaning that 22% (2017: 18%) of the industrial workforce has joined the Company via the WWU Apprenticeship Programme. In 2017 we recruited 21 apprentices and a further 18 apprentices are due to be recruited in 2018.

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

By order of the Board

Paul Millar
Company Secretary
19 July 2018

Report of the directors

The directors of the Wales & West Utilities Limited group ("the Group" or "Company" as the context requires) have pleasure in presenting their consolidated regulatory accounts for the year ended 31 March 2018 as presented on pages 40 to 90.

Principal activities

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

History and development

The Company is a regulated gas transportation business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline. The Company operates under a Gas Transporters' Licence granted by the Regulator and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns. Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

Details of the immediate and ultimate parent companies are set out in note 25 to the consolidated regulatory accounts.

Share structures

At 31 March 2018, the authorised and issued share capital of the Company was £30,675,000 divided into ordinary shares of £1 each. Details of the share capital are given in note 17 to the consolidated regulatory accounts. There were no movements in the authorised or issued share capital of the Company in the year. All ordinary shares have the same rights, including the right to one vote at a general meeting, to an equal proportion of any dividend declared and payable, and to an equal amount of any surplus assets which are distributed in the event of a winding up.

Dividend on ordinary shares

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2018 (2017: £nil).

Directors

The names of the current directors of the Company are shown on page 3.

There were no changes in directors during the year and up to the date of signature of the consolidated regulatory accounts, all directors served throughout the year.

Company secretary

The name of the current Company secretary is shown on page 3.

Directors' service contracts and remuneration

Details of directors' remuneration are set out in note 3(a).

Directors' interests

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

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

Contributions for political purposes

During the year ended 31 March 2018, there have been no political donations (2017: £nil).

Non-adjusting events after the end of the reporting period

Non-adjusting events are explained in Note 27 – Post balance sheet events.

Future developments

Details of future developments can be found in the Strategic report on page 11 and form part of this report by cross-reference.

Disabled employees

Details of the Company's policy for the employment of disabled employees can be found in the Strategic report on page 20 and form part of this report by cross-reference.

Employee consultation

Details of the Company's employment policies and employee consultation undertaken can be found in the Strategic report on page 20 and form part of this report by cross-reference.

Going concern

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

The business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The risks that the business faces in the coming year are set out on pages 13 to 17. The financial position of the Group, its cash flows and liquidity position are set out on pages 6 to 10.

In arriving at their decision to prepare consolidated regulatory accounts on a going concern basis the directors have reviewed the Group's budgets and forecasts for calendar year 2018, its forecasts and medium term business plans from 2019 to 2021 including capital expenditure plans, and taking into account the risks faced by the business and the net current liabilities position the directors believe that the Group is well placed to manage its business risks successfully. The review included considering the forecast operating cash flow generated, cash flow implications of the plans, available debt facilities at the year end and raised post year end and comparing these with the Group's cash resources and committed borrowing facilities and concluded that the Group and Company was in a position to meet its liabilities as they fall due.

Qualifying indemnity

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

Directors' liability insurance

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

Carbon reporting

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

Performance report

An overview of our total emissions performance is shown on the following page:

Assessment parameters

Baseline year	1 April 2012 to 31 March 2013
Consolidation approach	Financial control
Boundary summary	All processes and all facilities either owned or under financial control are included; this includes locations that are rented from third parties in respect of the consumption of Electricity and Gas
Consistency with the financial statements	Energy Use includes locations that are rented from third parties and refers to Electricity and Gas
Emission factor data source	2017/18 - Defra August 2017 (2016/17 – Defra June 2016)
Assessment methodology	The Greenhouse Gas Protocol and ISO 14064-1 (2006)
Materiality threshold	A materiality threshold of 1% of total emissions (some 190 tonnes CO_2e) has been applied
Intensity ratio	Emissions per £m revenue
Target	16% reduction in reportable leakage emissions by 2020/21, from a 2012/13 baseline 10% reduction in other business emissions by 2020/21, from a 2012/13 baseline
Independent assurance/verification	Data has not been independently verified/assured

Carbon reporting (continued)

Carbon emissions

	2017/18		2016/17		Movement from prior year (reduction)/increase		
	tCO_2e	tCO_2e/£m	tCO_2e	tCO_2e/£m	tCO_2e	tCO_2e %	tCO_2e/£m %
Scope 1							
Network leakage (fugitive emissions)	492,280	1,157.76	511,076	1,164.19	(18,796)	(3.68)	(0.54)
Energy Consumption (Gas)	248	0.58	203	0.46	45	22.22	26.85
WWU Fleet (fuel consumption from direct commercial fleet vehicles)	8,122	19.10	8,052	18.34	70	0.87	4.15
WWU Cars (fuel consumption associated with business mileage)	1,148	2.70	1,301	2.96	(153)	(11.79)	(8.82)
	501,798	**1,180.14**	**520,632**	**1,185.95**	**(18,834)**	**(3.62)**	**(0.49)**
Scope 2							
Purchased electricity	1,218	2.86	1,882	4.29	(664)	(35.30)	(33.24)
Statutory total Scope 1 and Scope 2	**503,016**	**1,183.00**	**522,514**	**1,190.24**	**(19,498)**	**(3.73)**	**(0.61)**
Scope 3							
Polyethylene pipe & fittings	4,523	10.64	4,525	10.31	(2)	(0.04)	3.18
Other reportable to Ofgem (from 2014)	135	0.32	57	0.13	78	136.49	143.87
Primary contractor vehicles	520	1.22	563	1.28	(43)	(7.73)	(4.55)
	5,178	**12.18**	**5,145**	**11.72**	**33**	**0.63**	**3.90**
Total carbon emissions	**508,194**	**1,195.18**	**527,659**	**1,201.96**	**(19,465)**	**(3.69)**	**(0.56)**

Overwhelmingly, our primary emissions continue to be associated with losses from the gas distribution network (fugitive emissions). These emissions are estimates of the gas lost from the distribution network we operate using the same models we use for reporting to our economic regulator, Ofgem. These losses accounted for 96.9% (492,280 tonnes CO_2e) (2017: 96.9% - 511,076 tonnes CO_2e) of our total emissions - this represents a decrease of 18,796 tonnes CO_2e when compared to the previous year. The remaining 3.1% (15,914 tonnes CO_2e) (2017: 3.1% - 16,583 tonnes CO_2e) was associated with the other operational activities of the business; this includes transport, purchased energy and primary contractors. This is consistent with previous reporting periods and will continue to be directly related to our programme of abandoning old and inefficient gas mains as part of our agreed replacement programme with Ofgem, together with the benefits of improved pressure management across the gas infrastructure network.

The reduction in network leakage during the reporting period was primarily achieved by:

- abandonment of 409kms (2017: 458kms) of metallic mains with 27,093 (2017: 35,213) services being replaced or transferred; and
- updating old and inefficient pressure management equipment and maintaining statutory average system pressures.

Based on the above, we will continue to focus our investment and resources on reducing our fugitive emissions from the gas distribution network as the greatest reduction in emissions can be achieved in this area.

Carbon reporting (continued)

The RIIO-GD1 Gas Distribution Price Control requirements are based on the Department for Environment Food & Rural Affairs ("Defra") Environmental Reporting Guidelines June 2013. These guidelines support greenhouse gas reporting under the Climate Change Act 2008 and the Companies Act 2006 (Strategic report and Report of the directors) Regulations 2013. Scope 1, Scope 2 and primary Scope 3 emissions are reported under these guidelines, and are based on published Defra CO_2e conversion figures. Published average values are used for categories based on business mileage.

Disclosure of information to auditor

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

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

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

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

By order of the Board

Paul Millar
Company Secretary
19 July 2018

Corporate governance statement

Statement of Compliance

The Company is a private unlisted Company and is therefore not required to comply with the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council ("FRC"). The Company is however, required to prepare a corporate governance statement as if it were a quoted Company under the requirements of Standard Special Condition A30 paragraph 4 (b) (v). The Company has resolved to adopt such parts of the Code as are appropriate to its circumstances and to disclose the reasons for non-compliance for those parts of the Code considered inappropriate.

This statement has been prepared solely for the Regulator to fulfil the requirements of Standard Special Condition A30 paragraph 4 (b) (v) and should not be relied upon by any other party or for any other purpose.

The Company has reviewed its compliance with the provisions of the Code which replaced the 2008 Combined Code, which was effective from June 2010 and subsequently revised in September 2014 for periods beginning on or after 1 October 2014. FRC guidance outside of the Code has been considered but is not explicitly covered by our Statement of Compliance.

Throughout the year ended 31 March 2018 and the prior year ended 31 March 2017 the Company has been in compliance with the Code provisions set out in the UK Corporate Governance Code except for the following matters:

- board members are not subject to the re-election criteria as required by the Corporate Governance Code section B.7.1. The composition of the board is evaluated annually by the Company's shareholders, the shareholders are satisfied that the composition of the board continues to be appropriate to ensure effective leadership;
- the Company does not operate a standing Nomination Committee and the Non-Executive directors do not sit on the remuneration committee. Therefore the Non-Executive Directors are not directly involved in determining the level of remuneration and the removing/appointing of executive directors. This is mitigated by the fact that all board members, including Non-Executive Directors, have the ability to scrutinise and challenge any decisions made by the Remuneration Committee during board meetings;
- full compliance with the accountability requirements of section C3.8 is not considered relevant to the users of the consolidated regulatory accounts;
- the Company has chosen not to apply the disclosure requirements of the Corporate Governance Code section D.1.2. in respect of the remuneration of executive directors serving as a non-executive director elsewhere. As the Company is unlisted it is not required to prepare a remuneration report, therefore this requirement of the Code is not applicable; and
- taking into account the ownership structure of the company and the users of the consolidated regulatory accounts, the Company has chosen not to apply the disclosure requirements of the Corporate Governance Code section C.2.2. in respect of the Viability Statement.

Chairman's statement

The Group's ambition is 'to deliver outstanding levels of gas safety, reliability and customer service so that we are trusted and valued by the millions of people we serve every day.' Whilst much of our gas distribution network is underground and out of sight, our services play a central role in the daily lives of all our customers. Working with a range of stakeholders to develop sustainable, innovative and affordable energy, we believe our role is to contribute positively to the quality of life and wellbeing of our customers and communities we serve. The Group continues to invest in our gas distribution network, so we can continue to successfully deliver gas to homes and businesses, offering the very best service for our customers, both now and for generations to come.

As a regulated business the RIIO framework introduced by Ofgem which runs from 2013 to 2021 drives our business to deliver ever increasing value for money for our customers. In the first five years of RIIO we have performed very well against outputs and incentives to deliver greater efficiency, innovation, stakeholder engagement, and an enhanced standard of service for our customers. In addition the HSE programme to replace gas mains with polyethylene by 2032 will deliver a safe and reliable gas networks for customers well into the future.

Performance

The Group's operating performance over the past year has been satisfactory, with all standards of performance being achieved. In particular, external targets for mains abandoned and replaced were met, as were targets in response to reported possible gas escapes, both within one and two hour time frames. The standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met. Other targets include those relating to the achievement of Ofgem outputs and are measured and reported in Ofgem's RIIO-GD1 Annual Reports. In the current and prior year all Ofgem targets have been met by the Company.

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

The role and effectiveness of the board

The Board is responsible for ensuring leadership through effective oversight and review. Supported by its principal committees – Audit, Health and Safety, Remuneration, and Treasury – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term. The work of the Board complements, enhances and supports the work of the Executive Committee. We believe that effective governance is realised through leadership and team work. Collaboration across all levels within the Board structure drives a culture of continuous improvement.

Capital Providers

The Company is funded by a combination of debt and equity. Representatives of the shareholder are members of the board and also sit on the principal committees - Audit, Health and Safety, Remuneration, and Treasury. This ensures that the needs and concerns of the Company's' shareholders are considered and addressed.

The Company communicates with its debt holders on an individual basis upon request of each bond holder. Furthermore the statutory annual report and consolidated financial statements are available for inspection on the Company's website and half yearly accounts are submitted to the bond holders within 90 days of the period end.

Andrew Hunter
Chairman
19 July 2018

The Board and its Corporate Governance Framework

Corporate Governance Framework

Details of the Board and its Corporate Governance Framework are set out below. The board has detailed terms of reference setting out its responsibilities, accountabilities and reporting obligations and, in respect of the subsidiary board committees, how they operate in conjunction with the Board as detailed later in this section. These, together with the risk management and internal control frameworks, form an effective and robust governance structure designed to manage and develop the Group in accordance with the Group's strategy.

Board of Directors

The Board is responsible to the shareholders for all aspects of the Group's and Company's performance and meets on a bi-monthly basis to review the strategic direction of all business activities and monitor performance against approved business plans and budgets.

Appointment to the Board is made in accordance with the articles of the Company.

