

**GWYNT Y MÔR
OFTO**

Company Registration No.8796189

Gwynt Y Môr OFTO Holdings Limited

Annual Report and Financial Statements

For the year ended 31st March 2015

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Operating and financial review

For the year ended 31 March 2015

Introduction

Gwynt Y Môr OFTO Holdings Limited (“GOHL”) is an investment holding Company whose sole business is the holdings of investments in its wholly owned subsidiaries, Gwynt Y Môr OFTO Intermediate Limited and Gwynt Y Môr OFTO PLC, which together form the Gwynt Y Môr OFTO Group (“the Group”)

GOHL’s subsidiary Gwynt Y Môr OFTO Plc (“the subsidiary” and “the licensee”), is a holder of an Offshore Electricity Transmission Licence (“the licence”) granted under the Electricity Act 1989. The licence was awarded to the subsidiary on 11 February 2015 by The Gas and Electricity Markets Authority (“the Authority”).

The ultimate controlling parties of the Group are Balfour Beatty Plc and Equitix Fund II LP. The Group Companies are registered in England and Wales, United Kingdom.

This Operating and Financial Review explains the operations of the subsidiary and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2015, as well as those matters which are likely to affect its future development and performance.

The subsidiary’s principal activity is to provide an electricity transmission service to National Grid Electricity Transmission plc (“NGET”) - the electricity transmission system operator for Great Britain. The Subsidiary owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore transmission system operated by NGET.

Background

The Office of Gas and Electricity Markets (“Ofgem”), in partnership with the Department of Energy and Climate Change (“DECC”), has developed a regulatory regime for electricity transmission networks connecting offshore wind farms to the onshore electricity system. A key feature of this regime is that the transmission assets required by offshore generators should be owned and operated by offshore transmission owners (“OFTOs”). OFTOs are subject to the conditions of a transmission licence.

The Subsidiary holds the Licence, awarded by the Authority on 11 February 2015. The asset was purchased by the use of bonds and subordinated debt. This Licence, amongst other matters, permits and requires the Subsidiary to maintain and operate the Gwynt Y Môr offshore electricity transmission assets in perpetuity with a revenue entitlement period of 20 years from the date funds were drawn on 17 February 2015. The Subsidiary’s offshore electricity transmission system exports the output of the Gwynt y Môr wind farm owned by Gwynt Y Môr Offshore Winds Limited (GYMOWL) to NGET’s onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Subsidiary to be certified as complying with the unbundling requirements of European Parliament Directive concerning common rules for the internal market in electricity (“the third package”). On 12 January 2015, the Subsidiary was issued a certificate pursuant to section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Subsidiary has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

The Subsidiary’s offshore electricity transmission system

The Subsidiary transmits the electrical power of the Gwynt Y Môr wind farm from the offshore connection point of the Subsidiary’s electrical assets with the electrical assets owned by GYMOWL to the onshore connection point of the Subsidiary’s assets with the electricity transmission system of NGET. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

Operating and financial review (continued)

For the year ended 31 March 2015

The Subsidiary's offshore electricity transmission system (continued)

The Gwynt Y Môr offshore wind farm comprises 160 turbines, with a combined capacity of around 574 megawatts ("MW"), and is located within the Liverpool Bay area of the Irish Sea, approximately 15km off the north Wales coast. The power that is generated by the wind farm is transported to shore by the Subsidiary and connects into the NGET system at Bodelwyddan in Denbighshire, North Wales.

The wind farm turbines are interconnected in "strings" by medium voltage (33kV) submarine cables that act as a power collection and transport system. The medium voltage cables are owned by GYMOWL and run to the offshore electricity substations that are owned by the Subsidiary. At each of the offshore electricity substations (East and West), the voltage is "stepped up" to 132kV. There are two 132/33kV transformers on each platform, so four in total. Each 132/33kV transformer is connected to a 132kV submarine export cable buried in the sea bed. These four submarine cables carry the power generated by the wind turbines to shore. At landfall each submarine cable is split out into three individual electrical conductors, and two fibre optic "bundles". These cables then run underground for 11km from the transition joint bay at the landfall to the Subsidiary's onshore electricity substation at Bodelwyddan. At the onshore substation the power factor of the electricity is corrected using reactive compensation equipment and the voltage is raised to 400kV by two 132/400kV transformers also owned by the company. The power is then delivered to the NGET 400kV substation which adjoins the Subsidiary's onshore substation.

The Subsidiary's long term business objectives

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

The Subsidiary's financial objective is to provide financial returns to shareholders consistent with, or in excess of, the business plan that supported its tender offer for the Gwynt Y Môr offshore transmission system. The Subsidiary will achieve this objective by:

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

The Subsidiary's operating model

The Subsidiary's operating model is to outsource all operational and maintenance ("O&M") activities including asset management capability. O&M activities are outsourced to Balfour Beatty Utility Solutions Limited. Balfour Beatty Investments Limited ("BBI") provides certain financial and management services to the Subsidiary through a Professional Services Agreement ("PSA"). As part of its general asset management responsibilities BBI fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Subsidiary meets its Licence obligations and complies with good industry practice. The Subsidiary has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

With effect from 17 February 2015 the costs incurred by BBI have been recharged to the Subsidiary in accordance with the PSA.

Operating and financial review (continued)

For the year ended 31 March 2015

The Subsidiary's approach to managing the business

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

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

Principal regulatory, industry contracts and industry code matters

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

A summary of some of the major features of the Licence, industry contracts and electricity code matters is described below.

Licence obligations

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

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

Regulated revenue and incentives

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

Operating and financial review (continued)

For the year ended 31 March 2015

Principal regulatory, industry contracts and industry code matters (continued)

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

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

If the achieved transmission system availability is different to the target availability then there is a mechanism contained within the Licence that could potentially affect the Subsidiary's charges and hence its revenue in future periods. The Licence provides for adjustments to "base revenue" where the OFTO's system availability performance is different to the target system availability. If transmission system availability in any given year is in excess of the target availability level then credits are "earned" and if availability is less than target then penalties accrue. The Subsidiary is then permitted or required to change its prices to reflect the credits earned or penalties accrued as necessary. The maximum credit which the Subsidiary can "earn" and collect in charges amounts to around 5% of base revenue for that year and the maximum penalty that can be reflected in charges is around 10% of base revenue for that year. The detailed mechanism that is used to adjust charges to reflect these credits and penalties in charges is described below.

The penalties and credits are recorded on a monthly, but notional basis, during each calendar year. Individual net monthly penalties are first offset against any brought forward net cumulative credits from the previous calendar year. Thereafter, individual monthly net penalties are eligible for offset against credits arising in the current calendar year. If at the end of any calendar year there is a cumulative net credit, this net credit is eligible for collection in charges as an adjustment to charges at the beginning of the subsequent financial year following the end of the calendar year in which the first credit arose. The maximum amount of credit that is eligible to be reflected in charges in each financial year is the lesser of the credit that arose in the calendar year and the net credit outstanding at the end of the preceding calendar year.

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

Operating and financial review (continued)

For the year ended 31 March 2015

Principal regulatory, industry contracts and industry code matters (continued)

As a result of the arrangements described above, there are a number of risks that the Subsidiary faces that affect the level of transmission system availability and therefore affect potential incentive credits and penalties. The principal risks associated with transmission system availability stem from the following:

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

As the end of the 20 year Licence period approaches the agreed regulatory formula relating to the Subsidiary's ability to collect credits as explained above changes. There is an acceleration of the Subsidiary's ability to collect such credits in its invoicing.

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

Transmission system capability (capacity)

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

Under the terms of the TOCA with NGET, the Subsidiary provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for the period 17 February 2015 to 31 March 2015 was 500 MW. The practical significance of the declared maximum capacity is that the maximum declared capacity of the transmission system determines the maximum MWhr availability of the transmission system for the purpose of comparing with the Subsidiary's actual transmission availability during any performance year – which in turn determines the Subsidiary's performance credits or penalties as described under "Regulated revenue and incentives" earlier in this Operating and Financial Review.

The Subsidiary has provided 88% transmission capacity based on the declared maximum capacity of the transmission system during the performance period January to March 2015 (part year). The reduction in availability is due to an offshore cable fault on export cable one, which the OFTO is working to repair to ensure it minimises the loss of availability, see "Transmission System Availability" below for further details.

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

Operating and financial review (continued)

For the year ended 31 March 2015

Transmission system quality of supply

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

The Subsidiary has met its requirements to transmit electricity in accordance with the parameters agreed with NGET during the year under review.

