

**GWYNT Y MÔR  
OFTO**

Registered number  
8796189

Gwynt y Mor OFTO Holdings Limited  
Annual Report and Financial Statements  
For the year ended 31 March 2016

**Gwynt y Mor OFTO Holdings Limited**  
**Annual report and financial statements**  
**Contents**

	<b>Page</b>
Company information	1
Operating and financial review	2 - 21
Strategic report	22
Directors' report	23 - 24
Corporate governance statement	25 - 27
Directors' responsibilities statement	28
Independent auditor's report	29
Group income statement	30
Group statement of comprehensive income	31
Statement of financial position	32
Statement of changes in equity	33 - 34
Consolidated statement of cash flows	35
Notes to the financial statements	36 - 62

**Gwynt y Mor OFTO Holdings Limited**  
**Company information**

**GWYNT Y MÔR**  
**OFTO**

**Directors**

Rebecca Collins  
Sion Laurence Jones  
Brian Roland Walker  
Simon Rooke (Appointed 17/12/2015)

**Company Secretary**

Patrick McCarthy

**Auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
2 New Street Square  
London  
United Kingdom  
EC4A 3BZ

**Bankers**

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London  
EC2N 2DB

**Registered office**

6th Floor  
350 Euston Road  
Regent's Place  
London  
United Kingdom  
NW1 3AX

**Registered number**

8796189

**Gwynt y Mor OFTO Holdings Limited  
Operating and financial review*****Introduction***

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

GOHL's subsidiary Gwynt Y Mor 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 Holdings 2 Limited. 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 2016, 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 Mor 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 Mor wind farm owned by Gwynt Y Mor 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 Mor 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.

The Gwynt Y Mor 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 Subsidiary. 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 Mor 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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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.

***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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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 December. 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 proactively manage 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 the sixth financial year is the lesser of the credit that arose in the first calendar year and the cumulative 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.



**Gwynt y Mor OFTO Holdings Limited  
Operating and financial review**

***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 1 April 2015 to 31 March 2016 was 500 MW, (2015: 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 84.7% transmission capacity based on the declared maximum capacity of the transmission system during the performance period 1 April 2015 to 31 March 2016 (2015: 88% (part year)). The reduction in availability is due to an offshore cable fault on export cable one and short circuit fault in export cable two. The OFTO repaired cable one on 16 June 2015 and cable two on 26 February 2016.

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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

**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
<b>Financial KPI's</b>		
Profit before taxation	(Loss) / profit before cost of financing and taxation: loss of £3,751k, (2015:£555k)	To increase <sup>1</sup>
Cash available for debt service	Net cash outflows from operating activities less net cash inflow from investing activities £8,766k (2015: £3,117k).	To increase <sup>2</sup>
<b>Non-Financial KPI's</b>		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance period 1 April 2015 to 31 March 2016 (84.7%)	To exceed the Licence target availability 98%. Due to an offshore cable fault on two cables, this availability target was not achieved and availability up to 31 March 2016 was 84.7%. 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 31 March 2016.
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 31 March 2016.
HS&E	1) Zero lost time accidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; and 3) Compliance with transferred obligations under GYMOWL's Natural Resources Wales ("NRW") Licence.	1) Zero LTIs; 2) Zero reportable environmental incidents; and 3) Compliance with NRW Licence All HS & E objectives above have been met for the year ended 31 March 2016.

<sup>1</sup> Where appropriate adjustments will be made where events give rise to unusual patterns of income, expenditure and/or one-off events.

<sup>2</sup> After adjustment for the initial acquisition cost of the OFTO assets.

***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). BBUS intended to evaluate the requirements of ISO 55000 during 2015 with a view to conducting a gap analysis in late 2015, unfortunately the impact of the faults that occurred in March 2015 and September 2015 has dominated the attention of the operational staff. The plan is to conduct a gap analysis during 2016, from this 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.