The roles of Chairman (Andrew Hunter) and Chief Executive Officer (Graham Edwards) are held separately. There is no standing Deputy Chairman. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The directors other than the Chief Executive and his alternate are independent of management and free from any business or other relationship with the Company, other than as shareholder representatives. Due to the nature of the Shareholder Agreement in place for the Wales & West Gas Networks (Holdings) Limited Group, which entitles each shareholder to a relevant number of seats on the Board of each entity in that group, WWU's shareholder appointed board directors are representatives from each shareholder. Therefore, the shareholders are already appropriately protected as they are involved in making all the key business decisions. As such some aspects of the UK Corporate Governance Code are not applicable for the Group. All directors have full access to the internal audit team, the external auditor and to management. No director has a financial interest in the Company other than by way of their fees as disclosed in the Report of the directors. The Chairman has confirmed that he has sufficient time to undertake his duties as Chairman given his commitments outside the Group.

Grant Hawkins and Michael Pavia are considered to be independent non-executive directors. The role of the non-executive directors includes scrutinising the performance of management; satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

The two independent non-executive directors attend and participate in decisions at all WWU Board meetings and at meetings of WWU's Audit Committee, Treasury Committee and HSE Committee. Whilst these are formally constituted at the Wales and West Gas Networks (Holdings) Limited ("WWGN") Group level, their work relates to the Group's activities. The independent non-executive directors therefore play a full part in all strategic decisions at the WWU Board. All directors' views are given full consideration and due weight in all proceedings of the Board and Committees.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

During the year ended 31 March 2018, attendance at Board and Committee meetings has been quorate. Papers are circulated to the relevant directors in advance of the meetings and, where they have been unable to attend, any comments or issues are raised with management prior to the meeting.

The Board meetings held during the year and up to the date of signing are detailed below with attendees:

Date of 2017/18 Board meetings	Attendees	Directors	Attendance at Board meetings
26 April 2017	5 out of 9	Andrew Hunter	9 out of 11
19 July 2017	7 out of 9	Graham Edwards	11 out of 11
27 July 2017	7 out of 9	Dominic Chan (or alternate)	10 out of 11
21 September 2017	8 out of 9	Grant Hawkins	11 out of 11
10 November 2017	9 out of 9	Edmond Ip	1 out of 11
6 December 2018	8 out of 9	Hing Lam Kam (or alternate)	8 out of 11
23 January 2018	8 out of 9	Duncan Macrae	9 out of 11
3 April 2018	8 out of 9	Michael Pavia	11 out of 11
18 April 2018	7 out of 9	Charles Tsai	10 out of 11
17 May 2018	7 out of 9		
19 July 2018	6 out of 9		

Board composition is reviewed regularly to ensure appropriate balance of expertise, skills and experience for the requirements of the business of the Group. Evaluation of the performance of the Board directors is conducted by virtue of their appointments being made and monitored by the investing shareholders; accordingly there is no standing nominations committee. The Chairman regularly reviews and agrees the training and development needs with each director.

The performance of members of the Executive Committee is assessed annually by the Chief Executive Officer as part of WWU's performance management process.

All directors make an active contribution to the affairs of the Board. The Company Secretary is responsible to the Board for ensuring that all Board procedures are followed and that the Board is briefed on all legislative, regulatory and corporate governance developments.

The Board reserves for its consideration or approval all Company matters which includes the Group's strategy, major items of capital expenditure and certain material contracts, save for those which it explicitly delegates to management. The form of delegated authority is reviewed by the Board periodically.

The Board is responsible for monitoring the statutory audit of the consolidated annual report and financial statements and the consolidated regulatory accounts, reviewing and monitoring the independence of the statutory auditor, and, in particular, the provision of additional services to the Company.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

The Remuneration Committee, which comprises Andrew Hunter, as chairman, Dominic Chan, Duncan Macrae, Hing Lam Kam and Charles Tsai, has written terms of reference. This Committee meets as necessary to consider and determine the terms and conditions of employment of senior management, including salary, bonus, and pension entitlements. The activities of the Remuneration Committee meetings are reported to the Board at least annually.

The Treasury Committee, which comprises Dominic Chan, as chairman, Duncan Macrae, Michael Pavia and Grant Hawkins, has written terms of reference and meets as required. The directors have delegated financial risk management to the Treasury Committee, which considers the funding requirements of the Group and reports its activities to the Board with key decisions referred back to the Board for ratification. The policies set by the Board are implemented by the Company's Finance department.

The Health and Safety Committee, which comprises Michael Pavia as chairman, Graham Edwards, Dominic Chan and Duncan Macrae, has written terms of reference and meets regularly. It reviews the Company's safety and environmental record and activities. The activities of the Health and Safety Committee meetings are reported to and considered by the Board at each HSE meeting, with a formal report being presented to the Board on an annual basis.

The Audit Committee, which comprises Michael Pavia, as chairman, Dominic Chan, Duncan Macrae, Grant Hawkins and Charles Tsai, has written terms of reference. This Committee meets at least three times a year to monitor the adequacy of internal controls, accounting policies and financial reporting of the Company and the Group and receives reports from the internal audit team and external auditor on a regular basis. The activities of the Audit Committee meetings are reported to and considered by the Board.

During the year, and in the period up to the approval of these consolidated regulatory accounts, the Audit Committee held eight meetings and assisted both executive and non-executive directors to discharge their individual and collective responsibilities by undertaking the following work:

i. reviewed significant issues and provided comments on the consolidated financial statements and the consolidated regulatory accounts, received reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the group's internal controls and risk management and confirming auditor independence;
ii. reviewed the appropriateness of accounting policies, significant accounting judgements and evidence supporting the going concern basis for the accounts and recommended approval of the accounts to the Board;
iii. reviewed the effectiveness of the external auditors and their effectiveness in respect of the audit process and discussed their outputs with the external audit partner;
iv. reviewed the effectiveness of the internal audit function, including approving the appointment of external co-sourcing partners to carry out specialist assurance work;
v. considered and approved external auditor's fees for both audit and non-audit services, by reference to the Committee's policy on approval of non-audit fees;
vi. approved the internal audit work programme for the year, reviewed progress against the programme and received reports on the outputs of internal audits;
vii. reviewed the risk and control framework and reporting; and
viii. monitored compliance with the Company's procedures designed to prevent bribery, having regard to the provisions of the Bribery Act 2010, including receiving reports on any whistleblowing allegations.

The external auditor has confirmed to the Audit Committee that it remains independent and maintains internal safeguards to ensure its objectivity. The Audit Committee considers that the external auditor remains independent.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

Attendance at Committee meetings by directors and/or alternates during the 2017/18 regulatory year and up to the date of signing is shown below:

Date of meeting	Audit Committee	Remuneration Committee	Health and Safety Committee	Treasury Committee
20 April 2017	5 out of 5	-	-	-
19 July 2017	4 out of 5	-	-	4 out of 4
27 July2017	5 out of 5	-	4 out of 4	-
19 September 2017	-	-	-	4 out of 4
31 October 2017	4 out of 5	-	-	-
9 January 2018	5 out of 5	-	3 out of 4	3 out of 4
23 January 2018	-	3 out of 5	-	2 out of 4
13 March 2018	-	-	-	4 out of 4
21 March 2018	-	-	-	4 out of 4
17 May 2018	5 out of 5	-	-	-
27 June 2018	5 out of 5	-	-	-
19 July 2018	5 out of 5	-	-	-

Internal control

The Board is responsible for the process to identify, evaluate and manage significant risks facing the Group and maintaining the Group's system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group through the risk register that is regularly reviewed by the Board and has been in place throughout 2017/18 and up to the date of the approval of these consolidated regulatory accounts.

Risk identification and management

On an annual basis, the WWU Board of directors, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes, risks and controls with assurance and support provided by one of the Company's sub-committees, the Audit Committee.

WWU has endorsed a Corporate Governance Framework (page 29) which supports the Board and puts assurance at its foundation and internal control and risk management at its core.

The Board is responsible for identifying the major business risks faced by the Company and determining a suitable response. The Audit Committee, as a committee of the Board, operates under delegated authority from the Board to discharge this responsibility on their behalf and reviews the effectiveness of the system of internal financial control of the Group and receives reports from the internal audit team and external auditor on a regular basis. In order to ascertain the effectiveness of the risk management framework, the Board receives a verbal summary of each Audit Committee meeting from the Audit Committee Chairman and requests further information as appropriate.

Internal control (continued)

Risk identification and management (continued)

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. There are also established procedures for planning and capital expenditure, together with information and reporting systems for monitoring the Group's businesses and performance. The Board has adopted a Code of Business Conduct applicable to all staff, setting out the standards which the Company expects of them.

The Board is ultimately responsible for reviewing the effectiveness of control of WWU's key business risks, set out on page 13 to 17, and key elements of this process are described below. Using this information the Board will:

- review and examine WWU's performance on risk management and internal control; and
- consider the internal and external risk profile of the coming year and consider if current risk management and mitigating actions are likely to be sufficient and effective.

Under the Group risk management policy, all Executive Committee members are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

The Group also has policies covering suspected fraud, anti-bribery and whistleblowing included in the Code of Business Conduct, and we thoroughly investigate any allegations of misconduct and irregularity and consider the implications for our control environment. These policies apply to all directors, employees, workers, agents or any other persons acting for, or on behalf of, the Group. The Group will seek to ensure that third parties such as joint venture partners, agents and consultants also commit to the principles and relevant practices referred to in the Code of Business Conduct.

All of these processes serve to ensure that a culture of effective control and risk management is embedded within the organisation and that the Group is in a position to react appropriately to new risks as they arise. A key part of that process is the receipt of a Letter of Assurance from the Chief Executive which consolidates the key matters of interest raised throughout the statutory and regulatory year undertaken by the Group. The Letter of Assurance is based on a confirmation by each member of the Executive Committee of the accuracy of the risk, management process, effectiveness of internal controls and general governance. The report is used by the Chief Executive Officer as an opportunity to update the Board on any significant issues or projects that may have arisen in the period under review.

Internal control framework

The Group has an established internal control framework which comprises;

- a clearly defined structure which delegates an appropriate level of authority, responsibility and accountability, including responsibility for internal financial control, to management of defined departments;
- a comprehensive budgeting and financial reporting function with an annual budget and business plan approved by the Board, which also monitors the financial reporting process, monthly results and updated forecasts for the year against budget;
- a cash management plan to ensure that the Group has adequate funds and resources for the foreseeable future;
- documented financial control procedures; managers of departments are required to confirm annually that they have adequate financial controls in operation and to report all material areas of financial risk; compliance with procedures is reviewed and tested by the Company's internal audit department;
- an investment appraisal process for evaluating proposals for all major capital expenditure and acquisitions, with defined levels of approval and a system for monitoring the progress of capital projects; and
- a post-investment evaluation process for major capital expenditure and acquisitions to assess the success of the project and learn any lessons to be applied to future projects.

Internal control (continued)

Internal control framework (continued)

Key elements of the WWU internal control process are:

- *Strategic risk framework:* This process involves the Executive Committee in the identification, assessment, and monitoring of risks significant to WWU. The document is formally appraised at each Audit Committee but new risks are added as required and improvement actions and risk indicators monitored on a regular basis. Closed risks are removed.

- *Operational/compliance/financial risk frameworks:* This process involves each Executive Committee member and their management teams in the identification, assessment, and monitoring of risks significant to their function. Risks are reviewed quarterly with new risks added as required and improvement actions and significant risks monitored on a regular basis by the Executive Committee. The frameworks are formally reported upon in the Executive Letters of Assurance to the Chief Executive Officer at 31 December each year prior to reporting results to the parent undertaking. The letters are updated at 31 March for the statutory and regulatory year, and informally as required.

- *Reporting to the Board and Executive Committee:* The Executive Committee considers new risks as they arise and reports to the Board and Audit Committee as appropriate. This includes regular updates throughout the year of the risks currently considered to be key to the sustainability of the business model.

- *Internal Audit:* This involves periodic reporting to the Executive Committee and the Audit Committee, the Head of Internal Audit has unfettered direct access to the Audit Committee.
- *External Audit:* External Audit will be kept informed on the status of the risk management process. Any findings in the area of risk management identified during the annual audit process will be communicated to the Board via the Audit Committee. The results of any external audit findings are incorporated into the Internal Audit monitoring process and improvements to the internal control environment are made as required.

- *Ofgem's Data Assurance Guidelines ("DAG")*: Regulatory year 2015/16 saw the full implementation of DAG which requires all relevant regulatory submissions to be risk assessed and proportionate controls put in place to ensure accuracy and completeness of such returns. DAG requires the documentation of methodologies and processes to collate and account for information being submitted, and specifies the assurance process around such information. The requirements of DAG extend to the collation of these consolidated regulatory accounts.

The directors have delegated to executive management implementation of the system of internal financial control throughout the Group. This includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records and compliance with accepted accounting principles in order to enable the preparation of consolidated regulatory accounts which show a true and fair view of the Group's results and financial position.

Processes underpinning the financial reporting systems are managed and monitored by functional line management through regular reporting. Data consolidated into the Group's consolidated regulatory accounts is reconciled to the underlying financial records.