Key performance indicators ("KPIs")

The Subsidiary has identified the following KPIs as being instrumental to the management of the transmission business. Such KPIs include financial and non-financial KPIs:

	Definition	Objective
Financial KPIs		
Profit before taxation	Profit before taxation: (2015: Loss £555k).	To increase ⁺ .
Cash available for debt service ⁺⁺	Net cash inflows from operating activities less net cash flow used in investing activities ⁺⁺ (2015: £3,117k).	To increase ⁺ .
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance period 17 February 2015 to March 2015.	To exceed the Licence target availability 98%. Due to an offshore cable fault on one cable, this availability target was not achieved and availability up to March 2015 was 88%. The OFTO is applying for exceptional events protection for this incident and if successful the availability will be adjusted back to 100% and would mean this KPI will have been achieved for the year end March 2015.
Ensure that the quality of electricity at the export connection point is compliant with SQSS and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	To be compliant. This has been achieved for the year ended March 2015.
HS&E	1) Zero lost time accidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under GYMOWL's Natural Resources Wales ("NRW") Licence.	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with NRW Licence All HS & E objectives above have been met for the year ended March 2015.

+ Where appropriate adjustments will be made where events give rise to unusual patterns of income, expenditure and/or one-off events.

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

Operating and financial review (continued)

For the year ended 31 March 2015

The Subsidiary's operational performance

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

In February 2014 the International Standards Organisation (ISO) published ISO 55000, this international standard has effectively overtaken and replaced PAS 55 as the Asset Management standard. Like all new standards there is a settling in period as industry seeks to understand the full implications of trying to comply with the requirements of the standard, this has been the situation with ISO 55000. Some companies have moved to adopt ISO 55000 and some companies have kept with PAS 55. BBUS has sought to understand the essential requirements of ISO 55000 with a view to seeing how these can be applied to the OFTO environment, this has meant that the plans for adopting PAS 55 have been put on hold (possibly permanently). The intention is that during 2015 BBUS will be evaluating the requirements of ISO 55000 with a view to conducting a gap analysis in late 2015. Following the gap analysis BBUS will be better placed to identify what activities (if any) need to be amended / created in order to ensure compliance with the essential requirements of ISO 55000.

In the short term BBUS is undertaking maintenance in accordance with manufacturer's recommendations for each type of asset. Maintenance activities have been successfully carried out in accordance with the Subsidiary's maintenance plans submitted to and approved by the Subsidiary. No planned outages have taken place since the start of operations on 17 February 2015.

Transmission system availability

On Monday 2 March export cable 1 failed due to an electrical fault (short-circuit inside the cable). The automatic system protection operated correctly to safely isolate the fault and ensure that none of the other circuit elements were affected. Asset availability due to this fault was reduced by 25%. It is expected the level of availability deductions the company will incur as a result are minimal due to the cause being outside the company's control. The total cost of the repair of Export Cable 1 is expected to be £3m.

The fault has been located 15km offshore, in 14m of water, where the cable crosses a gas pipeline. Until the faulty section of cable can be recovered from the seabed, the exact cause of the failure remains unknown, but the investigation of the fault is on-going.

The Group's transmission system was successfully restored on 16 June 2015.

The performance of the Subsidiary's transmission system for the performance period to March 2015 was as tabulated below:

MW hours	Note	Performance	Performance
		Period 1 January 2015 to 31 March 2015 ¹	Period 1 January 2014 to 31 March 2014 ¹
Maximum system availability (capability - MWhrs)	(a)	592,368	-
Actual system availability (MWhrs)		518,959	-
Actual system availability (%)		88%	n/a
Regulatory target system availability (%)		98%	n/a
Availability credits/(penalties) (MWhrs)			
Availability credits at 1 January 2015 (1 January 2014)		-	-
Net availability penalties for the performance year ¹		(115,833)	-
Net availability penalties at 31 March 2015 (31 March 2014)	(b)	(115,833)	-

¹ The performance year for the year ended 31 December 2015 was a part period from asset transfer date, 17 February 2015 to 31 March 2015.

a) The maximum system availability of the Subsidiary's transmission system as declared to NGET during the performance period. b) Net availability credits / (penalties) at 31 March 2015 represent no "banked" availability.

Operating and financial review (continued)

For the year ended 31 March 2015

Quality of supply

The quality of supply constraints agreed with NGET (see “Transmission system quality of supply” above) requires the Subsidiary to transmit electricity within certain parameters in relation to: voltage control; reactive power; and harmonic distortion. A failure to meet these qualities of supply constraints could result in NGET requiring the Subsidiary’s transmission system to be disconnected from NGET’s electricity transmission system, resulting in loss of transmission availability and reduced incentive credits or performance penalties. The Subsidiary closely monitors compliance with these qualities of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Subsidiary to meet these qualities of supply obligations.

During the financial year the Subsidiary has met its obligations to transmit electricity compliant with these operational obligations. The Subsidiary has continued to comply with these obligations through to the date of this report.

Health, safety, and environmental performance

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

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

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

The Board is pleased to report that during the period under review there were no environmental incidents or matters that required reporting to any relevant competent authority and that it had complied with the Marine licence obligations transferred under the Sale and Purchase Agreement (“SPA”) by GYMOWL when the transmission assets were acquired by the Subsidiary.

Operating and financial review (continued)

For the year ended 31 March 2015

Stakeholder relationships

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

Principal risks and uncertainties

The principal risks and uncertainties faced by the Subsidiary have been discussed and referenced in this Operating and Financial Review, alongside a discussion of the operational and financial performance of the Subsidiary.

The Group's financial performance

Summary

The financial performance of the Group for the year ended 31 March 2015, and its financial position as at 31 March 2015, was satisfactory and are summarised below. In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k.

In the period to March 2015, the Subsidiary acquired the transmission owner asset as reflected in the cash flows for that period. Variances in the income statement are primarily as a result of 2015 being a part year of just over three months.

The Group reports its results in accordance with International Financial Reporting Standards ("IFRS").

	2015 £'000	2014 £'000
Operating profit	25	-
Net finance cost	(580)	-
Loss / result before taxation	(555)	-
Taxation	81	-
Loss / result after taxation	(474)	-
	2015 £'000	2014 £'000
Net cash inflow from operating activities and investing activities ¹	3,117	-
Cash inflows to finance acquisition of the Transmission owner asset and initial working capital requirements	380,236	-
Cash flows relating to acquisition of Transmission owner asset	(360,041)	-
Net cash flows used in financing activities ²	23,312	-

¹ Excluding acquisition of Transmission owner asset in the period to March 2015.

² Excluding all proceeds from funding activities.

Operating and financial review (continued)

For the year ended 31 March 2015

Operating and finance income

Operating and finance income is derived from the Group's activities as a provider of transmission services. The vast majority of the Subsidiary's income is derived from NGET.

Finance income for the year amounted to £1,367k (2014: £nil), and represents the finance income that would have been generated from an efficient stand-alone "transmission owner". The finance income has been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 29.

Operating income for the year amounted to £631k (2014: £nil), and primarily represents the operating income that would be generated by an efficient provider of operating services to NGET, our principal customer. Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Operating income has been recorded in accordance with the principal accounting policies adopted by the Group.

Operating costs

Operating costs for the year amounted to £606k (2014: £nil).

The most significant costs included within operating costs for 2015 were those costs associated with operations and maintenance (£323k; 2014: £nil); insurance (£98k; 2014: £nil) and management service fees amounting to £39k (2014: £nil). The non-domestic rates associated with the transmission network were (£85k; 2014: £nil).

Operating profit

Operating profit being the residual of operating income and operating costs amounted to £25k (2014: £nil).

Other finance income

Other finance income of £7k (2014: £nil) relates solely to interest earned on bank deposits.

Finance costs

Finance costs amounted to £1,954k (2014: £nil). Funding was required to acquire the transmission system (Transmission owner asset) from GYMOWL and the acquisition of the Transmission owner asset took place on 17 February 2015.

The vast majority of the finance costs relates to the interest cost of servicing senior debt holders £1,153k (2014: £nil) and holders of subordinated debt £480k (2014: £nil). Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

Operating and financial review (continued)

For the year ended 31 March 2015

Taxation

The net taxation credit on loss before taxation for the year is £81k (2014: £nil) and relates solely to deferred taxation. There was no current taxation arising in the year (2014: £nil) as the Company incurred taxable losses. The taxation credit for the year has been computed at 20% (2014: 23%).

A taxation credit of £1,725 (2014: £nil) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at 31 March 2015. The taxation credit relates solely to deferred taxation as the Company incurred taxable losses during the year. This taxation credit has been computed at 20% (2014 23%).

Loss after taxation

Loss for the year after taxation amounted to £474k (2014: £nil).

Cash flows

Net cash flows from operations amounted to £245k (2014: £nil) primarily reflecting the amounts invoiced to and received from NGET in relation to the provision of transmission services from 17 February 2015 through to 31 March 2015 net of cash outflows relating to operating activities incurred during the period of operation from 17 February 2015 through to 31 March 2015.