BBUS are continuing to undertake 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. An outage is being planned for four weeks in September 2016 to October 2016 in order to conduct a full repair to the fault that occurred in March 2016.

***Transmission system availability***

On 25 September 2015, export cable 2 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 Subsidiary will incur as a result are minimal due to the cause being outside the Subsidiary's control. The cable fault was located offshore. The OFTO engaged ABB to repair the fault. The circuit was returned to service on 26 February 2016. The total cost of the repair of Export Cable 2 is expected to be circa £14m.

The performance of the Subsidiary's transmission system for the performance period to 31 March 2016 was as tabulated below:

*Transmission system availability (continued)*

		Performance Period	
		1 Apr 2015 to 31 Mar 2016	1 Jan 2015 to 31 Mar 2015
<b>MW hours</b>			
	<b>Note</b>		
Maximum system availability (MWhrs)	(a)	3,504,000	592,368
Actual system availability (MWhrs)		2,967,888	518,959
Actual system availability (%)		84.7%	88.0%
Regulatory target system availability		<b>98.0%</b>	<b>98.0%</b>
<b>Availability credits/(penalties) (MWhrs)</b>			
Net availability (penalties) /credits for the performance year		(2,474,146)	(115,833)
<b>Net availability (penalties) / credits at 31 March 2016 (31 March 2015)</b>	<b>(b)</b>	<b>(2,474,146)</b>	<b>(115,833)</b>

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 2016 represent no "banked" availability.

**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.

**Gwynt y Mor OFTO Holdings Limited  
Operating and financial review**

***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.

***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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***The Group's financial performance***

Summary:

The financial performance of the Group for the year ended 31 March 2016, and its financial position as at 31 March 2016, was satisfactory and is summarised below. In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k.

In the period to 31 March 2016, the Subsidiary suffered two cable breaks which resulted in a £6m deductible expense, with no corresponding operating income. This year is the first full operating year, with the prior year being just over three months.

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

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
Operating (Loss)/profit	(5,563)	25
Net finance income/(cost)	1,812	(580)
<b>Loss before taxation</b>	<b>(3,751)</b>	<b>(555)</b>
Taxation	690	81
<b>Loss after taxation</b>	<b>(3,061)</b>	<b>(474)</b>

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
Net cash inflow from operating activities and investing activities <sup>1</sup>	8,766	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 <sup>2</sup>	(18,943)	23,312

<sup>1</sup> Excluding acquisition of Transmission owner asset in the period to 31 March 2015.

<sup>2</sup> Excluding all proceeds from funding activities.

***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 £16,105k (2015: £1,367k), 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 36.

Operating income for the year amounted to £3,755k (2015: £631k), 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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***Operating costs***

Operating costs for the year amounted to £9,318k (2015: £606k).

The most significant costs included within operating costs for 2016 were those costs associated with operations and maintenance (£7,174k; 2015: £323k); insurance (£748k; 2015: £98k) and management service fees amounting to £169k (2015: £39k). The non-domestic rates associated with the transmission network were (£855k; 2015: £85k).

***Operating (loss) / profit***

Operating (loss) / profit being the residual of operating income and operating costs amounted to £5,563k, (2015: profit of £25k).

***Other finance income***

Other finance income of £75k, (2015: £7k) relates solely to interest earned on bank deposits.

***Finance costs***

Finance costs amounted to £14,368k (2015: £1,954k). 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 £9,767k (2015: £1,153k) and holders of subordinated debt £4,568k (2015: £480k). Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

***Taxation***

The net taxation credit on loss before taxation for the year is £690k, (2015: £81k) and relates solely to deferred taxation. There was no current taxation arising in the year (2015: £nil) as the Group incurred taxable losses. The taxation charge for the year has been computed at 20% (2015: 20%).

A taxation credit of £738k, (2015: £1,725k) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2016.

The taxation credit relates solely to deferred taxation as the Group incurred taxable losses during the year. This taxation credit has been computed at 18% (2015: 20%).