Internal control (continued)

Internal control review

The Chief Executive and Finance Director have undertaken an annual assessment for the regulatory year under review and up to the date of approval of the consolidated regulatory accounts on the Company's internal control including financial, operational and compliance controls and risk management functions.

In making the annual assessment, the Chief Executive and Finance Director have: considered and prepared a list of the significant risks which documents how they have been identified, evaluated and managed the Company's ability to respond to changes in its business and the external environment, considered and documented the scope and quality of management's continued monitoring of risks and of the system of internal control, and the work of the internal audit function and other providers of assurance.

The Chief Executive and Finance Director are satisfied that the Company's internal control systems are effective and adequate. In addition, the Chief Executive and Finance Director are satisfied with the adequacy of financial resources, qualifications and experience of the staff of their accounting and financial reporting function, and their training programmes and budget, and also the adequacy of their anti-bribery and anti-corruption policy, procedures and programmes.

The directors and Executive Committee are not aware of any significant control deficiencies which require additional consideration or disclosure

Going concern

The Company's statement on "going concern" is included within the Report of the directors on page 23.

Fair, balanced and understandable

The directors consider the consolidated regulatory accounts, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the directors have carefully considered the events and trends during the year ended 31 March 2018, and the way in which these matters have been presented in the consolidated regulatory accounts.

External auditor

The external auditor is engaged to express an opinion on the consolidated regulatory accounts.

The Company has a policy in place to monitor and maintain the objectivity and independence of the external auditor, Deloitte LLP. The policy requires prior approval from the Audit Committee for non-audit work above a threshold level of £50,000. However, due to new restrictions introduced by the EU regarding the provision of non-audit services, effective as of 17 June 2016, the presence of listed debt in the Group classifies it as an EU public listed entity which impacts on the ability of the external auditor to continue providing certain non-audit services. The new restrictions and impact on non-audit services provided have been discussed with Deloitte LLP. As a result the firm is not permitted to provide taxation services and, consequently the Company has engaged another party as primary tax adviser. The changes have also been considered and reflected in the Company policy. Details of the amounts paid to Deloitte LLP are set out in note 2(c) to the consolidated regulatory accounts.

Directors’ responsibilities for preparing separate consolidated regulatory accounts

The directors are required by the Condition, as amended by consents received from Ofgem, to prepare consolidated regulatory accounts for each financial year. These consolidated regulatory accounts should fairly present the revenues, costs, assets, liabilities, reserves, provisions and cash flows of, or reasonably attributed to, the transportation business, the metering business and the other activities of the Company.

The directors consider that, in preparing the consolidated regulatory accounts, the business has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, all applicable accounting standards have been followed and that the consolidated regulatory accounts have been prepared on a going concern basis.

The directors have a responsibility to ensure that:

- the Group keeps accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributed to, each of the businesses are separately identifiable in the books of the Group;

- the annual report and consolidated regulatory accounts fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributed to, each business;

- so far as is reasonably practicable, the consolidated regulatory accounts have the same content and format in respect of the businesses to which they relate as the annual consolidated financial statements of the Group and Company, that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board currently in force and that the accounting policies used are as stated; and

- that the consolidated regulatory accounts show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any group Company, or that have been determined by apportionment.

The directors, having prepared the consolidated regulatory accounts, have requested the auditor take whatever steps and to undertake whatever inspections it considers to be appropriate for the purpose of enabling it to give its audit report.

The directors are responsible for ensuring that the consolidated regulatory accounts are also published on the internet, and for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded, as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The maintenance and integrity of the Wales & West Utilities Limited web site is the responsibility of the Group’s directors and the maintenance and integrity of the Ofgem web site is the responsibility of the Regulator; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor takes no responsibility for any changes that may have occurred to the consolidated regulatory accounts since they were initially presented on the web sites.

Independent auditor's report to The Gas and Electricity Markets Authority (the authority, referred to as "the Regulator") and Wales & West Utilities Limited ("the Group")

Report on the audit of the consolidated regulatory accounts

Opinion

We have audited the consolidated regulatory accounts of Wales & West Utilities Limited ("the Group") for the year ended 31 March 2018 which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the principal accounting policies and the related notes 1 to 27. These consolidated regulatory accounts have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is Standard Special Condition A30 of the Gas Distribution Licence (the "Regulatory Licence") and the accounting policies set out in the principal accounting policies on pages 46 to 52.

In our opinion, Wales & West Utilities Limited's consolidated regulatory accounts presents fairly, in all material respects, in accordance with Standard Special Condition A30 of the Regulatory Licence and the Company's accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the consolidated regulatory accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the consolidated regulatory accounts in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw your attention to Note 1 of the consolidated regulatory accounts, which describes the basis of accounting. The consolidated regulatory accounts are separate from the statutory financial statements of the Group and are to meet the requirements of Standard Special Condition A30 of the Regulatory Licence. As a result, the consolidated regulatory accounts may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

Other information

The other information comprises all of the information in the annual report other than the consolidated regulatory accounts and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the consolidated regulatory accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the consolidated regulatory accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated regulatory accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the consolidated regulatory accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 36, the directors are responsible for the preparation of the consolidated regulatory accounts in accordance with Standard Special Condition A30 of the Regulatory Licence and the Company's accounting policies.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the consolidated regulatory accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the consolidated regulatory accounts

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

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

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Special Condition A30 of the Regulatory Licence. Our audit work has been undertaken so that we might state to the Group and the Regulator those matters that we have agreed to state to them in an independent auditor's report, in order (a) to assist the company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Regulator, for our audit work, for this report or for the opinions we have formed.

Our opinion on the consolidated regulatory accounts within the annual report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2018 on which we reported on 5 June 2018, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Delyth Jones, Senior Statutory Auditor
for and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom
27 July 2018

Legislation in the United Kingdom governing the preparation and dissemination of consolidated financial statements and consolidated regulatory accounts may differ from legislation in other jurisdictions.

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

		2018					2017				
		Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
Continuing operations	**Note**	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Turnover	1	**417.6**	**0.4**	**5.8**	**1.4**	**425.2**	427.4	0.8	4.9	0.8	433.9
Net operating costs	2(a)	**(267.6)**	**(0.1)**	**(6.3)**	**2.2**	**(271.8)**	(247.3)	(0.4)	(4.8)	2.0	(250.5)
Operating profit before depreciation, amortisation, movement in provisions and one-off items		**243.1**	**0.3**	**(0.5)**	**3.6**	**246.5**	267.9	0.4	0.1	2.8	271.2
Increase in environmental and holder provision	2(a, b)	**(1.9)**	**-**	**-**	**-**	**(1.9)**	-	-	-	-	-
Increase in insurance provision	2(a, b)	**(1.6)**	**-**	**-**	**-**	**(1.6)**	-	-	-	-	-
One-off item-restructuring provision	2(a)	**-**	**-**	**-**	**-**	**-**	0.6	-	-	-	0.6
Depreciation and amortisation	2(a) 6,7	**(89.6)**	**-**	**-**	**-**	**(89.6)**	(88.4)	-	-	-	(88.4)
Operating profit		**150.0**	**0.3**	**(0.5)**	**3.6**	**153.4**	180.1	0.4	0.1	2.8	183.4
Operating profit	2	**150.0**	**0.3**	**(0.5)**	**3.6**	**153.4**	180.1	0.4	0.1	2.8	183.4
Interest receivable and similar income	4(a)	**0.4**	**-**	**-**	**-**	**0.4**	0.7	-	-	-	0.7
Interest payable and similar charges	4(b)	**(173.8)**	**-**	**-**	**-**	**(173.8)**	(177.5)	-	-	-	(177.5)
Index–linked and interest rate swap movement	4(c)	**32.4**	**-**	**-**	**-**	**32.4**	(182.7)	-	-	-	(182.7)
Profit/(loss) before taxation		**9.0**	**0.3**	**(0.5)**	**3.6**	**12.4**	(179.4)	0.4	0.1	2.8	(176.1)
Tax on profit/(loss)	5	**(12.3)**	**(0.1)**	**0.1**	**(0.7)**	**(13.0)**	58.5	(0.1)	-	(0.6)	57.8
(Loss)/profit for the financial year attributable to ordinary shareholders		**(3.3)**	**0.2**	**(0.4)**	**2.9**	**(0.6)**	(120.9)	0.3	0.1	2.2	(118.3)

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

	2018					**2017**				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
(Loss)/profit for the financial year attributable to ordinary shareholders	**(3.3)**	**0.2**	**(0.4)**	**2.9**	**(0.6)**	(120.9)	0.3	0.1	2.2	(118.3)
Intercompany interest released (i)	**42.7**	**-**	**-**	**-**	**42.7**	53.2	-	-	-	53.2
Actuarial gain/(loss) on pension Scheme (note 24)	**27.6**	**-**	**-**	**-**	**27.6**	(0.7)	-	-	-	(0.7)
Deferred tax (charge)/credit on actuarial gain/(loss) on pension Scheme (note 24)	**(4.7)**	**-**	**-**	**-**	**(4.7)**	0.1	-	-	-	0.1
Total comprehensive income/(loss) relating to the year	**62.3**	**0.2**	**(0.4)**	**2.9**	**65.0**	(68.3)	0.3	0.1	2.2	(65.7)

(i) Unpaid intercompany interest of £42.7m was released to a capital reserve during the year (2017: £53.2m) and added to other comprehensive income. The capital reserve represents the release of intercompany loan interest payable to Wales & West Utilities Holdings Limited.

Consolidated balance sheet at 31 March 2018

	Note	**2018** Transportation business	De-minimis business	Metering activities	Other activities	Total	2017 Transportation business	De-minimis business	Metering activities	Other activities	Total
		£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Fixed assets											
Intangible assets	6	**183.1**	**-**	**-**	**-**	**183.1**	189.1	-	-	-	189.1
Tangible assets	7	**2,522.5**	**-**	**-**	**-**	**2,522.5**	2,480.2	-	-	-	2,480.2
Investments	8	**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
		2,705.7	**-**	**-**	**-**	**2,705.7**	2,669.4	-	-	-	2,669.4
Current assets											
Swap fair value asset – due after more than one year	13(e)	**32.9**	**-**	**-**	**-**	**32.9**	42.5	-	-	-	42.5
Stock	9	**3.0**	**-**	**-**	**-**	**3.0**	3.1	-	-	-	3.1
Debtors	10	**41.6**	**-**	**2.3**	**0.2**	**44.1**	43.4	-	1.6	0.1	45.1
Inter-business unit activity balances		**(10.6)**	**1.2**	**3.9**	**5.5**	**-**	(12.0)	1.3	3.8	6.9	-
Cash at bank	20	**672.2**	**0.7**	**(0.8)**	**9.4**	**681.5**	65.0	0.4	0.4	5.2	71.0
		739.1	**1.9**	**5.4**	**15.1**	**761.5**	142.0	1.7	5.8	12.2	161.7
Current liabilities											
Creditors: amounts falling due within one year	11(a)	**(895.7)**	**-**	**(0.1)**	**(0.1)**	**(895.9)**	(737.9)	-	(0.1)	(0.1)	(738.1)
Net current (liabilities)/assets		**(156.6)**	**1.9**	**5.3**	**15.0**	**(134.4)**	(595.9)	1.7	5.7	12.1	(576.4)
Total assets less current liabilities		**2,549.1**	**1.9**	**5.3**	**15.0**	**2,571.3**	2,073.5	1.7	5.7	12.1	2,093.0
Creditors: amounts falling due after more than one year	11(b)	**(2,898.4)**	**-**	**-**	**-**	**(2,898.4)**	(2,466.3)	-	-	-	(2,466.3)
Provisions for liabilities	16	**(236.4)**	**-**	**-**	**-**	**(236.4)**	(211.8)	-	-	-	(211.8)
Net (liabilities)/assets before pension liability		**(585.7)**	**1.9**	**5.3**	**15.0**	**(563.5)**	(604.6)	1.7	5.7	12.1	(585.1)
Pension liability	24	**(11.5)**	**-**	**-**	**-**	**(11.5)**	(54.9)	-	-	-	(54.9)
Net (liabilities)/assets including pension liability		**(597.2)**	**1.9**	**5.3**	**15.0**	**(575.0)**	(659.5)	1.7	5.7	12.1	(640.0)
Capital and reserves											
Called up share capital	17	**30.7**	**-**	**-**	**-**	**30.7**	30.7	-	-	-	30.7
Profit and loss account		**(627.9)**	**1.9**	**5.3**	**15.0**	**(605.7)**	(690.2)	1.7	5.7	12.1	(670.7)
Total shareholders' (deficit)/funds		**(597.2)**	**1.9**	**5.3**	**15.0**	**(575.0)**	(659.5)	1.7	5.7	12.1	(640.0)

The consolidated regulatory accounts on pages 40 to 90 inclusive as approved by the Board, were signed on 19 July 2018.