Net cash flows used in investing activities amounted to (£357,169k) (2014: £nil). The year ended 31 March 2015 included £360,041k of cash outflows associated with the acquisition of the Transmission owner asset.

Cash available for debt servicing defined as net cash flows from operations less (or add) net cash flows used in (or generated from) investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) and including interest income received of £7k (2014: £nil) amounted to £3,117k (2014: £nil). Net cash generated from financing activities amounted to £376,189k (2014: £nil). Cash inflows for the year ended 31 March 2015 included: £334,593k from senior debt holders; £45,592k from holders of subordinated debt; and £51k by way of equity share capital and £4,047k of Repayment of Senior Debt. The year ended 31 March 2015 cash inflows were used to finance the acquisition of the Transmission owner asset and to finance the initial working capital requirements of the Group.

Payments to service senior debt holders during the year amounted to £4,047k (2014: £nil). Payments to subordinated debt holders during the year amounted to £nil (2014: £nil).

No corporation tax was paid in the year (2014: £nil).

No dividend was paid in the year (2014: £nil).

Operating and financial review (continued)

For the year ended 31 March 2015

Statement of Financial Position and consideration of financial management

Going concern

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

Statement of Financial Position

The Group's Statement of Financial Position at 31 March 2015 is summarised below:

	Assets £'000	Liabilities £'000	(Net assets) £'000
Non-current Transmission owner asset	358,376	-	358,376
Non-current deferred taxation	1,806	-	1,806
Current assets and liabilities ¹	20,710	(13,123)	7,587
	<u>380,892</u>	<u>(13,123)</u>	<u>367,769</u>
Borrowings	-	(375,091)	(375,091)
Totals at 31 March 2015	<u>380,892</u>	<u>(388,214)</u>	<u>(7,322)</u>
Totals at 31 March 2014	<u>-</u>	<u>-</u>	<u>-</u>

¹ Excluding borrowing.

Operating and financial review (continued)

For the year ended 31 March 2015

Transmission owner asset and decommissioning

The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Gwynt Y Môr offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 29.

The Transmission owner asset was acquired on 17 February 2015 from Gwynt Y Môr Offshore Wind Limited. The total costs of acquisition of this asset amounted to £351.9m. The estimate of the costs of decommissioning the Transmission owner asset at the end of its economic useful life in 2035 amounted to £9,131k. These costs will be incurred from year 18 onwards.

Deferred taxation

The Group has recognised a deferred taxation asset of £81k (2014: £nil) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the year, including taxable losses. This is added to a deferred tax asset of £1,725k relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2015.

Net debt

Net debt is defined as all borrowings (senior and subordinated debt) less the carrying value of all financial derivative contracts that are marked to market (UK Retail Price Index (RPI) related swaps).

At 31 March 2015 net debt stood at £385,307k (2014: £nil) and included £8,624k (2014: £nil) relating to the carrying value of financial derivatives that were marked to market at that date.

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

Current funding structure

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

Senior debt is comprised of fixed rate bonds credit enhanced by the European Investment Bank's ("EIB") Project Bond Credit Enhancement ("PBCE") instrument at a level of 15% of senior bonds outstanding. All senior debt is serviced on a six monthly basis and is expected to amortise over the life of the project through to March 2034. The total carrying value of the bonds outstanding at 31 March 2015 amounted to £330,611k (2014: £nil).

The bonds carry a fixed rate coupon which requires servicing on a half yearly basis.

The subordinated loan ranks behind the senior debt and is held by the Subsidiary's intermediate Company, Gwynt Y Môr OFTO Intermediate Limited ("GYMOIL").

Operating and financial review (continued)

For the year ended 31 March 2015

Current funding structure (continued)

The subordinated loan was issued by GYMOIL on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2015 the total principal carrying value of the subordinated loan outstanding amounted to £46,072k (2014: £nil).

Ordinary equity share capital amounted to £51k at 31 March 2015 (2014: £1).

Going concern, liquidity, and treasury management

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

It was noted that on Monday 2 March export cable 1 failed due to an electrical fault (short-circuit inside the cable). It is expected the level of availability deductions the company will incur as a result are minimal due to the cause being outside the company's control. The total cost of the repair of Export Cable 1 is expected to be £3.0m. The company has sufficient resources to meet this liability. The Company's transmission system was successfully restored on 16 June 2015.

The expected cash in-flows that are likely to accrue to the Subsidiary over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under "Regulated revenue and incentives". In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is very low. As at 31 March 2015 there were no sums outstanding from NGET and from 31 March to the date of this report all amounts due from NGET had been received on time.

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

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

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

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

The hedging arrangements are explained in more detail below under "Hedging arrangements". In summary the RPI swaps have the impact of effectively converting a proportion of the RPI variable cash flows arising from the Subsidiary's transmission services activities into a known series of cash flows over the life of the project.

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

Operating and financial review (continued)

For the year ended 31 March 2015

Going concern, liquidity, and treasury management (continued)

The Subsidiary also has access to a liquidity facility of £5,001k (2014: £nil) that the Subsidiary can access in the event that it has an insurable or income adjusting event.

The EIB has provided a letter of credit at a level of 15% of senior bonds outstanding which is £50,275k at 31 March 2015 as a form of subordinated credit enhancement instrument for the Subsidiary in relation to the bonds and the hedging agreements.

Under the terms of the loan note instrument, the loan notes are redeemable from 2035.

Credit rating

It is a condition of the regulatory ring-fence around the Subsidiary that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. The rating agency carries out regular and periodic reviews of the rating. The Subsidiary has maintained an investment grade credit rating in respect of its senior debt consistent with its obligations under the licence.

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

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

On-going funding requirements

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

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

Operating and financial review (continued)

For the year ended 31 March 2015

Surplus funds

The Subsidiary invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. At 31 March 2015, the Subsidiary had £nil (2014: £nil) on deposit of which £nil (2014: £nil) was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Cash and cash equivalents include amounts of £15,345k (2014: £nil) that the Subsidiary can only use for special purposes and with the consent of the Subsidiary lenders. The Common Terms Agreement ("CTA") defines the requirements to transfer in and withdraw funds from these accounts. If the request is not defined in the CTA the consent of the Subsidiary's lenders is required prior to use, but are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

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

Hedging arrangements

General

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

RPI swaps

The Subsidiary has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 58.5%) of variable cash inflows arising from the electricity transmission it provides to NGET in exchange for a pre-determined stream of cash inflows with the final payment date expected on 17 February 2034. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Subsidiary enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the majority of cash flows from the project are expected to be generated.

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

The Directors believe that the use of these RPI swaps is consistent with the Subsidiary's risk management objective and strategy for undertaking the hedge.

Operating and financial review (continued)

For the year ended 31 March 2015

Hedging arrangements (continued)

RPI swaps (continued)

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

The carrying value of the RPI swaps liability at 31 March 2015 was £8,624k (2014: £nil). A corresponding entry has been recorded in other comprehensive income.

Lending covenants and other restrictions

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

- 1) The Subsidiary is required to operate on the basis of a financial plan while the lending agreements are in place (19 years) which the Security and Bond Trustee has approved and subject to certain allowances; any deviation from that plan requires the approval of the Security and Bond Trustee. The financial plan is refreshed on a six monthly basis and revised on an annual basis as required;
- 2) The Subsidiary is required to deliver financial and other information at specified intervals (typically six monthly) to the Security and Bond Trustee;
- 3) The lending agreements specify the bank accounts that the Subsidiary is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose. With the exception of one bank account, all withdrawals from bank accounts require the consent of the Security and Bond Trustee;
- 4) The Subsidiary is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments it cannot exceed a specified gearing ratio;
- 5) The Subsidiary is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically this results in the Subsidiary investing in term deposits with maturities not exceeding six months;
- 6) The Subsidiary is required to maintain adequate insurances at all times;

Operating and financial review (continued)

For the year ended 31 March 2015

Lending covenants and other restrictions (continued)

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

There is a risk that if the Subsidiary materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, the Subsidiary would be in default of the lending agreements. In these circumstances the amounts due under the lending agreements are immediately due and payable or are repayable on demand. The Subsidiary monitors and has put in place controls and procedures to ensure material compliance with the terms of the lending agreement at all times.

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

Accounting policies

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

Presentation of financial statements

The Group uses the nature of expense method for the presentation of its Income Statement and presents its Statement of Financial Position showing net assets and total equity.

In the Income Statement the Subsidiary presents a sub-total of operating profit, being the total of operating income, finance income and operating costs.

Financial Instruments

The Group has elected to apply hedge accounting to its stand-alone derivative financial instruments.

Critical accounting policies

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

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 29.

Group Strategic Report

For the year ended 31 March 2015

The Directors, in preparing this group strategic report, have complied with s414C of the Companies Act 2006.

Principal activities and business review

A full description of the Group's principal activities, business, and principal risks, and uncertainties is contained in the Operating and Financial Review on pages 1 to 18, which are incorporated by reference into this report.