***Loss after taxation***

Loss for the year after taxation amounted to £3,061k, (2015: £474k).

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

**Cash flows**

Net cash flows from operations amounted to £8,625k (2015: £1,650k) primarily reflecting the amounts invoiced to and received from NGET in relation to the provision of transmission services from 1 April 2015 through to 31 March 2016 (2015: 17 February 2015 to 31 March 2015) net of cash outflows relating to operating activities incurred during the period of operation from 1 April 2015 through to 31 March 2016.

Net cash flows used in investing activities amounted to £141k (2015: (£357,169k)). 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 £75k (2015: £7k) amounted to £nil (2015: £3,117k). Net cash (used in) / generated from financing activities amounted to £18,943k (2015: £374,784k).

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 an outflow of £4,047k for the 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 £9,671k (2015: £4,047k). Payments to subordinated debt holders during the year amounted to £nil (2015: £nil).

No corporation tax was paid in the year (2015: £nil).

No dividend was paid in the year (2015: £nil).

**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 2016 is summarised below:

	<b>Assets</b>	<b>Liabilities</b>	<b>Net assets / (liabilities)</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
Non-current Transmission owner asset	345,472	-	345,472
Non-current deferred taxation	1,510	-	1,510
Current assets and liabilities less borrowings	30,220	(23,158)	7,062
Total before non-current liabilities	377,202	(23,158)	354,044
Non-current liabilities	-	(360,893)	(360,893)
<b>Totals at 31 March 2016</b>	<b>377,202</b>	<b>(384,051)</b>	<b>(6,849)</b>
<b>Totals at 31 March 2015</b>	<b>380,892</b>	<b>(388,214)</b>	<b>(7,322)</b>



#### ***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 Mor 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 36.

The Transmission owner asset was acquired on 17 February 2015 from Gwynt Y Mor 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 £772k (2015: £81k) 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 £986k relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2016.

#### ***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 2016 net debt stood at £360,745k (2015: £385,307k) and included £4,103k (2015: £8,624k) 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 2016 amounted to £321,468k (2015: £330,611k).

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 Mor OFTO Intermediate Limited ("GYMOIL").

The subordinated loan was issued by GYMOIL on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2016 the total principal carrying value of the subordinated loan outstanding amounted to £45,592k (2015: £45,592k).

Ordinary equity share capital amounted to £51k at 31 March 2016 (2015: £51k).

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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 is a going concern, 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 25 September 2016, export cable 2 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 Group will incur as a result are minimal due to the cause being outside the Group's control. The cable fault was located offshore. The OFTO engaged ABB to repair the fault. The circuit was returned to service on 26 February 2016. The total cost of the repair of Export Cable 2 is expected to be circa £14m.

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 2016 there were no sums outstanding from NGET and from 31 March 2016 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 Group 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.

Specifically, having incurred two cable breaks within the year, the Subsidiary has determined they will remain a going concern into the foreseeable future for the following reasons:

- a) The Subsidiary is able to meet all debt repayments
- b) There is a 10% revenue cap meaning revenue streams will remain
- c) Insurance recovery and income adjusting claims are in progress
- d) Sufficient reserve bank balance
- e) Backup of PBCE facility which is a reserve facility that can be utilised and is 15% of the outstanding senior debt balance.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***Going concern, liquidity, and treasury management (continued)***

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.

The Subsidiary also has access to a liquidity facility of £5,001k (2015: £5,001k) that the Subsidiary can access in the event that it has an insurable or income adjusting event. Debt service can be met from the Debt Service Account facility of £9,477k (2015: £9,841k) as well as spare operating cash.

The EIB has provided a letter of credit at a level of 15% of senior bonds outstanding which is £48,825k at 31 March 2016 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 cash flows, 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 are investment grade status in the foreseeable future based on the information available to the Directors at the date of this annual report.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review*****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.