Graham Edwards – Director

Consolidated statement of changes in equity the year ended 31 March 2018

	Note	Called up share capital	Profit and loss account					
		Transportatio busines	Transportation business	De-minimis business	Metering activities	Other activities	Total profit and loss account	Total equity
		£m	£m	£m	£m	£m	£m	£m
At 31 March 2016		**30.7**	**(621.9)**	**1.4**	**5.6**	**9.9**	**(605.0)**	**(574.3)**
(Loss)/profit for the year		-	(120.9)	0.3	0.1	2.2	(118.3)	(118.3)
Intercompany loan interest released	(i)	-	53.2	-	-	-	53.2	53.2
Remeasurement of net defined benefit liability	24	-	(0.7)	-	-	-	(0.7)	(0.7)
Deferred tax on defined benefit liability remeasurement	24	-	0.1	-	-	-	0.1	0.1
Total comprehensive (loss)/income		**30.7**	**(68.3)**	**0.3**	**0.1**	**2.2**	**(65.7)**	**(65.7)**
At 31 March 2017		**30.7**	**(690.2)**	**1.7**	**5.7**	**12.1**	**(670.7)**	**(640.0)**
(Loss)/profit for the year		-	(3.3)	0.2	(0.4)	2.9	(0.6)	(0.6)
Intercompany loan interest released	(i)	-	42.7	-	-	-	42.7	42.7
Remeasurement of net defined benefit liability	24	-	27.6	-	-	-	27.6	27.6
Deferred tax on defined benefit liability remeasurement	24	-	(4.7)	-	-	-	(4.7)	(4.7)
Total comprehensive income/(loss)		**30.7**	**62.3**	**0.2**	**(0.4)**	**2.9**	**65.0**	**65.0**
At 31 March 2018		**30.7**	**(627.9)**	**1.9**	**5.3**	**15.0**	**(605.7)**	**(575.0)**

(i) Unpaid intercompany loan interest of £42.7m was released to a capital reserve during the year (2017: £53.2m) and added to other comprehensive income. The capital reserve represents the release of intercompany loan interest payable to Wales & West Utilities Holdings Limited.

Consolidated cash flow statement for the year ended 31 March 2018

	Note	2018 Transportation business £m	2018 De-minimis business £m	2018 Metering activities £m	2018 Other activities £m	2018 Total £m	2017 Transportation business £m	2017 De-minimis business £m	2017 Metering activities £m	2017 Other activities £m	2017 Total £m
Operating activities											
Net cash inflow/(outflow) from continuing operating activities	18	**240.1**	**0.3**	**(1.2)**	**3.0**	**242.2**	253.6	0.4	0.4	2.8	257.2
Pension deficit contributions	24	**(18.4)**	**-**	**-**	**-**	**(18.4)**	(25.5)	-	-	-	(25.5)
Net cash flows from operating activities		**221.7**	**0.3**	**(1.2)**	**3.0**	**223.8**	228.1	0.4	0.4	2.8	231.7
Cash flows from investing activities											
Purchase of intangible fixed assets		**(3.8)**	**-**	**-**	**-**	**(3.8)**	(6.3)	-	-	-	(6.3)
Purchase of tangible fixed assets		**(127.3)**	**-**	**-**	**-**	**(127.3)**	(129.7)	-	-	-	(129.7)
Proceeds of disposal of tangible fixed assets		**-**	**-**	**-**	**1.2**	**1.2**	-	-	-	2.4	2.4
Net cash (outflow)/inflow from investing activities		**(131.1)**	**-**	**-**	**1.2**	**(129.9)**	(136.0)	-	-	2.4	(133.6)
Cash flows from financing activities											
Interest received in respect of index-linked swap contracts		**10.7**	**-**	**-**	**-**	**10.7**	13.4	-	-	-	13.4
Interest received in respect of interest rate swaps		**7.0**	**-**	**-**	**-**	**7.0**	6.4	-	-	-	6.4
Interest received on current asset investments		**-**	**-**	**-**	**-**	**-**	1.1	-	-	-	1.1
Interest received – other		**0.4**	**-**	**-**	**-**	**0.4**	0.3	-	-	-	0.3
Interest paid in respect of index-linked swap contracts		**(5.5)**	**-**	**-**	**-**	**(5.5)**	(1.2)	-	-	-	(1.2)
Interest paid in respect of interest rate swaps		**-**	**-**	**-**	**-**	**-**	(1.8)	-	-	-	(1.8)
Interest paid – other external debt		**(69.9)**	**-**	**-**	**-**	**(69.9)**	(76.5)	-	-	-	(76.5)
Interest paid on loan from parent undertaking		**(51.0)**	**-**	**-**	**-**	**(51.0)**	(51.0)	-	-	-	(51.0)
Payments in respect of interest rate swaps		**-**	**-**	**-**	**-**	**-**	(5.1)	-	-	-	(5.1)
Payments in respect of finance lease obligations		**(1.5)**	**-**	**-**	**-**	**(1.5)**	(1.0)	-	-	-	(1.0)
Bond debt cancelled/repaid		**(48.0)**	**-**	**-**	**-**	**(48.0)**	(200.0)	-	-	-	(200.0)
Debt drawn down		**30.0**	**-**	**-**	**-**	**30.0**	150.0	-	-	-	150.0
Loan notes issued to affiliates		**645.0**	**-**	**-**	**-**	**645.0**	**-**	-	-	-	**-**
Debt issue fees		**(0.6)**	**-**	**-**	**-**	**(0.6)**	**-**	-	-	-	**-**
Net cash inflow/(outflow) from financing activities		**516.6**	**-**	**-**	**-**	**516.6**	(165.4)	-	-	-	(165.4)
Net increase/(decrease) in cash and cash equivalents		**607.2**	**0.3**	**(1.2)**	**4.2**	**610.5**	(73.3)	0.4	0.4	5.2	(67.3)

Consolidated cash flow statement for the year ended 31 March 2018 (continued)

		2018					2017				
		Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Cash and cash equivalents at beginning of year	20,21	**65.0**	**0.4**	**0.4**	**5.2**	**71.0**	134.7	0.4	0.4	2.8	138.3
Cash and cash equivalents at end of year	21	**672.2**	**0.7**	**(0.8)**	**9.4**	**681.5**	65.0	0.4	0.4	5.2	71.0
Net cash inflow/(outflow)		**607.2**	**0.3**	**(1.2)**	**4.2**	**610.5**	(69.7)	-	-	2.4	(67.3)
Analysis of cash and cash equivalents											
Cash at bank	20,21	**672.2**	**0.7**	**(0.8)**	**9.4**	**681.5**	65.0	0.4	0.4	5.2	71.0
Total cash and cash equivalents	21	**672.2**	**0.7**	**(0.8)**	**9.4**	**681.5**	65.0	0.4	0.4	5.2	71.0

Principal accounting policies

The consolidated regulatory accounts have been prepared in accordance with Standard Special Condition A30 ("the Condition") of the Gas Transporters' Licence granted under the Gas Act 1986 (as amended) ("The Gas Act") and have the same content and format as the statutory consolidated financial statements of the Group and conform to Generally Accepted Accounting Practice in the United Kingdom including Financial Reporting Standard 102 ("FRS 102"), in so far as is reasonably practicable. A summary of the principal Group and Company accounting policies, which have been consistently applied in both the current year and prior year, is shown below.

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

General information and basis of accounting
Wales & West Utilities Limited (registered number 05046791) is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The nature of the Company's operations and its principal activities are set out in the Report of the directors on page 22.

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

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

The preparation of consolidated regulatory accounts in conformity with UK Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated regulatory accounts and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from these estimates.

The functional currency of Wales & West Utilities Limited is considered to be the pound sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated regulatory accounts are also presented in pounds sterling.

Wales & West Utilities Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate consolidated financial statements, which are presented alongside these consolidated regulatory accounts. Exemptions have been taken in relation to the presentation of inter-group transactions.

Basis of preparation
Regulatory accounting information is provided across the business segments in accordance with the Licence as follows:

- transportation comprises the business of transporting gas through the Company's pipes and related activities as specified in the Licence;
- metering comprises the provision of meter installation and servicing activities;
- other activities comprise activities other than the transportation business carried out under the Licence or with the specific consent of Ofgem including post emergency metering services for independent gas transporters within the Company's geographic region; and
- de-minimis comprises all other activities not falling within the categories above.

Meter reading activity undertaken by the Company is included within the Metering business segment and amounted to income of £0.2m (2017: £0.1m) and costs of £0.1m (2017: £0.1m).

Principal accounting policies (continued)

Going concern
The directors are satisfied that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these consolidated regulatory accounts, as set out in the Report of the directors on page 23.

Basis of consolidation
All of the trading activity of the Group is performed by Wales & West Utilities Limited, the Company, whereas the external borrowings have been entered into by the Company and its wholly owned subsidiary, Wales & West Utilities Finance plc. Consolidated regulatory accounts have been prepared in order to disclose the external borrowings which the Group has entered into to fund the Company's activities.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Related party transactions
The Company is a 100% owned subsidiary of Wales & West Utilities Holdings Limited and is included in the annual report and consolidated financial statements of Wales & West Gas Networks (Holdings) Limited. Consequently, under the terms of Section 33 of FRS 102 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are wholly owned within the Wales & West Gas Networks (Holdings) Limited group.

Turnover
Turnover represents the sales value derived from two classes of business, being the distribution of gas together with the sales value derived from the provision of other services to customers during the year. All turnover is generated in the UK. Details of turnover split by activity is presented in Note 1 – Turnover.

Turnover from the distribution of gas is partially derived from the value of units supplied during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end and from the capacity requested by shippers. No liability is recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and reductions will be made to future prices to reflect any over-recovery.

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

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

IT software held by Wales & West Utilities Limited has been recognised as a separately identifiable intangible asset, the value of which has been reallocated from tangible assets on transition to FRS102.

Principal accounting policies (continued)

Intangible fixed assets and amortisation (continued)
Intangible fixed assets are amortised, on a straight line basis, at rates estimated to write off their book amounts over their estimated useful economic lives. In assessing estimated economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The amortisation periods for the principal categories of intangible fixed assets are shown below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial instruments (continued)
i) Financial assets and liabilities (continued)

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

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

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

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

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

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

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

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

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

Pension costs
The Group operates one pension Scheme which has a defined benefit and a defined contribution pension section.

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

Principal accounting policies (continued)

Pension costs (continued)
The assets of the defined benefit section of the Scheme are measured using closing market values at the balance sheet date. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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

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

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

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

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

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

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

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

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

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

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

Critical judgements in applying the Group's accounting policies (continued)

Intercompany loans
Amounts owed to the immediate parent company of £648.8m at 31 March 2018 (2017: £651.5m) – management considers that although the loan is repayable on demand to the immediate parent company, Wales & West Utilities Holdings Limited, settlement of the loan is not expected within the next financial year.

- **Discount rate and mortality assumptions used to determine the carrying amount of the Company's defined benefit obligation**
The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The mortality assumption is set based on the most recent mortality tables "SAPS2" with an adjustment for the CMI 2017 model.

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

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

- **Key source of estimation uncertainty – Fair value measurements and valuation process**
  The Group's derivative financial instruments are measured at fair value for financial reporting purposes.

  - In estimating the fair value of the derivative asset or derivative liability, the Group uses market-observable data to the extent it is available. The valuations at 31 March 2018 are based on a valuation methodology that is materially unchanged from the prior year. Fair values are based on market observable inputs wherever appropriate, as required by FRS 102, and are produced by discounting expected future cash flows under the swap contracts. These expected future cash flows are generated from market forward rates for RPI and LIBOR.

- **Key source of estimation uncertainty – impairment of fixed assets**
  Determining whether fixed assets are impaired may require an estimation of their value in use and fair value to the Company.

  The Company assesses fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount of the assets. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

  The business plan, which is approved on an annual basis by the Board and Executive Committee, is the primary source of information for the determination of value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the Company and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

  Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

1. Turnover

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

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Income from regulated activities:	**406.5**	**-**	**-**	**-**	**406.5**	412.2	-	-	-	412.2
Income from non-regulated activities	**-**	**0.4**	**5.8**	**1.4**	**7.6**	-	0.8	4.9	0.8	6.5
Customer contributions towards the construction of assets	**11.1**	**-**	**-**	**-**	**11.1**	15.2	-	-	-	15.2
Total turnover	**417.6**	**0.4**	**5.8**	**1.4**	**425.2**	427.4	0.8	4.9	0.8	433.9

2. Operating profit

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

	Note	**2018** Transportation business	**2018** De-minimis business	**2018** Metering activities	**2018** Other activities	**2018** Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Continuing operations:											
Staff costs	3(b)	**75.9**	**-**	**5.2**	**0.2**	**81.3**	76.3	-	3.7	0.2	80.2
Own work capitalised (staff and other costs)		**(40.4)**	**-**	**-**	**-**	**(40.4)**	(39.0)	-	-	-	(39.0)
Depreciation: Own assets	7	**74.4**	**-**	**-**	**-**	**74.4**	73.7	-	-	-	73.7
Depreciation: Leased assets	7	**1.2**	**-**	**-**	**-**	**1.2**	1.1	-	-	-	1.1
Depreciation: Intangible assets	6	**14.0**	**-**	**-**	**-**	**14.0**	13.6	-	-	-	13.6
Less amortised grant		**-**	**-**	**-**	**-**	**-**	(0.7)	-	-	-	(0.7)
Profit on disposal of fixed assets		**-**	**-**	**-**	**(2.4)**	**(2.4)**	-	-	-	(2.2)	(2.2)
Rentals under operating leases:											
Hire of plant and equipment		**0.8**	**-**	**-**	**-**	**0.8**	0.7	-	-	-	0.7
Other		**0.4**	**-**	**-**	**-**	**0.4**	0.4	-	-	-	0.4
Cost of stock recognised as an expense		**5.7**	**-**	**1.0**	**0.1**	**6.8**	6.8	-	0.7	0.3	7.8
One-off item – restructuring costs		**-**	**-**	**-**	**-**	**-**	(0.6)	-	-	-	(0.6)
Net increase in provisions	2(b)	**3.5**	**-**	**-**	**-**	**3.5**	-	-	-	-	-

Own work capitalised includes direct labour allocated to business activities based on time taken per employee to undertake (see note 3(b)) and ancillary costs.