No change in the Group's activities is anticipated

Material interests in shares

Gwynt Y Môr OFTO Holdings Limited Limited is an investment holding company whose sole business is the holdings of investments in its wholly owned subsidiaries, Gwynt Y Môr OFTO Intermediate Limited and Gwynt Y Môr OFTO Plc, which together form the Gwynt Y Môr OFTO Group ("the Group").

Review of the business

The results for the year are set out on page 38.

Key Performance Indicators

The Group has set specific business objectives, which are monitored using key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below.

	31 March 2015	31 March 2014
	£'000	£'000
Loss after taxation ¹	474	-
Net liabilities ²	7,322	-

¹ Loss after tax has arisen due to costs of the cable failure

² Net liabilities are as a result of the loss after tax and the net effect of the cash flow hedges

Principal risks and uncertainties

The Group recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to enable the business to improve performance and fulfil its contractual obligations.

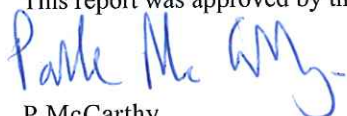
Financial risks

Credit and cash flow risks to the Group arise from its client, NGET. The credit and cash flow risks are not considered significant as the client as a quasi governmental organisation.

Contractual relationships

The Group operates within a contractual relationship with its principal customer, NGET. A significant impairment of this relationship could have a direct and detrimental effect on the Group's results and could ultimately result in termination of the concession. To manage this risk the Group has regular meetings with NGET.

This report was approved by the Board on 24 July 2015 and signed on its behalf by:



P McCarthy
Company Secretary

Directors' Report

For the year ended 31 March 2015

The Directors present their report together with the audited financial statements for the year ended 31 March 2015.

The following information has been disclosed in the group strategic report:

- Principal activities and business review
- Key performance indicators
- Indication of likely future developments in the business

Returns and dividends

The Group recorded a loss for the year after taxation of £474k (2014: £nil) and the company recorded a result of £nil (2014: £nil).

No dividend was paid during the year or the preceding year.

Share Capital

The issued share capital of the Company at 31 March 2015 was £51,000 (2014 £1) consisting of 51,000 (2014: 1) ordinary shares of £1 each.

Directors

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

R Collins
H B Crossley (resigned 19 March 2015)
S Jones (appointed 19 March 2015)
S Orrell
B R Walker

No Director has any interest in the called-up issued share capital of the Company or the other Group company undertaking.

Donations and research and development

No charitable or political donations were made during the year (2014: £nil) and expenditure on research and development activities was £nil (2014: £nil).

Financial instruments

Details on the use of financial instruments and financial risk management are included on page 13 to 18 in the Operating and Financial Review.

Going concern

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

Directors' Report (continued)

For the year ended 31 March 2015

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

The Group's strategy, long term business objectives and operating model are set out in the Operating and Financial Review and include an explanation of how the Company will generate value over the longer term.

Employee involvement

The Group does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Subsidiary's Operating Model" in the Operating and Financial Review on page 2.

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Group at 31 March 2015 were equivalent to nil (2014: nil) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Company Information

Gwynt Y Môr OFTO Holdings Limited is incorporated in the United Kingdom, registered in England and Wales and domiciled in the United Kingdom.

Company Secretary and Registered Office

The Company Secretary is P. McCarthy. The registered address is 350 Euston Road, Regent's Place, London, NW1 3AX, UK.

Audit information

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

The confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

A resolution to re-appoint Deloitte LLP as auditor will be proposed at the forthcoming Annual General Meeting.

Approved on behalf of the Board



P McCarthy

Company Secretary

24 July 2015

Gwynt Y Môr OFTO Holdings Limited
350 Euston Road
London, NW1 3AX

Corporate governance statement

The Group has chosen to include within its financial statements a corporate governance statement which describes how the principles of good corporate governance have been applied and which has the same content as the statement a listed Group is required to prepare.

The Group operates within the corporate governance framework of GYMOHL and its subsidiary undertakings. Consequently, an understanding of the Group's governance framework is required to understand the Group's position within that framework.

Appointments to the Board of Directors of GYMOHL and its subsidiary undertakings are governed by a shareholders' agreement ("the Agreement") between the two shareholders of GYMOHL that jointly control this Group through a common class of ordinary shares, Balfour Beatty OFTO Holdings Limited and Equitix Transmission 2 Limited. The Agreement requires that all Boards within the Group must comprise of four Directors, with two Directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Group Company has a nomination committee and the performance of the Boards is not evaluated.

The Agreement ensures that Boards are balanced, with no one shareholder having majority representation, and allows the Group to draw on the respective financial and operational expertise of each of its shareholders. Accordingly, the Directors have the relevant expertise and experience, drawn from their involvement in a wide range of infrastructure companies, to define and to develop the strategy of the Group so as to meet its objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the Group's risk management and internal control framework and are satisfied that they are effective.

GYMOHL

Meetings of the Board of GYMOHL

GYMOHL is governed by a Board of four executive Directors. There are no non-executive or independent Directors. The GYMOHL Board does not have a separately appointed chairman. Meetings are chaired by a member of the GYMOHL Board and are convened as required, but usually not less than four times per annum. The GYMOHL Board is accountable to the shareholders of GYMOHL for the good conduct of the Group's affairs.

Audit committee

The Group does not have an internal audit function. The Directors have concluded that the cost of such a function would be disproportionate to the benefits. The Group has an Audit Committee. The purpose of the Audit Committee is to assist the Board of the Group in the effective discharge of its responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency. The Audit Committee acts to safeguard the interests of its shareholders by:

- monitoring the integrity of financial and financial regulatory reports issued by GYMOHL and its two subsidiary undertakings with the objective of ensuring that these reports present a fair, clear, and balanced assessment of the position and prospects of the Group, as the case may be;

Corporate governance statement (continued)

GYMOHL (continued)

Audit committee (continued)

- reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;
- reviewing and approving the internal control and risk management policies applicable to the Group;
- maintaining an appropriate relationship with the external auditor; and
 - ensuring that audit objectivity and independence is maintained, given that the Auditor also provides tax advisory services to the Group.

The Group

Board and management meetings

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

The Group's operating model is to outsource all O&M activities and asset management capability. BBI provides certain financial and management services to the Group through a PSA. Additional technical, accounting and administration support is provided to the Group by BBI through the PSA.

Directors and their attendance at Group Board meetings

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

R Collins	1 of 2
H B Crossley	1 of 2
S Jones	1 of 2
S Orrell	1 of 2
B R Walker	2 of 2

Corporate governance statement (continued)

Compliance committee

The Group has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role to fulfil the compliance requirements of the Licence, without executive functions, with powers of information, assessment, and presentations to the Board. Following consultation with the Gas and Electricity Markets Authority, on 23 February 2015 the Board appointed Henderson Loggie as Compliance Officer. Henderson Loggie is not engaged in the management or operation of the Subsidiary's Licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Boards of the Group at least once annually.

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

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

S Orrell	Appointed 23 February 2015	0 of 0
R Collins	Appointed 23 February 2015	0 of 0

The compliance committee met in June 2015 to receive the compliance report for the year ended 31 March 2015 from the compliance officer and in turn produced a report approved by the Board.

Compliance statement

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

Corporate governance statement (continued)

Health, Safety and Environment

The Board recognises that the nature of the Company's business requires an exceptional focus on health, safety and the environment (HSE). The OFTO General Manager provides the Board with a monthly report that shows HSE performance through the month and year to date. In addition, the monitoring of HSE issues relating to the OFTO has been kept under routine review as part of the monthly Economic Infrastructure Support Services meetings, chaired by Brian Walker, the OFTO's HSE Director.

The OFTO is also part of an HSE forum with some other OFTOs to provide a mechanism for sharing and learning. The HSE Forum meets quarterly; the first meeting was held in April 2015.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

On behalf of the Board



P McCarthy
Company Secretary

24 July 2015

Independent Auditor's Report to the Members of Gwynt Y Môr OFTO Holdings Limited

We have audited the financial statements of Gwynt Y Môr OFTO Holdings Limited for the year ended 31 March 2015, which comprise the accounting policies, the Group Income Statement, the Group Statement of comprehensive income, the Group and Company Statement of Financial Position, the Group and Company Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditor's Report to the Members of Gwynt Y Môr OFTO Holdings Limited (continued)

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note A to the accounting policies, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Company's Act 2006 requires us to report to you if, in our opinion:

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



Makhan Chahal (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

24 July 2015

Accounting policies

For the year ended 31 March 2015

A. Basis of preparation and consolidation of financial statements under IFRS

These financial statements have been prepared in accordance with standard condition E2 of the licence and IFRS as issued by the IASB and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for the year ended 31 March 2015, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The financial statements are presented in pounds sterling, which is the functional currency of the Group and are rounded to the nearest £1,000.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates as referred in section I, Critical accounting judgements, key assumptions and sources of estimation uncertainty on page 34.

The Group financial statements consolidate the regulatory financial statements of Gwynt Y Môr OFTO Holdings Limited and its subsidiaries Gwynt Y Môr OFTO Intermediate Limited and Gwynt Y Môr OFTO Plc drawn up to 31 March 2015. All inter-Company balances, transactions and profits are eliminated on consolidation. No profit and loss account is presented for the parent Company, as permitted by section 408 of the Companies Act 2006. The parent Company recorded a loss for the year after taxation of £474k (2014: nil).

B. Transmission availability arrangements

The subsidiary owns and operates an electricity transmission network that is principally offshore based. This network electrically connects a wind farm generator to the onshore electricity transmission operator (NGET). The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available (“transmission availability charges”) to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

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

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

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

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

Accounting policies (continued)

For the year ended 31 March 2015

B. Transmission availability arrangements (continued)

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

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

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

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

C. Financial instruments

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

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

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

The Transmission owner asset is classified as a financial instrument and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as referenced above – see B. Transmission availability arrangements. The annual revenue is agreed upfront with the client including the RPI uplift per the licence. The maximum credits available are 5% and penalties available are 10% of base revenue for that year. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty. Finance income relating to the Transmission owner asset is recognised in the Income Statement as a separate line item – “Finance income”, see G. Operating and finance income below.

Borrowings, which include fixed interest-bearing debt, are recorded at their carrying value which reflects the proceeds received, net of direct issue costs.

Accounting policies (continued)

For the year ended 31 March 2015

C. Financial instruments (continued)

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

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

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

D. Hedge accounting

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

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

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

E. Impairment of assets

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

Accounting policies (continued)

For the year ended 31 March 2015

F. Income taxation

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

Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred taxation

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

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

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

Unrecognised deferred taxation assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred taxation asset to be recovered.

G. Operating and finance income

General

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

Operating income

Operating income represents the income derived from the provision of operating services. Such services include those activities that result in the efficient and safe operation of the Group's transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring the transmission assets on behalf of a stand-alone transmission owner. An estimate has been made as to

Accounting policies (continued)

For the year ended 31 March 2015

G. Operating and finance income (continued)

Operating income (continued)

the appropriate revenue that should be attributable to a stand-alone operator with responsibility for operations, maintenance and insurance.

Finance income

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

H. Cash and cash equivalents

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

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

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

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

i) Transmission availability arrangements – income and related asset recognition

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

As a consequence of this decision, the following outcomes follow:

- a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12; and
- b. In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset.

Accounting policies (continued)

For the year ended 31 March 2015

I. Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)

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

An alternative accounting analysis could result in a significantly different accounting outcome which would affect the amounts and classification of asset and liabilities in the Statement of Financial Position and alter the income recognition and presentation of amounts included within the Income Statement.

The subsidiary has determined that the Transmission owner asset will be recovered over a period of 20 years from the date of Licence grant (17 February 2015) – being the principal period over which the subsidiary is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

ii) Operating and finance income

Operating income

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

Finance income

Finance income arising from the provision of transmission availability services represents an estimate of the return that an efficient stand-alone and independent “transmission owner” would expect to generate from the holding of the Transmission owner asset. Estimates and judgements have been exercised by management to determine an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements. To the extent that an alternative judgement or estimate was made as to the reasonable level of return attributable to such a transmission asset owner, then in the case of the subsidiary, the level of income attributed to operating income (see above) would be amended.

Accounting policies (continued)

For the year ended 31 March 2015

I. Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)

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

The Group uses derivative financial instruments to hedge certain economic exposures in relation to movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Group fair values its derivative financial instruments and records the fair value of those instruments on its Statement of Financial Position.

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

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

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

iv) Income taxation

Current taxation

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

Accounting policies (continued)

For the year ended 31 March 2015

I. Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)

iv) Income taxation (continued)

Deferred taxation

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

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

J. Accounting developments

i) Accounting standards as applied to these financial statements

In preparing the financial statements the subsidiary has complied with IFRS, International Accounting Standards (IAS) and interpretations applicable for 2014/15. Interpretations and amendments have been adopted by the Group in the current period:

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRIC 21: Levies.

Amendments to the following standards:

- IFRS 10, IFRS 11 and IFRS 12: Investment Entities;
- IFRS 10, IFRS 11 and IFRS 12: Transition Guidance;
- IAS 27 Separate Financial Statements;
- IAS 28 Investments in Associates and Joint Ventures;
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.

The above new and amended standards do not have a material quantitative effect on the Group.

Accounting policies (continued)

For the year ended 31 March 2015

J. Accounting developments (continued)

ii) Accounting standards, amendments to standards and interpretations not yet adopted

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union at 31 March 2015:

- IFRS 9 Financial Instruments;
- IFRS 14 Regulatory Deferral Accounts;
- IFRS 15 Revenue from Contracts with Customers.

Amendments to the following standards:

- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption;
- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations;
- IAS 1: Disclosure Initiative;
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation;
- IAS 16 and IAS 41: Agricultural: Bearer Plants;
- IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions;
- IAS 27: Equity Method in Separate Financial Statements.

With the exception of the items disclosed below, the above standards and interpretations are either not relevant to the Group's current activities or are not expected to have any significant impact on the measurement of assets or liabilities or disclosures in the financial statements. Those standards and interpretations that are expected to impact on the financial statements, either by way of measurement or disclosure, are as follows:

IFRS 9, 'Financial instruments' – classification and measurement'

IFRS 9 is currently expected to be effective with effect from the financial year commencing 1 April 2018, although the effective date for adoption may change as a result of an on-going consultation process. The Group does not expect that the adoption of IFRS 9 will lead to any material measurement changes as compared with the policies currently adopted by the Group. However, it is expected that IFRS 9 will require additional and different disclosures to those currently provided.

Group Income Statement

For the year ended 31 March 2015

		2015	2014
	Notes	£'000	£'000
Operating income	2	631	-
Operating costs	3	(606)	-
		<hr/>	
Operating profit / result		25	-
Finance Income	4	1,367	-
Bank interest	4	7	-
Finance Costs	4	(1,954)	-
		<hr/>	
Loss / result before taxation		(555)	-
Income taxation credit	5	81	-
		<hr/>	
Loss / result attributable to equity shareholders		(474)	-

The notes on pages 43 to 59 form part of these financial statements.

The results reported above relate to continuing operations.

The results for the prior period are for the period from 29 November 2013 to 31 March 2014.

Statement of comprehensive income

For the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Loss / result for the year		(474)	-
Other comprehensive loss:			
Amounts not to be reclassified subsequently to the income statement			
Net loss taken to equity in respect of cash flow hedges	14	(8,624)	-
Deferred taxation on cash flow hedges	5	1,725	-
Total other comprehensive loss		(6,899)	-
Total comprehensive loss for the year attributable to equity shareholders		(7,373)	-

Statement of Financial Position

As at 31 March 2015

Group

Company

	Notes	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Non-current assets					
Investment		-	-	51	-
Transmission owner asset	7	358,376	-	-	-
Deferred taxation asset	8	1,806	-	-	-
Total non-current assets		360,182	-	51	-
Current assets					
Prepayments		732	-	-	-
Transmission owner asset	7	713	-	-	-
Cash and cash equivalents	9	19,265	-	-	-
Total current assets		20,710	-	-	-
Total assets		380,892	-	51	-
Current liabilities					
Borrowings	10	(10,216)	-	-	-
Trade and other payables	11	(2,907)	-	-	-
Total current liabilities		(13,123)	-	-	-
Non-current liabilities					
Borrowings	10	(366,467)	-	-	-
Derivative financial liabilities	12	(8,624)	-	-	-
Total non-current liabilities		(375,091)	-	-	-
Total liabilities		(388,214)	-	-	-
Net liabilities		(7,322)	-	-	-
Equity					
Called up share capital	13	51	-	51	-
Retained earnings	14	(474)	-	-	-
Cash flow hedge reserve	14	(6,899)	-	-	-
Total shareholders' deficit		(7,322)	-	51	-

These financial statements, comprising accounting policies, the Group Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Group Cash Flow Statement, and Notes to the financial statements, on pages 29 to 59 for Gwynt Y Môr OFTO Holdings Limited, company registered number 8796189 were approved by the Board of Directors and authorised for issue on 24 July 2015 and were signed on its behalf by:

B Walker
Director

Statement of changes in equity

For the year ended 31 March 2015

Group

	Called up share capital £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 31 March 2014	-	-	-	-
Issue of ordinary shares	51	-	-	51
Recognised income and expense for the year	-	-	(474)	(474)
Cash flow hedge movements in the year	-	(6,899)	-	(6,899)
At 31 March 2015	51	(6,899)	(474)	(7,322)
Notes	13	14	14	

Company

	Called-up share capital £'000	Retained earnings £'000	Total equity £'000
At 31 March 2013	-	-	-
Issue of ordinary shares	-	-	-
Dividends Received	-	-	-
Dividend Paid	-	-	-
At 31 March 2014	-	-	-
Issue of ordinary shares	51	-	51
Dividends Received	-	-	-
Dividend Paid	-	-	-
At 31 March 2015	51	-	51

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

The cash flow hedge reserve recognises the effective portion of cash flow hedges whilst any ineffectiveness is taken to the Income Statement.