(b) Net increase in provisions

The net increases in provisions relate to:

the environmental and holder provision. A review of costs incurred and the timing of work carried out in respect of the environmental and holder demolition provision during the year ended 31 March 2018, gave rise to a £1.9m increase in the provision (note 16(b)), and;

the insurance provision. A review of costs incurred and the timing of work carried out during the year ended 31 March 2018, led to an increase in the number of mesothelioma claims expected over the next few years; as a result the provision was increased by £1.6m (2017: £0.3m) (note 16(a)).

2. Operating profit (continued)

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

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

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Fees payable to Group's auditor for the audit of parent entity's and the consolidated financial statements:	**120.9**	**-**	**-**	**-**	**120.9**	110.9	-	-	-	110.9
Fees payable to the Group's auditor and its associates for other services:										
the audit of the Company's subsidiaries	**9.0**	**-**	**-**	**-**	**9.0**	9.0	-	-	-	9.0
the audit of joint venture Companies	**6.5**	**-**	**-**	**-**	**6.5**	6.3	-	-	-	6.3
Total audit fees	**136.4**	**-**	**-**	**-**	**136.4**	126.2	-	-	-	126.2
assurance services related to group reporting	**64.5**	**-**	**-**	**-**	**64.5**	46.1	-	-	-	46.1
assurance services related to regulatory reporting	**33.2**	**-**	**-**	**-**	**33.2**	32.5	-	-	-	32.5
assurance services related to FRS 102 transition	**45.5**	**-**	**-**	**-**	**45.5**	-	-	-	-	-
taxation compliance services	**-**	**-**	**-**	**-**	**-**	10.5	-	-	-	10.5
other taxation advisory services	**-**	**-**	**-**	**-**	**-**	110.7	-	-	-	110.7
other assurance services	**17.2**	**-**	**-**	**-**	**17.2**	65.6	-	-	-	65.6
Total non-audit fees	**160.4**	**-**	**-**	**-**	**160.4**	265.4	-	-	-	265.4
Fees in respect of the pension Scheme										
Audit of the pension Scheme	**17.0**	**-**	**-**	**-**	**17.0**	20.7	-	-	-	20.7
	17.0	**-**	**-**	**-**	**17.0**	20.7	-	-	-	20.7

3. Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments:

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Fees payable to non- executive directors	**85.0**	**-**	**-**	**-**	**85.0**	85.0	-	-	-	85.0
Salary payments (including benefits in kind)	**451.2**	**-**	**-**	**-**	**451.2**	441.5	-	-	-	441.5
Performance related bonus (see below)	**465.0**	**-**	**-**	**-**	**465.0**	445.4	-	-	-	445.4
Pension contributions	**10.0**	**-**	**-**	**-**	**10.0**	-	-	-	-	-
Contributions in lieu of pension	**113.0**	**-**	**-**	**-**	**113.0**	102.5	-	-	-	102.5
	1,124.2	**-**	**-**	**-**	**1,124.2**	1,074.4	-	-	-	1,074.4

One director is a member of the defined contribution section of the Group pension Scheme (2017: one). All other directors make their own pension arrangements.

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

The amount disclosed in respect of the year ended 31 March 2018 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2017. Bonuses are reviewed and paid in respect of a calendar year.

The performance bonus disclosed for the calendar year ended 31 December 2017 is apportioned between an amount due and paid in February 2018 and the balance held under a long term incentive plan, payable three years after the period that it arose on the achievement of defined long term targets and dependent on the director remaining in office on the payment date. At 31 March 2018 £1.0m was accrued in respect of amounts payable under the long term incentive plan (2017: £0.9m).

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

Six of the directors receive no remuneration from the Company/Group. These directors are employees of the parent companies they represent and are remunerated by them in their operational country.

3. Directors and employees (continued)

(a) Directors' emoluments and interests (continued)

Highest paid director:

	2018 Transportation business	**2018** De-minimis business	**2018** Metering activities	**2018** Other activities	**2018** Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Salary payments (including benefits in kind)	**451.2**	**-**	**-**	**-**	**451.2**	441.5	-	-	-	441.5
Performance related bonus (see above)	**465.0**	**-**	**-**	**-**	**465.0**	445.4	-	-	-	445.4
Pension contributions	**10.0**	**-**	**-**	**-**	**10.0**	-	-	-	-	-
Contributions in lieu of pension	**113.0**	**-**	**-**	**-**	**113.0**	102.5	-	-	-	102.5
	1,039.2	**-**	**-**	**-**	**1,039.2**	989.4	-	-	-	989.4
Accrued company pension (Defined contribution)	**191.6**	**-**	**-**	**-**	**191.6**	139.9	-	-	-	139.9

(b) Staff costs (including directors)

	2018 Transportation business	**2018** De-minimis business	**2018** Metering activities	**2018** Other activities	**2018** Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Wages and salaries	**55.1**	**-**	**4.6**	**0.2**	**59.9**	56.4	-	3.3	0.2	59.9
Social security costs	**6.5**	**-**	**0.6**	**-**	**7.1**	6.3	-	0.4	-	6.7
Pension costs (note 24)	**14.3**	**-**	**-**	**-**	**14.3**	13.6	-	-	-	13.6
	75.9	**-**	**5.2**	**0.2**	**81.3**	76.3	-	3.7	0.2	80.2

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

3. Directors and employees (continued)

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

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	Number	**Number**	**Number**	**Number**	**Number**	Number	Number	Number	Number	Number
Regulated gas distribution activities	**1,326**	**0**	**75**	**3**	**1,404**	1,312	0	64	3	1,379
Other activities	**-**	**-**	**2**	**-**	**2**	-	-	2	-	2
	1,326	**0**	**77**	**3**	**1,406**	1,312	-	66	3	1,381

The above allocations, to arrive at full time equivalents, represent an estimate of the time spent by employees on each activity and not the employees specifically employed within each activity.

4. Interest

(a) Interest receivable and similar income

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Interest receivable on bank deposits	**0.4**	**-**	**-**	**-**	**0.4**	0.7	-	-	-	0.7
	0.4	**-**	**-**	**-**	**0.4**	0.7	-	-	-	0.7

4. Interest (continued)

(b) Interest payable and similar charges

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
On external debt	**73.4**	**-**	**-**	**-**	**73.4**	75.8	-	-	-	75.8
On loans from parent undertaking	**93.5**	**-**	**-**	**-**	**93.5**	95.6	-	-	-	95.6
On loan notes with affiliates	**0.6**	**-**	**-**	**-**	**0.6**	-	-	-	-	-
Premium over par on Class B band buyback	**2.0**	**-**	**-**	**-**	**2.0**	-	-	-	-	-
Amortised debt issue costs and bond discount	**1.7**	**-**	**-**	**-**	**1.7**	2.0	-	-	-	2.0
On unwinding of discounts and change in discount rate on provisions (note 16)	**1.1**	**-**	**-**	**-**	**1.1**	1.2	-	-	-	1.2
Other finance charges – net pension (note 24)	**1.1**	**-**	**-**	**-**	**1.1**	2.5	-	-	-	2.5
Finance lease interest	**0.2**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	0.2
Other	**0.2**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	0.2
	173.8	**-**	**-**	**-**	**173.8**	177.5	-	-	-	177.5

Interest on external debt for the year ended 31 March 2018 includes a charge of £5.0m (2017: £3.1m) for accrued inflation on the RPI linked bond.

4. Interest (continued)

(c) Index-linked and interest rate swap movement

	2018 Transportation business	**2018** De-minimis business	**2018** Metering activities	**2018** Other activities	**2018** Total	**2017** Transportation business	**2017** De-minimis business	**2017** Metering activities	**2017** Other activities	**2017** Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
On index-linked derivative contracts – inflation accrual	**48.3**	**-**	-	**-**	**48.3**	25.5	-	-	-	25.5
Interest payable, on index-linked swaps	**5.6**	**-**	-	**-**	**5.6**	2.6	-	-	-	2.6
Interest payable, on interest rate swaps	**-**	-	-	**-**	-	2.1	-	-	-	2.1
Interest receivable, on index-linked swaps	**(10.2)**	**-**	-	**-**	**(10.2)**	(12.6)	-	-	-	(12.6)
Interest receivable, on interest rate swaps	**(6.9)**	**-**	-	**-**	**(6.9)**	(6.5)	-	-	-	(6.5)
Amortisation of swap extension costs	**2.6**	**-**	-	**-**	**2.6**	1.7	-	-	-	1.7
Fair value (gain)/loss on index-linked swaps – excluding accruals	**(81.3)**	**-**	-	**-**	**(81.3)**	173.0	-	-	-	173.0
Fair value loss/(gain) on interest rate swaps – excluding accruals	**9.5**	**-**	-	**-**	**9.5**	(3.1)	-	-	-	(3.1)
Total swap portfolio (gain)/loss	**(32.4)**	**-**	-	**-**	**(32.4)**	182.7	-	-	-	182.7

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

5. Tax on profit/(loss)

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

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
The charge/(credit) for taxation is made up as follows:										
Current tax										
UK corporation tax charge/(credit) on profit/(loss) of the year	**(0.8)**	**0.1**	**(0.1)**	**0.7**	**(0.1)**	(7.9)	0.1	-	0.6	(7.2)
Adjustments in respect of prior years	**(2.4)**	**-**	**-**	**-**	**(2.4)**	(3.8)	-	-	-	(3.8)
Total current tax	**(3.2)**	**0.1**	**(0.1)**	**0.7**	**(2.5)**	(11.7)	0.1	-	0.6	(11.0)
Deferred tax										
Origination and reversal of timing differences	**14.2**	**-**	**-**	**-**	**14.2**	(40.7)	-	-	-	(40.7)
Deferred tax relating to change of tax rate	**1.3**	**-**	**-**	**-**	**1.3**	(6.1)	-	-	-	(6.1)
Total deferred tax charge/(credit)	**15.5**	**-**	**-**	**-**	**15.5**	(46.8)	-	-	-	(46.8
Total tax on profit/(loss) (note 5(b))	**12.3**	**0.1**	**(0.1)**	**0.7**	**13.0**	(58.5)	0.1	-	0.6	(57.8)

The £2.5m current corporation tax credit includes a £0.1m credit reflecting the amounts due from Wales & West Gas Networks (Holdings) Limited by way of group relief surrendered and a £2.4m prior period corporation tax credit; reflecting adjustments of £2.6m credit for the allocation of disallowed interest under the worldwide debt cap provisions offset by a £0.2m charge to reflect an increase to the amounts due from group companies in respect of group relief surrendered on the finalisation of the tax returns for earlier years (2017: £11.0m credit; £7.2m credit in respect of amounts due from group companies relating to group relief surrendered of £7.0m and the allocation of disallowed interest under the worldwide debt cap provisions of £0.2m).

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017.

The deferred tax charge relating to change of tax rate of £1.3m (2017: £6.1m credit) has arisen as a result of the differential tax rates at which deferred tax assets and liabilities are expected to reverse. The deferred tax assets and liabilities that make up the closing net deferred tax liability of £207.1m (2017: £187.0m) are set out in note 16(d).