Statement of total recognised gains and losses

There were no recognised gains or losses for the current and preceding year other than those stated in the Income Statement, consequently no statement of total recognised gains and losses for the parent Company is presented.

Group Cash flow statement

For the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Operating profit for the year		25	-
Adjustments for:			
Income recognised in respect of financial asset		(546)	-
Interest paid		(1,405)	-
Increase in debtors		(732)	-
Increase in creditors		2,903	-
		<u>220</u>	<u>-</u>
Net cash flow generated from operating activities		245	-
Cash flows from investing activities			
Acquisition of Transmission owner asset including day one transaction costs		(360,041)	-
Cash receivable on the finance asset		2,865	-
Interest received		7	-
		<u>7</u>	<u>-</u>
Net cash flow used in investing activities		(357,169)	-
Cash flows from financing activities			
Proceeds from senior debt received ⁺		334,593	-
Proceeds of subordinated loans received		45,592	-
Proceeds of share issues		51	-
Repayment of senior debt		(4,047)	-
		<u>376,189</u>	<u>-</u>
Net cash flow generated from financing activities		376,189	-
Net increase in cash and cash equivalents		19,265	-
Cash and cash equivalents at start of the year		<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the year	15	<u>19,265</u>	<u>-</u>

+ Net of issue costs amounting to £4,622k (2014: £nil)

Notes to the financial statements

For the year ended 31 March 2015

1. Operating segment

The Board of Directors is the Group's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities¹). The Group and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and Group Cash Flow statement on page 38, 40 and 42 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 43 to 59.

The electricity transmission operation of the Subsidiary comprises the transmission of electricity from a wind farm located within the Liverpool Bay area of the Irish Sea, approximately 15km off the north Wales coast, and then connecting directly into the national grid at an electricity substation at Bodelwyddan in Denbighshire, North Wales.

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

All of the assets and liabilities of the Group arise from the activities of the segment.

¹ After adjustment for the initial cash acquisition cost of the Transmission owner asset of £351,858 (2014: £nil).

2. Operating income

Operating income of £631k (2014: £nil) relates primarily to the Subsidiary's activity as a provider of electricity transmission services to the Subsidiary's principal customer – NGET. The vast majority of the Subsidiary's income is derived from NGET.

3. Operating costs

Operating costs are analysed below:

	2015	2014
	£'000	£'000
Operations and maintenance	323	-
Insurance costs	98	-
Non-domestic rates	85	-
Professional services fees	39	-
Auditor's remuneration	28	-
Other professional services	32	-
Other	1	-
Total	606	-

Auditor's remuneration comprises:		-
Auditor's remuneration ¹	15	-
Other services supplied pursuant to legislation ²	13	-
Total	28	-

Additional Services included Non-statutory audit of Gwynt Y Môr OFTO Holdings Limited and for £7k and professional services for Bond Prospectus Work for £11.5k.

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

2. These represent fees payable for services in relation to engagements which are required to be carried out by the compliance officer. In particular this includes fees for the compliance audit and report on the licence's compliance statement.

Notes to the financial statements (continued)

For the year ended 31 March 2015

3. Operating costs (continued)

The Directors received no salary, fees or other benefits in the performance of their duties during the current or preceding year. The Group had no employees in the current or preceding year. All costs of the Directors and other staff are borne by the shareholders who second their employees to the Subsidiary.

4. Net interest income

Net interest income is as expense is as tabulated below:

	2015 £'000	2014 £'000
Interest income		
Interest on bank accounts and deposits	7	-
Finance income	1,367	-
	<u>1,374</u>	-
Interest expense and other financial costs		
Interest on senior debt	(1,153)	-
Interest on subordinated debt	(480)	-
Other financial costs	(321)	-
	<u>(1,954)</u>	-
Net interest expense	<u>(580)</u>	-

5. Income taxation credit

a) Taxation on items included in the Income Statement

The net taxation credit for the year is £81k (2014: £nil), and the composition of that credit is shown in the table below.

The taxation credit on current year profits arising in the year represents deferred taxation, and has been computed at 20% (2014: 23%). There is no current taxation included in the Income Statement (2014: £nil).

The taxation credit for the year differs from the standard rate of corporation tax in the UK of 21% (2014: 23%) for the reasons outlined below:

	2015 £'000	2014 £'000
Loss / result before taxation	<u>(555)</u>	-
Taxation at 21% (2014: 23%) on loss / result before taxation	111	-
Effects of:		
- permanent differences	(30)	-
- effect of change of tax rate	-	-
Total tax credit	<u>81</u>	-

Notes to the financial statements (continued)

For the year ended 31 March 2015

5. Income taxation credit (continued)

b) Taxation on items included in other comprehensive income

The net taxation credit on items included in other comprehensive income for the year is £1,725k (2014: £nil) and comprises a credit on items arising in the current year computed at 20% (2014: 23%) of £8,624k (2014: £nil). The taxation credit on items arising in the current year represents deferred taxation. There is no current taxation included in other comprehensive income (2014: £nil).

6. Fixed asset investments

	2015 £'000	2014 £'000
At 1 April 2014	-	-
Additions	51	-
At 31 March 2015	51	-

GOHL has 100% investments in the following subsidiary undertakings:

	Activity	Country of Operation	Shareholding of ordinary shares
Gwynt Y Môr OFTO Plc	Concession Company	England	100%
Gwynt Y Môr OFTO Intermediate Limited	Financing Company	England	100%

Both Gwynt Y Môr OFTO Plc and Gwynt Y Môr OFTO Intermediate Limited were incorporated in the United Kingdom and registered in England and Wales.

7. Transmission owner asset

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

	2015 £'000	2014 £'000
At 1 April 2014	-	-
Additions	360,041	-
Income recognised in the income statement:		
-interest income	1,367	-
Other Movements		
-cash expenditure	546	-
-cash received	(2,865)	-
At 31 March 2015	359,089	-
Comprising:		
Amounts falling due within one year	713	-
Amounts falling due after more than one year	358,376	-
	359,089	-

- Arising from the application of the effective interest method and reflected through finance income in the Income Statement.

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2015 was £367,265k (2014: £nil). The basis for estimating the fair value of the Transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate of 4.50% (2014 n/a) per half year.

Notes to the financial statements (continued)

For the year ended 31 March 2015

8. Deferred taxation asset

The net deferred taxation asset recognised in the Statement of Financial Position arises as follows:

	Fair value losses on derivatives £'000	Accelerated capital allowances £'000	Tax losses £'000	Total £'000
At 1 April 2014	-	-	-	-
Additions	1,725	715	(634)	1,806
Effect of change in tax rate	-	-	-	-
At 31 March 2015	1,725	715	(634)	1,806

The deferred tax asset is expected to be recoverable over the asset's life.

9. Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £nil (2014: £nil). Short-term deposits are made for various periods of between one day and six months, depending on immediate cash requirements, and earn interest at the respective short-term deposit rates.

Cash and cash equivalents include amounts of £15,345k (2014: £nil) that the Group can only use for specific purposes and with the consent of the Group's lenders. Of the remaining cash and cash equivalents £3,920k (2014: £nil) require the consent of the Group's lenders prior to use, but are held for general corporate purposes.

The estimated fair value of cash and cash equivalents approximates to its carrying value.

10. Borrowings

The following table analyses borrowings:

	2015 £'000	2014 £'000
Current		
Bonds – fixed rate	9,671	-
Bond Interest	65	-
Subordinated debt loans	480	-
	<u>10,216</u>	-
Non-current		
Bonds – fixed rate	325,497	-
Subordinated debt loans	45,592	-
Less arrangement fees	(4,622)	-
	<u>366,467</u>	-
Total borrowings	<u><u>376,683</u></u>	-

Notes to the financial statements (continued)

For the year ended 31 March 2015

10. Borrowings (continued)

Total borrowings are repayable as follows:	2015 £'000	2014 £'000
In one year or less	10,216	-
In more than one year, but not more than two years	10,080	-
In more than two years, but not more than three years	10,919	-
In more than three years, but not more than four years	11,674	-
In more than four years, but not more than five years	12,961	-
In more than five years other than by instalments	325,455	-
Less arrangement fees	(4,622)	-
	376,683	-

The fixed rate bonds under the commercial facility taken together comprise the “senior debt”, and are secured over all of the assets of the Group.