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

(b) Factors affecting the current tax charge/(credit) for the year

The difference between the total tax charge/(credit) and the amount calculated by applying the weighted average standard rate of UK corporation tax of 19.0% (2017: 20.0%) to the profit/(loss) before tax is explained below:

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Profit/(loss) on ordinary activities before tax	**9.0**	**0.3**	**(0.5)**	**3.6**	**12.4**	(179.4)	0.4	0.1	2.8	(176.1)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2017: 20%)	**1.6**	**0.1**	**(0.1)**	**0.7**	**2.3**	(35.9)	0.1	-	0.6	(35.2)
Effects of:										
expenses not deductible for tax purposes	**10.3**	**-**	**-**	**-**	**10.3**	10.8	-	-	-	10.8
income not taxable in determining taxable profit	**(0.5)**	**-**	**-**	**-**	**(0.5)**	(0.9)	-	-	-	(0.9)
effect of change in tax rate	**1.3**	**-**	**-**	**-**	**1.3**	(6.1)	-	-	-	(6.1)
adjustment to deferred tax in respect of prior period	**2.0**	**-**	**-**	**-**	**2.0**	(22.6)	-	-	-	(22.6)
adjustment to current tax in respect of prior period	**(2.4)**	**-**	**-**	**-**	**(2.4)**	(3.8)	-	-	-	(3.8)
Current tax charge/(credit) for the year (note 5(a))	**12.3**	**0.1**	**(0.1)**	**0.7**	**13.0**	(58.5)	0.1	-	0.6	(57.8)

The effective rate of tax of 126.9% for the year ended 31 March 2018 is higher than the statutory rate of 19% largely due to the transfer pricing adjustments imputed of £52.6m (2017: (32.8%) is lower than the statutory rate of 20% largely due to the transfer pricing adjustments imputed of £52.9m resulting in an incremental charge of £10.6m less the credits arising mainly as a result of transitional adjustments to FRS102 in respect of deferred tax (£22.6m), current tax (£3.8m) and rate differences of (£6.1m)).

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

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

6. Intangible fixed assets

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

All intangible fixed assets are associated with the Transportation Business.

7. Tangible fixed assets

	Freehold land and buildings £m	Leasehold land and buildings £m	Gas distribution network assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2017	18.0	6.2	2,905.0	173.0	51.2	**3,153.4**
Additions	-	-	1.8	0.5	116.3	**118.6**
Disposals	(0.2)	-	-	(2.9)	-	**(3.1)**
Transfers in year	2.2	-	109.8	6.8	(118.8)	**-**
At 31 March 2018	**20.0**	**6.2**	**3,016.6**	**177.4**	**48.7**	**3,268.9**
Accumulated depreciation						
At 1 April 2017	1.6	4.1	538.3	129.2	-	**673.2**
Charge for the year	0.4	0.2	63.8	11.2	-	**75.6**
Disposals	-	-	-	(2.4)	-	**(2.4)**
At 31 March 2018	**2.0**	**4.3**	**602.1**	**138.0**	**-**	**746.4**
Net book amount						
At 31 March 2018	**18.0**	**1.9**	**2,414.5**	**39.4**	**48.7**	**2,522.5**
At 31 March 2017	16.4	2.1	2,366.7	43.8	51.2	**2,480.2**

The Group operates company cars on leases which meet the definition of finance leases under FRS 102 and are accounted for accordingly. At 31 March 2018 the net book amount of these assets held under finance leases was £2.2m (2017: £3.0m).

Included within the freehold land and buildings net book amount at 31 March 2018 is £2.2m (2017: £2.2m) in respect of land which is not depreciated.

All tangible fixed assets are associated with the Transportation Business with the exception of £0.2m (2017: £0.2m) within Vehicles, plant and equipment in respect of IT equipment for Smart metering.

8. Fixed asset investment

Unlisted investments	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	£m	£m	£m	£m
Cost					
At 31 March 2018 and 31 March 2017	**0.1**	**-**	**-**	**-**	**0.1**
Amounts written off					
At 31 March 2018 and 31 March 2017	**-**	**-**	**-**	**-**	**-**
Net book amount					
At 31 March 2018 and 31 March 2017	**0.1**	**-**	**-**	**-**	**0.1**

The unlisted fixed asset investment of £0.1m (2017: £0.1m) represents the Group's shareholding in Xoserve Limited, a private Company limited by shares, incorporated in England and Wales (registered number 05046877). The Group's shareholding represents 10% (2017: 10%) of the issued share capital of Xoserve Limited.

The principal activity of Xoserve Limited, a company incorporated in England and Wales, is as the Gas Transporters' Agent providing centralised information and data services for Gas Transporters and Gas Shippers in Great Britain. Xoserve's registered office address is Lansdowne Gate, 65 New Road, Solihull, B91 3DL.

9. Stock

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Raw materials and consumables	**3.0**	**-**	**-**	**-**	**3.0**	3.1	-	-	-	3.1

The replacement cost of stock is not materially different from its carrying value.

10. Debtors

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Amounts falling due within one year:										
Trade debtors	**39.2**	**-**	**2.3**	**0.2**	**41.7**	39.2	-	1.6	0.1	40.9
Prepayments and accrued income	**2.4**	**-**	**-**	**-**	**2.4**	4.2	-	-	-	4.2
	41.6	**-**	**2.3**	**0.2**	**44.1**	43.4	-	1.6	0.1	45.1

11. Creditors

						2018					2017
	Note	**Transportation business**	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
		£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
(a) Amounts falling due within one year:											
External borrowings	12	**96.8**	**-**	**-**	**-**	**96.8**	-	-	-	-	-
Accrual for accretion on index-linked swaps		**73.8**	**-**	**-**	**-**	**73.8**	-	-	-	-	-
Obligations under finance leases	12(v)	**1.0**	**-**	**-**	**-**	**1.0**	1.1	-	-	-	1.1
Payments received on account		**10.9**	**-**	**-**	**-**	**10.9**	9.6	-	-	-	9.6
Trade creditors		**6.5**	**-**	**-**	**-**	**6.5**	6.7	-	-	-	6.7
Other taxation and social security		**5.4**	**-**	**-**	**-**	**5.4**	3.5	-	-	-	3.5
Other creditors		**3.2**	**-**	**-**	**-**	**3.2**	2.9	-	-	-	2.9
Accruals and deferred income		**49.3**	**-**	**0.1**	**0.1**	**49.5**	62.6	-	0.1	0.1	62.8
Amounts owed to parent undertaking	13(a)	**648.8**	**-**	**-**	**-**	**648.8**	651.5	-	-	-	651.5
		895.7	**-**	**0.1**	**0.1**	**895.9**	737.9	-	0.1	0.1	738.1
(b) Amounts falling due after more than one year:											
External borrowings	12	**1,377.9**	**-**	**-**	**-**	**1,377.9**	1,486.3	-	-	-	1,486.3
Loan notes with affiliates	12, 13	**644.8**	**-**	**-**	**-**	**644.8**	-	-	-	-	-
Swap fair value liability (excluding accretion)		**873.5**	**-**	**-**	**-**	**873.5**	951.5	-	-	-	951.5
Accrual for accretion on index-linked swaps		**-**	**-**	**-**	**-**	**-**	25.5	-	-	-	25.5
Obligations under finance leases	12(v)	**1.2**	**-**	**-**	**-**	**1.2**	1.9	-	-	-	1.9
Trade creditors		**0.6**	**-**	**-**	**-**	**0.6**	0.3	-	-	-	0.3
Other creditors		**0.4**	**-**	**-**	**-**	**0.4**	0.8	-	-	-	0.8
		2,898.4	**-**	**-**	**-**	**2,898.4**	2,466.3	-	-	-	2,466.3

12. External borrowings

	2018 Transportation business	2018 De-minimis business	2018 Metering activities	2018 Other activities	2018 Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Repayable as follows:										
In less than one year	**97.8**	**-**	**-**	**-**	**97.8**	1.1	-	-	-	1.1
In more than one year but not more than two years	**0.7**	**-**	**-**	**-**	**0.7**	115.1	-	-	-	115.1
In more than two years but not more than five years	**249.1**	**-**	**-**	**-**	**249.1**	249.6	-	-	-	249.6
In more than five years	**1,774.1**	**-**	**-**	**-**	**1,774.1**	1,123.5	-	-	-	1,123.5
	2,121.7	**-**	**-**	**-**	**2,121.7**	1,489.3	-	-	-	1,489.3

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

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

On 27 March 2018, the Company purchased, through a tender offer, £48.0m nominal value of the 6.75% £115.0m Class B bonds maturing on 17 December 2036. The bonds were purchased at 104.134% of their par value, and included accrued interest of £0.9m. The total consideration paid was £50.9m. The premium paid of £2.0m is included within interest payable see note 4(b), representing the excess of the consideration paid above the book carrying amount of the bonds. On the same day, WWUF acquired from the Company the bonds which it bought and immediately cancelled them, as required by the bond trust deed. In consideration for this cancellation, WWUF extinguished an equivalent amount of debt owed by the Company to it.

On 2 December 2016 a guaranteed bond with a nominal value of £200.0m matured and was repaid at par with funds advanced from the Company.

On 23 July 2018, WWU (the "Offeror") launched an invitation to the holders of Wales & West Utilities Finance plc's (the "Issuer") £250,000,000 6.25 per cent. Guaranteed Bonds due 2021 (ISIN: XS0438200361) (the "Notes") to tender their Notes for purchase by the Offeror for cash up to a nominal amount of £125.0m. See note 27 – Post balance sheet events.

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

12. External borrowings (continued)

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

Nominal value	Coupon	Class	Issue date	Redemption date	Book value at 31 March 2018	Book value at 31 March 2017
£250m	6.25%	A	10 July 2009	30 November 2021	£249.0m	£248.7m
£300m	5.75%	A	31 March 2010	29 March 2030	£295.3m	£294.9m
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035	£127.3m	£122.3m
£67m	6.75%*	B	31 March 2010	17 December 2018/2036*	£66.8m	£114.4m
£250m	4.625%	A	4 November 2011	13 December 2023	£248.6m	£248.4m
£150m	5.00%	A	4 November 2011	7 March 2028	£148.2m	£148.1m
£1,117m					£1,135.2m	£1,176.8m

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

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

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

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

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

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

12. External borrowings (continued)

iv) On 27 March 2018, the Company issued, for cash, £645.0m of 20 year subordinated loan notes expiring on 26 March 2038 to affiliated companies resident and incorporated in Hong Kong and controlled by the 4 members of the Hong Kong based consortium that jointly own West Gas Networks Limited (UK) and Western Gas Networks Limited (UK) (see note 25 - Immediate and ultimate parent companies and 26(d) related party transactions). The loan notes carry a coupon of LIBOR + 6.5% and interest is payable bi-annually in June and December. On 12 June 2018, the loan notes were registered on the Official List of the International Stock Exchange in Jersey.

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

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

The cash received in respect of the loan notes was used on 4 April 2018 to repay an equivalent amount of the loan from the Company's immediate parent, Wales & West Utilities Holdings Limited and further intercompany loan repayments were made within the UK group. On 4 April 2018, Wales & West Gas Networks (Holdings) Limited paid £645.0m; comprising repayment of the £96.8m shareholder loan, £5.4m accrued interest thereon and a £542.8m dividend to West Gas Networks Limited and Western Gas Networks Limited. See note 27 – Post balance sheet events.

v) The finance lease obligation in respect of company cars is included within borrowings above. The liability of obligations under finance leases at 31 March 2018 was £2.2m (2017: £3.0m).

13. Financial instruments and risk management

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

The Group's Treasury function is governed by policies determined by the Board, and reports periodically to the Treasury Committee and the Board.

(a) Categories of financial instruments

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

		2018					2017				
	Note	**Transportation business £m**	**De-minimis business £m**	**Metering activities £m**	**Other activities £m**	**Total £m**	Transportation business £m	De-minimis business £m	Metering activities £m	Other activities £m	Total £m
Financial assets held at amortised cost											
Trade debtors	10	**41.6**	**-**	**2.3**	**0.2**	**44.1**	43.4	-	1.6	0.1	45.1
Cash	20,21	**671.7**	**0.7**	**(0.8)**	**9.9**	**681.5**	65.0	0.4	0.4	5.2	71.0
Total financial assets at amortised cost		**713.3**	**0.7**	**1.5**	**10.1**	**725.6**	108.4	0.4	2.0	5.3	116.1
Financial assets at fair value											
Derivative financial instruments	13(e)	**32.9**	**-**	**-**	**-**	**32.9**	42.5	-	-	-	42.5
Total financial assets		**746.2**	**0.7**	**1.5**	**10.1**	**758.5**	150.9	0.4	2.0	5.3	158.6
Trade and other creditors	11(a) & 11(b)	**10.7**	**-**	**-**	**-**	**10.7**	10.7	-	-	-	10.7
Accrued interest on bonds and EIB loans		**13.6**	**-**	**-**	**-**	**13.6**	12.4	-	-	-	12.4
Obligations under finance leases	12	**2.2**	**-**	**-**	**-**	**2.2**	3.0	-	-	-	3.0
Guaranteed bonds	12	**1,135.2**	**-**	**-**	**-**	**1,135.2**	1,176.8	-	-	-	1,176.8
External borrowings – EIB loans & bank fees	12	**339.5**	**-**	**-**	**-**	**339.5**	309.5	-	-	-	309.5
Loans with affiliates	12, 26 (d)	**644.8**	**-**	**-**	**-**	**644.8**	-	-	-	-	-
Amounts owed to parent undertaking	11(a)	**648.8**	**-**	**-**	**-**	**648.8**	651.5	-	-	-	651.5
Total financial liabilities at amortised cost		**2,794.8**	**-**	**-**	**-**	**2,794.8**	2,163.9	-	-	-	2,163.9
Financial assets at fair value											
Derivative financial instruments	13(e)	**947.3**	**-**	**-**	**-**	**947.3**	977.0	-	-	-	977.0
Total financial liabilities		**3,742.1**	**-**	**-**	**-**	**3,742.1**	3,140.9	-	-	-	3,140.9

13. Financial instruments and risk management (continued)

(a) Categories of financial instruments (continued)

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

Amounts owed to the parent undertaking and to affiliates represent subordinated unsecured loan capital. Payments made in respect of this capital are subject to restrictive conditions in the Common Terms Agreement with senior lenders and other parties. The amounts owed to the parent undertaking as at 31 March 2018 represents two tranches. One tranche carries a fixed rate of interest of 15% and had a balance of £540.5m at 31 March 2018 (2017: £543.0m). The second tranche carries a floating rate of interest of LIBOR plus 14%, and had a balance of £85.0m at 31 March 2018 (2017: £85.0m with floating rate of interest of LIBOR plus 14%). Each tranche is repayable on demand. The above analysis represents £625.5m (2017: £628.0m) of principal intra-group indebtedness to its parent undertaking. The remaining £23.3m (2017: £23.5m) owed to parent undertaking constitutes the interest accrued on the principal. On 4 April 2018, £645.0m of the £648.8m parent undertaking loan balance at 31 March 2018 was repaid.

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

		2018					2017				
		Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
		£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Interest income and expense											
Total interest income for financial assets at amortised cost	4(a)	**(0.4)**	**-**	**-**	**-**	**(0.4)**	(0.7)	-	-	-	(0.7)
Total interest expense for financial liabilities at amortised cost	4(b)	**173.8**	**-**	**-**	**-**	**173.8**	177.5	-	-	-	177.5
Fair value gains and losses											
On derivative financial assets measured at fair value through profit or loss	4(c)	**2.6**	**-**	**-**	**-**	**2.6**	(9.6)	-	-	-	(9.6)
On derivative financial liabilities measured at fair value through profit or loss	4(c)	**(35.0)**	**-**	**-**	**-**	**(35.0)**	192.3	-	-	-	192.3
		(32.4)	**-**	**-**	**-**	**(32.4)**	182.7	-	-	-	182.7

13. Financial instruments and risk management (continued)

(b) Interest rate composition of gross borrowings

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

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Fixed rate	**363.0**	**-**	**-**	**-**	**363.0**	411.0	-	-	-	411.0
Fixed real rate	**1,064.0**				**1,064.0**	1,104.0				1,104.0
Floating rate	**30.0**	**-**	**-**	**-**	**30.0**	-	-	-	-	-
Total	**1,457.0**	**-**	**-**	**-**	**1,457.0**	1,475.0	-	-	-	1,475.0

Fixed nominal rate

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

Fixed real rate

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

Floating rate

The floating rate debt of £30.0m at 31 March 2018 (2017: £nil) represents short term debt drawn under the revolving credit facility.

13. Financial instruments and risk management (continued)

(c) Interest rate profile of fixed rate borrowings

After taking account of the interest rate swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 March 2018 and 31 March 2017, excluding intra-group indebtedness and loan notes issued to affiliates, together with the weighted average period for which the rate is fixed, was:

	Weighted average interest rate									
	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
Currency	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Sterling: Fixed rate	**3.72**	**-**	**-**	**-**	**3.72**	3.83	-	-	-	3.83
Fixed real rate	**3.78**	**-**	**-**	**-**	**3.78**	3.82	-	-	-	3.82

	Weighted average period for which rate is fixed									
	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
Currency	**Years**	**Years**	**Years**	**Years**	**Years**	Years	Years	Years	Years	Years
Sterling: Fixed rate	**8.5**	**-**	**-**	**-**	**8.5**	9.2	-	-	-	9.2
Fixed real rate	**8.4**	**-**	**-**	**-**	**8.4**	9.1	-	-	-	9.1

13. Financial instruments and risk management (continued)

(d) Borrowing facilities

Undrawn committed borrowing facilities were:

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

The drawn facilities of £340.0m (2017: £310.0m EIB loans) represents £310.0m of EIB loans as detailed in note 12 (ii) and £30.0m of revolver facility drawn at 31 March 2018 (2017: £nil). The £95.0m of undrawn facilities at 31 March 2018 comprised revolver facilities (2017: £150.0m revolver facilities). In addition there are standby liquidity facilities of £90.0m (2017: £90.0m) which may be drawn following an event of default. These standby liquidity facilities are not regarded as part of the Group's ongoing liquidity facilities for general corporate purposes.

(e) Fair values of financial instruments

In the table below, the fair value of short term borrowings, obligations under finance leases, cash at bank and bank loans approximates to book values due to the short maturity of these instruments after reflecting £0.7m (2017: £0.5m) of unamortised debt fees.

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

The fair values of the derivative financial instruments represent the present value of expected future cash flows from those instruments, discounted at LIBOR. These fair values are expected to convert to cash over the life of the instruments, although earlier termination would accelerate cash flow settlement. The fair values do not represent a termination cost as at 31 March 2018.

	31 March 2018		31 March 2017	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Guaranteed bonds	**(1,135.2)**	**(1,377.4)**	(1,176.8)	(1,497.4)
Loans with affiliates	**(644.8)**	**(645.0)**	-	-
Bank loans	**(339.5)**	**(340.0)**	(309.5)	(310.0)
Obligations under finance leases	**(2.2)**	**(2.2)**	(3.0)	(3.0)
Cash at bank	**681.5**	**681.5**	71.0	71.0
	(1,440.2)	**(1,683.1)**	(1,418.3)	(1,739.4)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:				
Index-linked swaps liability	**(947.3)**	**(989.1)**	(977.0)	(994.6)
Interest rate swaps asset	**32.9**	**33.8**	42.5	43.9
	(2,354.6)	**(2,638.4)**	(2,352.8)	(2,690.1)

13. Financial instruments and risk management (continued)

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

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

The Group has entered into index-linked interest rate swaps primarily to mitigate the impact of volatility from the RPI index-linked regulated revenues.

The fair value of derivative contracts at 31 March 2018 and 31 March 2017 are shown below:

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

The difference between the book value of derivative financial disclosed above and the fair value of derivative financial instruments as disclosed in the note 13(e) reflect the unamortised element of swap extension fees £41.8m (2017: £17.6m) less the credit adjustment on the swap asset of £0.9m (2017: £1.4m).

Index-linked swaps

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

Year of break clause	**31 March 2018 £m**	31 March 2017 £m
2020	**3.4**	140.0
2022	**86.4**	140.0
2024	**140.0**	140.0
2025	**23.6**	23.6
2026	**140.0**	140.0
2028	**134.1**	116.4
2029	**85.9**	-
2030	**39.4**	-
2032	**47.2**	-
	700.0	700.0

The Group intends to continue to extend break dates well in advance of their due dates.
The remaining £303.8m (2017: £303.8m) of index-linked swaps do not have any such break clauses and mature in 2023 (2017: 2023).

13. Financial instruments and risk management (continued)

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

Interest rate swaps

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

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

14. Capital commitments

					2018					2017
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Tangible fixed assets	**191.9**	**-**	**-**	**-**	**191.9**	241.6	-	-	-	241.6
Intangible fixed assets	**4.8**	**-**	**-**	**-**	**4.8**	4.0	-	-	-	4.0
Capital purchases contracted for but not provided for	**196.7**	**-**	**-**	**-**	**196.7**	245.6	-	-	-	245.6

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

The determination for the eight year regulatory period which commenced 1 April 2013 and ends 31 March 2021 includes capital and replacement investment of £1,006.0m (in 2009/10 prices).

15. Leasing commitments

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

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Land and buildings										
Within one year	**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
Between two and five years	**0.2**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	0.2
After five years	**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
	0.4	**-**	**-**	**-**	**0.4**	0.4	-	-	-	0.4

16. Provisions for liabilities

		2018					2017				
		Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Insurance provision	16(a)	**2.4**	**-**	**-**	**-**	**2.4**	1.4	-	-	-	1.4
Environmental and holder demolition provision	16(b)	**14.2**	**-**	**-**	**-**	**14.2**	11.7	-	-	-	11.7
Wayleaves provision	16(c)	**6.4**	**-**	**-**	**-**	**6.4**	6.2	-	-	-	6.2
Deferred taxation	16(d)	**207.1**	**-**	**-**	**-**	**207.1**	187.0	-	-	-	187.0
Other provisions	16(e)	**6.3**	**-**	**-**	**-**	**6.3**	5.5	-	-	-	5.5
		236.4	**-**	**-**	**-**	**236.4**	211.8	-	-	-	211.8

16. Provisions for liabilities (continued)

(a) Insurance provision

	Note	2018 Transportation business	2018 De-minimis business	2018 Metering activities	2018 Other activities	2018 Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
		£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
At 1 April		**1.4**	**-**	**-**	**-**	**1.4**	1.5	-	-	-	1.5
Unwinding of discount	4 (b)	**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
Charged in the year	2 (b)	**1.6**	**-**	**-**	**-**	**1.6**	0.3	-	-	-	0.3
Utilised in the year		**(0.7)**	**-**	**-**	**-**	**(0.7)**	(0.5)	-	-	-	(0.5)
At 31 March		**2.4**	**-**	**-**	**-**	**2.4**	1.4	-	-	-	1.4

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

(b) Environmental and holder demolition provision

	Note	2018 Transportation business	2018 De-minimis business	2018 Metering activities	2018 Other activities	2018 Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
		£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
At 1 April		**11.7**	**-**	**-**	**-**	**11.7**	12.4	-	-	-	12.4
Unwinding of discount	4 (b)	**0.7**	**-**	**-**	**-**	**0.7**	0.7	-	-	-	0.7
Charged in the year	2 (b)	**1.9**	**-**	**-**	**-**	**1.9**	-	-	-	-	-
Utilised in the year		**(0.1)**	**-**	**-**	**-**	**(0.1)**	(1.4)	-	-	-	(1.4)
At 31 March		**14.2**	**-**	**-**	**-**	**14.2**	11.7	-	-	-	11.7

The environmental and holder demolition provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. During the year the Group reassessed the provision as part of the preparation for RIIO-GD2, including a review of expected future cost and the timing of work, resulting in a £1.9m increase in the provision. The provision has been discounted to its estimated net present value. The anticipated timing of the cash flows for statutory decontamination is expected to be incurred over the period until 2050.

16. Provisions for liabilities (continued)

(c) Wayleaves provision

	Note	2018 Transportation business	2018 De-minimis business	2018 Metering activities	2018 Other activities	2018 Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April		**6.2**	**-**	**-**	**-**	**6.2**	6.1	-	-	-	6.1
Unwinding of discount	4 (b)	**0.3**	**-**	**-**	**-**	**0.3**	0.4	-	-	-	0.4
Utilised in the year		**(0.1)**	**-**	**-**	**-**	**(0.1)**	(0.3)	-	-	-	(0.3)
At 31 March		**6.4**	**-**	**-**	**-**	**6.4**	6.2	-	-	-	6.2

The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves. The provision is expected to be utilised over the period until 2037.

(d) Deferred tax

	Note	2018 Transportation business	2018 De-minimis business	2018 Metering activities	2018 Other activities	2018 Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April		**187.0**	**-**	**-**	**-**	**187.0**	233.9	-	-	-	233.9
Charged/(credited) to comprehensive income	5(a)	**15.5**	**-**	**-**	**-**	**15.5**	(46.8)	-	-	-	(46.8
Charged/(credited) to comprehensive income	24	**4.7**	**-**	**-**	**-**	**4.7**	(0.1)	-	-	-	(0.1)
Total deferred tax liability at 31 March		**207.1**	**-**	**-**	**-**	**207.1**	187.0	-	-	-	187.0
Deferred tax balance analysed as follows:											
Accelerated capital allowances		**353.5**	**-**	**-**	**-**	**353.5**	361.8	-	-	-	361.8
Tax losses carried forward		**(41.4)**	**-**	**-**	**-**	**(41.4)**	(44.6)	-	-	-	(44.6)
Future tax relief on swap liabilities		**(100.9)**	**-**	**-**	**-**	**(100.9)**	(118.6)	-	-	-	(118.6)
Short term timing differences on general provisions		**(2.2)**	**-**	**-**	**-**	**(2.2)**	(1.8	-	-	-	(1.8)
Pension liability		**(1.9)**	**-**	**-**	**-**	**(1.9)**	(9.8)	-	-	-	(9.8)
Total deferred tax liability at 31 March		**207.1**	**-**	**-**	**-**	**207.1**	187.0	-	-	-	187.0

A deferred tax asset has not been recognised for the Company's Gas Transporters' Licence due to uncertainty on future tax relief. There are no expiry dates for any of the timing differences.