The secured subordinated loan stock has been subscribed by the fellow associate, Balfour Beatty OFTO Holdings Limited and Equitix Transmission 2 Limited. The loan stock bears interest at 9.60% per annum and is repayable in instalments between 2034 and 2035.

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

There have been no instances of default or other breaches of the terms of the financing agreements during the year in respect of all borrowings outstanding at 31 March 2015.

11. Trade and other payables

Trade and other payables are as tabulated below.

	2015 £'000	2014 £'000
Other taxes	188	-
Accrued expenses	2,719	-
	2,907	-

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

12. Derivative financial instruments

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

Notes to the financial statements (continued)

For the year ended 31 March 2015

12. Derivative financial instruments (continued)

RPI swaps

The Subsidiary has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 58.5%) of variable cash inflows arising from the operation of the Subsidiary's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Subsidiary entered into these derivative arrangements on 17 February 2015 with a forward start date for the calculation of the relevant rates commencing on 17 February 2015 and ending on 17 February 2034.

Under the terms of the Licence, regulatory and other contractual agreements, the Subsidiary is permitted to charge its principal customer, NGET, an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April by an amount computed by reference to the average increase in RPI over the previous 12-month period measured from 1 January through to 31 December. Where there is a reduction, or no increase, in the retail price index over the relevant period, then the charges remain unaltered from the previous year. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

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

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

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments are carried at market value. The carrying value of all derivative financial liabilities at 31 March 2015 was £8,624k (2014: £nil). All of the movement in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a charge of £6,899k (2014: £nil).

Ineffective portion of cash flow hedge recognised in the income statement was £nil (2014: £nil).

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

13. Called-up share capital

Called-up share capital is as analysed below.

	Group		Company	
	No. Thousands	£'000	No. Thousands	£'000
Authorised, allotted, called-up and fully paid at 1 April 2014 and 31 March 2015	51	51	51	51

The Group has one class of Ordinary Share with a nominal value of £1 each which carries no right to fixed income. The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Group.

Notes to the financial statements (continued)

For the year ended 31 March 2015

14. Reserves

The Group's reserves are analysed below.

	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
At 1 April 2014	-	-	-
Loss for the year	(474)	-	(474)
Losses on cash flow hedges taken to equity	-	(8,624)	(8,624)
Deferred taxation on cash flow hedges	-	1,725	1,725
At 31 March 2015	(474)	(6,899)	(7,373)

15. Cash flow statement

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

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

	2015 £'000	2014 £'000
Movement in cash and cash equivalents	19,265	-
Net increase in borrowings ⁺	(376,138)	-
Change in net debt resulting from cash flows	(356,873)	-
Non-cash net interest expense included in net debt	545	-
Change in fair values of derivatives	(8,624)	-
Movement in net debt in the year	(364,952)	-
Net debt at start of year	-	-
Net debt at end of year	(364,952)	-

+Arising from the proceeds of loans net of repayments.

(b) Analysis of changes in net debt

	Cash and cash equivalents £'000	Borrowings £'000	Derivatives £'000	Interest accruals £'000	Total £'000
At 1 April 2014	-	-	-	-	-
Cash flow	19,265	(376,138)	-	-	(362,585)
Change in fair values	-	-	(8,624)	-	(8,624)
Non-cash net interest	-	545	-	-	5,167
At 31 March 2015	19,265	(376,683)	(8,624)	-	(366,042)

Notes to the financial statements (continued)

For the year ended 31 March 2015

16. Related party transactions

The following information relates to material transactions with related parties during the year. These transactions were carried out in the normal course of business.

	Parent undertakings		Other		Total	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Expenditure						
Interest ¹ (including indexation)	480	-	-	-	480	-
Services received ^{2,3}	4,968	-	36	-	5,004	-
	5,448	-	36	-	5,484	-

Outstanding balances at 31 March:

Borrowings payable ¹ (principal)	45,592	-	-	-	45,592	-
Interest accrual ¹	480	-	-	-	480	-
	46,072	-	-	-	46,072	-

¹ Relates to funding related transactions and balances with the intermediate undertaking (GYMOIL) all interest has been directly attributed to the Gwynt Y Môr OFTO Plc..

² Services received from Parent undertakings relate to transactions with the parent undertakings (Balfour Beatty OFTO Holdings Limited ("BBOHL"), Equitix Transmission 2 Limited.). Services amounting to £4,968k (2014: £nil) were in respect of services that were directly attributable to the Group and £nil (2014: £nil) were in respect of services that were allocated to the Group.

³ The other services rendered at 31 March 2015 of £36k relates to amounts due to Balfour Beatty Investments Limited and Balfour Beatty Utility Solutions Limited (2014: £nil).

A summary of funding transactions with the intermediate undertaking is shown below:

	2015 £'000	2014 £'000
Borrowings from intermediate undertaking (principal)		
At 1 April	-	-
Advances	45,592	-
Interest	-	-
Non-cash interest	480	-
At 31 March	46,072	-

Borrowings from the intermediate undertaking (GYMOIL) were negotiated on normal commercial terms and are repayable in accordance with the terms of the secured 9.60% loan notes 2035 ("the notes"). Repayments of interest were made during the year which amounted to £nil (2014: £nil). Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 16 February 2035.

BBI was a related party of the Group during the year ended 31 March 2015 by virtue of it being a related party in BBOHL through to 31 March 2015. The services provided to the Group by BBI were under normal commercial terms and related to professional management and financial services as described in the PSA.

Notes to the financial statements (continued)

For the year ended 31 March 2015

16. Related party transactions (continued)

Equitix Transmission 2 Limited (“Equitix”) was a related party of the Group during the year ended 31 March 2015 by virtue of it being a related party of a Group that held 40% of the equity shareholding in Gwynt Y Môr OFTO Plc through to 31 March 2015. The services provided to the Group by Equitix were under normal commercial terms and related to professional management and financial services.

Balfour Beatty Utility Solutions Limited (“BBUS”) was a related party of the Group during the year ended 31 March 2015 by virtue of it being a related party in BBOHL through to 31 March 2015. The services provided to the Group by BBUS were under normal commercial terms and related to operator services as detailed in the Operating and Maintenance Agreement.

No amounts have been provided at 31 March 2015 (2014: £nil), and no expense was recognised during the year (2014: £nil) in respect of bad or doubtful debts for any related party transactions.

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

a) Fair value disclosures

The following is an analysis of the Group’s financial instruments at the Statement of Financial Position date comparing the carrying value included in the Statement of Financial Position with the fair value of those instruments at that date. None of the Group’s financial instruments have quoted prices. Consequently, the following techniques have been used to determine fair values as follows:

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset – based on the net present value of net discounted cash flows;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the carrying amount in respect of fixed rate bonds and subordinated debt based on the net present value of discounted cash flows;
- Derivative financial instruments – based on the net present value of discounted cash flows; and
- Financial instrument receivables and payables - approximates to the carrying value because of the short maturity of these instruments.

The table on the following page compares the carrying value of the Group’s financial instruments with the fair value of those instruments at the Statement of Financial Position date, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value because the carrying value approximates to fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

a) Fair value disclosures (continued)

	Carrying value		Fair value		Valuation method (see as follows)
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	
Assets					
<u>Non-current</u>					
Transmission owner asset	359,089	-	367,265	-	Level 3
	359,089	-	367,265	-	
Liabilities					
<u>Non-current</u>					
Fixed rate bank bond	325,497	-	325,497	-	Level 2
Loan notes 2035	45,592	-	92,327	-	Level 2
Derivative financial instruments	-	-	8,624	-	Level 2
	371,089	-	426,448	-	

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

b) Management of risk

The Board has overall responsibility for the Group's risk management framework. This risk framework is discussed further in the Operating and Financial Review.

The Group's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Group by using financial instruments, including the use of derivative financial instruments – being the RPI swaps described in note 12 that are appropriate to the circumstances and economic environment within which the Group operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

i) Market risk

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

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

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

The fair value of the Transmission owner financial asset is subject to price risk caused by changes in RPI.

All of the Group's borrowings have been issued at fixed rates. All borrowings are carried at amortised cost, and therefore changes in interest rates, in respect of those borrowings, do not impact the Income Statement or Statement of Financial Position.

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

The cash flows arising from the Transmission owner financial asset fluctuates with positive changes in RPI. The Group has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in note 12.

For the reasons outlined in note 12, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the Statement of Financial Position. The RPI swaps are considered to be effective cash flow hedges.