16. Provisions for liabilities (continued)

(e) Other provisions

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
At 1 April	**5.5**	**-**	**-**	**-**	**5.5**	4.5	-	-	-	4.5
Charged in the year	**0.8**	**-**	**-**	**-**	**0.8**	1.0	-	-	-	1.0
At 31 March	**6.3**	**-**	**-**	**-**	**6.3**	5.5	-	-	-	5.5

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

17. Called up share capital

	2018					2017				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Authorised:										
30,675,000 Ordinary shares of £1 each	**30.7**	**-**	**-**	**-**	**30.7**	30.7	-	-	-	30.7
Allotted and fully paid:										
30,675,000 Ordinary shares of £1 each	**30.7**	**-**	**-**	**-**	**30.7**	30.7	-	-	-	30.7

18. Net cash inflow/(outflow) from operating activities

	2018 Transportation business	**2018** De-minimis business	**2018** Metering activities	**2018** Other activities	**2018** Total	2017 Transportation business	2017 De-minimis business	2017 Metering activities	2017 Other activities	2017 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Continuing operations:										
Operating profit	**150.0**	**0.3**	**(0.5)**	**3.6**	**153.4**	180.1	0.4	0.1	2.8	183.4
Depreciation of tangible fixed assets	**75.6**	**-**	**-**	**-**	**75.6**	74.8	-	-	-	74.8
Amortisation of intangible fixed assets	**14.0**	**-**	**-**	**-**	**14.0**	13.6	-	-	-	13.6
Amortisation of grant	**-**	**-**	**-**	**-**	**-**	(0.7)	-	-	-	(0.7)
Profit on disposal of fixed assets	**-**	**-**	**-**	**(0.5)**	**(0.5)**	(2.2)	-	- -		(2.2)
Net decrease in stocks	**0.1**	**-**	**-**	**-**	**0.1**	0.3	-	-	-	0.3
Net decrease/(increase) in debtors	**1.6**	**-**	**(0.7)**	**(0.1)**	**0.8**	(1.2)	-	0.2	-	(1.0)
Net decrease in creditors	**(5.2)**	**-**	**-**	**-**	**(5.2)**	(6.9)	-	(0.1)	-	(7.0)
Restructuring payments	**-**	**-**	**-**	**-**	**-**	(1.9)	-	-	-	(1.9)
Difference between pension charge and cash contributions	**1.5**	**-**	**-**	**-**	**1.5**	(0.3)	-	-	-	(0.3)
Movement in provisions for liabilities	**2.5**	**-**	**-**	**-**	**2.5**	(1.8)	-	-	-	(1.8)
Net cash inflow/(outflow) from operating activities	**240.1**	**0.3**	**(1.2)**	**3.0**	**242.2**	253.8	0.4	.0.2	2.8	257.2

19. Analysis of changes in financing in the year

	Share capital		**Long term loans**	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
At 1 April	**30.7**	30.7	**1,466.5**	1,513.6
Obligations held under finance leases	**-**	-	**(0.8)**	0.9
Amortisation of debt issue costs and bond discount	**-**	-	**1.7**	2.0
Debt and financing issue costs	**-**	-	**(0.5)**	-
Bond debt retired early/repaid	**-**	-	**(48.0)**	(200.0)
Loans with affiliates	**-**	-	**645.0**	-
Bank debt drawn	**-**	-	**30.0**	150.0
At 31 March	**30.7**	30.7	**2,093.9**	1,466.5

20. Analysis of changes in cash in the year

	Note	2018 £m	2017 £m
At 1 April	21	**71.0**	38.3
Net cash inflow	21	**610.5**	32.7
At 31 March	21	**681.5**	71.0

21. Analysis of cash and cash deposits

	Note	2018 £m	2017 £m	2018 Change in year £m	2017 Change in year £m
Cash at bank	20	**681.5**	71.0	**610.5**	32.7
Current asset investments - cash on term deposit		**-**	-	**-**	(100.0)
		681.5	71.0	**610.5**	(67.3)

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

	Note	2018 £m	2017 £m
Increase in cash as per cash flow statement		**610.5**	32.7
Obligations under finance leases		**0.8**	(0.9)
Amortisation of debt issue costs and discount		**(1.7)**	(2.0)
Debt issue costs		**0.5**	-
Cash transferred from term deposit		**-**	(100.0)
Bond debt retired early/repaid		**48.0**	200.0
Loans with affiliates	12	**(645.0)**	-
Bank debt drawn	12	**(30.0)**	(150.0)
Increase in net debt		**(16.9)**	(20.2)
At 1 April		**(1,395.5)**	(1,375.3)
At 31 March		**(1,412.4)**	(1,395.5)

22. Reconciliation of net cash flow to increase in net debt (continued)

	Note	**2018 £m**	2017 £m
External borrowings	11,12	**(2,121.7)**	(1,489.3)
Less: accrual for inflation on index-linked bond	12(b i)	**27.8**	22.8
Debt		**(2,093.9)**	(1,466.5)
Cash at bank	20,21	**681.5**	71.0
Net debt		**(1,412.4)**	(1,395.5)

23. Directors' and officers' loans and transactions

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

The only transactions with directors during the year were payments of directors' remuneration, as disclosed in note 3.

24. Pension Scheme

The Group operates one pension Scheme, the Wales & West Utilities Pension Scheme ("the Scheme") which has defined benefit and defined contribution sections.

Defined benefit section

The Group operates a funded defined benefit section of the Scheme. The Scheme funds are administered by Trustees and are independent of the Group's finances. Contributions are paid to the Scheme in accordance with the Schedule of Contributions agreed between the Trustees and the Group. The Scheme is a Registered Scheme under the Provisions of Schedule 36 of the Finance Act 2004.

A full actuarial valuation as at 31 March 2016 was completed by Lane Clark & Peacock and showed a deficit of £103.9m. The calculations carried out to produce the results of that valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities were measured using the projected unit method.

The next triennial valuation of the Scheme is due as at 31 March 2019.

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

24. Pension Scheme (continued)

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

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

The assets in the Scheme (excluding the defined contribution section of the Scheme and the members' AVC funds) at 31 March 2018 and 31 March 2017 were:

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

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

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

24. Pension Scheme (continued)

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

During the year ended 31 March 2018, contributions by the Company of £28.2m (2017: £39.5m), which included £18.4m (2017: £25.5m) in respect of the agreed 15 year deficit recovery plan ending 31 March 2031 (2017: 15 year deficit recovery plan ending 31 March 2031) and a £nil (2017: £3.0m) additional contribution in respect of the early retirement programme, were made in respect of members of the defined benefit section.

Scheme expenses are met by the Company. The Company has set aside £1.5m outside of the Scheme for the year ended 31 March 2018 in order to meet the Scheme's expenses (2017: £1.3m). At 31 March 2018 there were no contributions due to the defined benefit section of the Scheme (2017: £nil).

It has been agreed that the ongoing employer contribution will be at a rate of 56.3% (2017: 56.3%) of pensionable salary plus an allowance for expenses. In addition, the Group has agreed a 15 year deficit recovery plan following the 31 March 2016 actuarial valuation with contributions of £12.5m per annum until 31 March 2020, £5.6m per annum until 31 March 2028 and £4.6m per annum until 31 March 3031.

On 29 March 2018 the Company paid £14.7m in respect of the deficit contributions due for the year ending 31 March 2019 (2017: On 30 March 2017 the Company paid £11.0m in respect of the deficit contributions due for the year ended 31 March 2018).

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

Profit and loss account	**2018**	2017
	£m	£m
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**(11.3)**	(11.0)
Past service cost	**-**	(3.0)
Total operating charge	**(11.3)**	(14.0)
Analysis of amounts charged to other finance costs:		
Net interest on the net defined liability (note 4(b))	**(1.1)**	(2.5)
Total pension expense	**(12.4)**	(16.5)

Pension costs of £14.3m shown in note 3(b) comprise £11.3m of current service cost and £3.0m of defined contribution costs (2017: Pension costs of £13.6m; £11.0m of current service cost and £2.6m of defined contribution costs).

24. Pension Scheme (continued)

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

Remeasurements recognised in comprehensive income	**2018 £m**	2017 £m
Return on Scheme's assets excluding interest income	**4.4**	77.7
Experience gain on obligation	**-**	23.5
Changes in demographic assumptions underlying the present value of the obligation	**17.4**	30.2
Changes in financial assumptions underlying the present value of the obligation	**5.8**	(132.1)
Actuarial gain/(loss) recognised in the statement of other comprehensive income – pre tax	**27.6**	(0.7)
Deferred tax (charge)/credit on actuarial gain/ (loss) (note 16(d))	**(4.7)**	0.1
Actuarial gain/(loss) recognised in the statement of comprehensive income - net	**22.9**	(0.6)

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

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

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

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

24. Pension Scheme (continued)

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

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

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

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

Defined contribution section

The Group also operates a defined contribution section of the Scheme for staff. The employer paid £3.0m (2017: £2.6m) during the regulatory year ended 31 March 2018 in respect of defined contribution members.

25. Immediate and ultimate parent companies

The immediate parent Company is Wales & West Utilities Holdings Limited, incorporated in England and Wales and the ultimate parent Company and controlling party is Wales & West Gas Networks (Holdings) Limited incorporated in England and Wales. Wales & West Gas Networks (Holdings) Limited is the parent undertaking of the largest group of undertakings. Wales & West Utilities Holdings Limited is the parent undertaking of the smallest group of undertakings to consolidate Wales & West Utilities Limited. Consolidated financial statements are prepared by both the immediate and ultimate parent undertakings up to the accounting reference date each year, being the statutory year end. Copies of the annual report and consolidated financial statements of Wales & West Gas Networks (Holdings) Limited and Wales & West Utilities Holdings Limited may be obtained from the Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

The shares in the ultimate parent Company, Wales & West Gas Networks (Holdings) Limited, are owned equally by West Gas Networks Limited incorporated in England and Wales and Western Gas Networks Limited incorporated in England and Wales. These two companies are ultimately owned by a consortium comprising CK Hutchison Holdings Limited (30%), CK Infrastructure Holdings Limited (30%), Power Assets Holdings Limited (30%) and Li Ka Shing Foundation (10%).

26. Related party transactions

(a) Xoserve Limited

The Group owns 10% (2017: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid Group as owner of the gas transmission business in the UK. From 1 April 2017 the governance and control of Xoserve will be reflective of the principles set out in Ofgem's Funding Governance and Ownership (FGO) review. Whilst WWU will continue to own its 10% stake in Xoserve, its control of Xoserve will be diminished under this new arrangement (see note 8).

Xoserve provides gas throughput (meter reading) and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas transporters. The cost to the Group of Xoserve providing these services was £4.0m (2017: £6.3m) in respect of the year ended 31 March 2018, of which £0.7m (2017: £2.6m) was charged to capital.

(b) Seabank Power Limited

The Group provides Seabank Power Limited group ("Seabank Power") with an emergency callout, pipeline inspection and maintenance service. Seabank Power is 25% owned by Cheung Kong Infrastructure Holdings Limited (Hong Kong) and 25% owned by Power Assets Holdings Limited (Hong Kong). Both companies hold a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited. These services are provided on normal commercial terms. The income to the Group in respect of services to Seabank Power was £0.1m for the year ended 31 March 2018 (2017: £0.3m).

(c) CK Hutchison Holdings Limited

C K Hutchison Holdings Limited (Cayman Islands) is a company which holds a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited. CK Hutchison Holdings Limited owns 75.76% of CK Infrastructure Holdings Limited (Bermuda), a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 March 2018 the Group has been invoiced by Hutchison International Limited for the following services negotiated by CK Hutchison Holdings Limited.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.2m for the year ended 31 March 2018 (2017: £0.2m). The contract is for 5 years from 1 April 2016.

Microsoft EA Licencing agreement - cost to the Group £0.3m for the year ended 31 March 2018 (2017: £0.2m). The contract is for 3 years from 1 April 2018.

26. Related party transactions (continued)

(d) Loans from affiliated companies

On 27 March 2018, WWU issued £645.0m (2017: £nil), net of fees of £0.2m, of loans to affiliates with a 20 year term expiring on 26 March 2038. The loan notes attract interest at LIBOR + 6.5%. At 31 March 2018 the book value of these loans was £644.8m (2017: £nil). At 31 March 2018, interest of £0.6m (2017: £nil) was payable on loans to affiliates for the period from the date of issue 27 March 2018 to 31 March 2018.

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

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

(e) Wales & West Utilities Holdings Limited

Wales & West Utilities Limited is a 100% owned subsidiary of Wales & West Utilities Holdings Limited and is included in the consolidated financial statements of Wales & West Gas Networks (Holdings) Limited. Consequently, under the terms of Section 33 of FRS 102 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are part of the Wales & West Gas Networks (Holdings) Limited group.

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

27. Post balance sheet events

On 4 April 2018, the Company paid £645.0m to its immediate parent company, Wales & West Utilities Holdings Limited, in majority settlement of the intercompany loan and on the same date Wales & West Utilities Holdings Limited paid £645.0m to its immediate parent company Wales & West Gas Networks (Senior Finance) Limited in majority settlement of the intercompany loan.

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

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

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

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