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

b) Management of risk (continued)

ii) Credit risk

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

Credit risk primarily arises from the Group's normal commercial operations that actually, or potentially, arises from the Group's exposure to: a) NGET in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps described in note 11; and c) short term deposits. There are no other significant credit exposures to which the Group is exposed. The maximum exposure to credit risk at 31 March 2015 and 31 March 2014 is the fair value of all financial assets held by the Group. Information relating to the fair value of all financial assets is given above – note 16 (a). None of the Group's financial assets are past due or impaired.

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

Having considered the credit risks arising in respect of the exposures to NGET, the Directors consider that those risks are extremely low, given the evidence available to them. At 31 March 2015 amounts due from NGET amounted to £nil (2014: £nil).

In respect of the counterparties to the cash flow derivative hedges (RPI swaps) these arrangements have been entered into with banks. At 31 March 2015, the fair values attributable to these positions were liabilities amounting to £8,624k (2014: £nil), and as a consequence there is no credit risk to the Group at this date.

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

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

b) Management of risk (continued)

iii) Liquidity risk and Going Concern

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

As a result of the regulatory environment under which the Group operates; the credit worthiness of the Group's principal customer (NGET); and the RPI swaps that has been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, all of the Group's senior debt carry a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole period of the project. During the year ending 31 March 2015, senior debt-service costs amounted to £1,153k (2014: £nil). There is no contractual obligation on the Group to service the secured borrowing until 16 February 2035, although it is the Group's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the secured borrowings amounted to £4,047k (2014: £nil).

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

At 31 March 2015, cash and cash equivalents included £15,345k (2014: £nil) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £3,920k which requires the consent of the Group's lenders but are available for general corporate purposes.

The Group prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Group. These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use. It is the Group's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

Future costs are potentially at risk due to the cost of decommissioning. To mitigate this risk a Decommissioning Reserve Account has been opened and will start to be funded from year 11.

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

b) Management of risk (continued)

iii) Liquidity risk and Going Concern (continued)

In addition to the existing borrowings of the Group, the Group has secured committed credit facilities with the European Investment Bank through the Project Bond Credit Enhancement amounting to £50,275k at 31 March 2015 (2014: £nil) which expire in 2035. These facilities were undrawn at 31 March 2015 (2014: £nil) and are available to the Group under certain conditions laid down within the Group's lending agreements.

During the year the Group has continued to meet its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Group will continue to do so for the foreseeable future. The Group has exceeded its financial covenants in relation to the obligations that it has to senior debt holders and the forecasts continue to support that these will continue to be exceeded. In addition, further liquidity is also available in the form of committed facilities, as referenced above. All of these factors have allowed the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Operating and Financial Review.

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

b) Management of risk (continued)

iii) Liquidity risk and Going Concern (continued)

	2015 Contractual cash flows £'000	2015 0-1 years £'000	2015 1-2 years £'000	2015 2-5 years £'000	2015 > 5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	646,816	24,194	25,463	80,667	516,492
Cash and cash equivalents	19,265	19,265	-	-	-
	666,081	43,459	25,463	80,667	516,492
Non-derivative financial liabilities					
Borrowings +	(335,168)	(9,671)	(10,080)	(35,553)	(279,864)
Trade and other non-interest bearing liabilities	(2,907)	(2,907)	-	-	-
	(338,075)	(12,578)	(10,080)	(35,553)	(279,864)
Derivative financial asset					
RPI swaps	(7,201)	-	(31)	(299)	(6,871)
Net total	320,805	30,881	15,352	44,815	229,757
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-
	-	-	-	-	-
Non-derivative financial liabilities					
Borrowings +	-	-	-	-	-
Trade and other non-interest bearing liabilities	-	-	-	-	-
	-	-	-	-	-
Derivative financial liabilities					
RPI swaps	-	-	-	-	-
Net total	-	-	-	-	-

+ Including interest payments.

Notes to the financial statements (continued)

For the year ended 31 March 2015

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

b) Management of risk (continued)

iv) Sensitivities

Changes in RPI affect the carrying value of those financial instruments that are recorded in the Statement of Financial Position at fair value. The only financial instruments that are carried in the Statement of Financial Position at fair value are the stand-alone derivative financial instruments - RPI as described in note 12 above. As explained in note 12, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the Income Statement. Changes in the fair value of RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner asset are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Group has no substantive economic impact on the Group because of the corresponding economic impact on the underlying derivative financial instruments it is hedging.

Any changes in future cash flows in relation to the derivative financial instruments held by the Group, arising from future changes in RPI, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the underlying revenues and costs.

v) Capital management

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

Senior debt is comprised of fixed bonds credit enhanced by the European Investment Bank through the Project Bond Credit Enhancement Instrument (PBCE) and carries an interest rate of 5.50% per annum. All of the senior debt and related interest rate derivatives is serviced on a six monthly basis and is expected to amortise over the life of the project through to November 2032. At 31 March 2015, the total carrying value of senior debt amounted to £330,611k (2014: £nil).

Subordinated debt has been issued to the Group's intermediate undertaking, GYMOIL and carries a fixed rate coupon. At 31 March 2015 the total principal value of the subordinated debt outstanding amounted to £46,072k (2014: £nil).

Ordinary equity share capital issued during the year amounted to £51k (2014: £1).

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

Notes to the financial statements (continued)

For the year ended 31 March 2015

18. Ultimate controlling parties

The only Group in which the results of Gwynt Y Môr OFTO Holdings Limited are consolidated is Gwynt Y Môr OFTO Holdings Limited.

The ultimate controlling parties are Balfour Beatty Plc and Equitix Fund II LP (which are incorporated in Great Britain and registered in England and Wales).

Glossary

A

The Agreement

The Shareholders Agreement

Annual General Meeting (AGM)

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

The Authority

The Gas and Electricity Markets Authority

B

Board

The Board of Directors of the Company

BBI

Balfour Beatty Investments Limited – supplier of management services to the Group

BBOHL

Balfour Beatty OFTO Holdings Limited

BBUS

Balfour Beatty Utility Services Limited – supplier of Operator services to the Group

C

Called-up share capital

Shares that have been issued and have been fully paid for.

carrying value

The amount at which an asset or liability is recorded in the Statement of Financial Position.

charging year

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

Cash Flow Hedges

a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability such as all or

some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

the Company, Gwynt Y Môr OFTO Plc, GYMO, we, our, or us

The terms ‘the Company’, ‘Gwynt Y Môr OFTO Plc’, GYMO, ‘we’, ‘our’, or ‘us’ are used to refer to Gwynt Y Môr OFTO Plc, depending on context

contingent liabilities

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

D

DECC

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

deferred tax

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

derivative

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

E

EIB

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

Equitix

Equitix Transmission 2 Limited

Glossary

equity

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

EU

The European Union, consisting of 27 member European national states.

F

financial year

For Gwynt Y Môr Plc this is the accounting year ending on 31st March.

G

Great Britain

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

GYMO

Gwynt Y Môr OFTO Plc

GYMOHL

Gwynt Y Môr OFTO Holdings Limited

GYMOIL

Gwynt Y Môr OFTO Intermediate Limited

the Group

Gwynt Y Môr OFTO Holdings Limited and its subsidiary undertakings

GYMOWL

Gwynt Y Môr Offshore Windfarms Limited

H

HS&E

Health, Safety, and the Environment

I

IAS or IFRS

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

IASB

International Accounting Standards Board

IFRIC 12

Service Concessions Arrangements

IFRS

See IAS

K

KPIs

Key performance indicators

kV

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

kWh

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

L

LIBOR

London Interbank Offered Rate.

the Licence

The Offshore Electricity Licence held by Gwynt Y Môr OFTO Plc

LTI

Lost time injury – an incident arising out of Gwynt Y Môr OFTO Plc's operations which leads to an injury where the employee or contractor normally has time off the following day, or shift following, the incident. It relates to one specific (acute) identifiable incident which arises as a result of Gwynt Y Môr OFTO Plc's premise, plant, or activities, which was reported to the supervisor at the time, and was subject to appropriate investigation.

lost time injury frequency rate

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

Glossary

M

MW

Megawatts – an amount of power equal to one million watts

MWh

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

N

NGET

National Grid Electricity Transmission plc

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

Secured fixed rate Loan Notes 2033

NRW

Natural Resources Wales

O

Ofgem

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

OFTO(s)

Offshore Transmission Owner (S)

O&M

Operations and Maintenance

P

Performance year

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

PSA

Professional Services Agreement

R

RPI

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

RPI Swaps

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

S

Senior Debt

All borrowings except those arising under the subordinated loan agreement.

SPA

Sale and Purchase Agreement

STC

System Operator - Transmission Owner Code

SQSS

Security and Quality of Supply Standard Subordinated loan, subordinated loan agreement, subordinated debt (see also the Notes)

Amounts borrowed by the Company from GYMOIL which ranks behind the senior debt.

T

TEC

Transmission Entry Capacity

TOCA

Transmission Owner Construction Agreement

U

UK

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