***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 Moodys. At 31 March 2016, the Subsidiary had £nil (2015: £nil) on deposit of which £nil (2015: £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 £9,088k (2015: £15,345k) 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 is 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.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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 vast majority of cash flows from the project are expected to be generated.

As previously described (see "Regulated revenue and incentives"), under the terms of the Licence, regulatory and other contractual agreements, the 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.

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 2016 was £4,103k (2015: £8,624k). A corresponding entry has been recorded in other comprehensive income.

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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; and
- 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:

**Gwynt y Mor OFTO Holdings Limited**  
**Operating and financial review**

***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 Group presents a sub-total of operating profit, being the total of operating 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 36.

The Directors, in preparing this 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 2 to 21, 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 30.

**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 and in the Operating and financial review on page 8.

	31/03/2016	31/03/2015
	£'000	£'000
Loss after taxation <sup>1</sup>	(3,061)	(474)
Net liabilities <sup>2</sup>	(6,848)	(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 is 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 28 July 2016 and signed by its order.

  
Patrick McCarthy  
Secretary



The Directors present their Report together with the audited financial statements for the year ended 31 March 2016.

The following information has been disclosed in the Group Strategic Report:

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

**Returns and dividends**

The Group recorded a loss for the year after taxation of £3,061k (2015:£474k).  
No dividend was paid during the year or the preceding year.

**Share Capital**

The issued share capital of the Group at 31 March 2016 was £51,000 (2015: £51,000) consisting of 51,000 (2015: 51,000) ordinary shares of £1 each.

**Directors**

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

R Collins  
S L Jones  
S Orrell (Resigned 20 August 2015)  
B R Walker  
S K McLachlan (Appointed 20 August 2015, resigned 17 December 2015)  
S Rooke (Appointed 17 December 2015)

No Director has any interest in the issued share capital of the Group or the Group's parent undertaking.

**Donations and research and development**

No charitable or political donations were made during the year (2015: £nil) and expenditure on research and development activities was £nil (2015: £nil).

**Financial instruments**

Details on the use of financial instruments and financial risk management are included on page 15 to 20 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".

**Gwynt y Mor OFTO Holdings Limited**

**Registered number:** 8796189

**Directors' Report**

***The Group'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 includes an explanation of how the Group 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 4.

***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 2016 were equivalent to 103 (2015: nil) days' purchases, based on the average daily amount invoiced by suppliers during the year.

***Group Information***

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

**Group Company Secretary and Registered Office**

The Group Company Secretary is Patrick McCarthy. The registered address is 6th Floor, 350 Euston Road, Regent's Place, London, United Kingdom, NW1 3AX.

***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 appoint KPMG as auditor will be proposed at the forthcoming Annual General Meeting.

This report was approved by the board on 18 July 2016 and signed by its order.

  
Patrick McCarthy  
Secretary

**Gwynt y Mor OFTO Holdings Limited**

**Registered number:** 8796189

**Corporate governance statement**

The Group is required by its Licence obligations 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 the 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 Group 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.

**Gwynt y Mor OFTO Holdings Limited**

**Registered number:** 8796189

**Corporate governance statement**

***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:

- a) 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 including the Group, as the case may be;
- b) 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;
- c) reviewing and approving the internal control and risk management policies applicable to the Group;
- d) maintaining an appropriate relationship with the external auditor; and
- e) 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 non-executive Directors, none of whom are independent. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board and are convened as required, but usually not less than four times per annum. The 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 twelve 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.

Rebecca Collins	11 of 12
Sion Laurence Jones	8 of 12
Stewart Orrell (resigned 20 August 2015)	3 of 5
Brian Roland Walker	10 of 12
S K McLachlan	4 of 4
Simon Rooke	1 of 3

**Gwynt y Mor OFTO Holdings Limited**

**Registered number:** 8796189

**Corporate governance statement**

***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 17 December 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:

Stewart Orrell	1 of 1: Resigned 20 August 2015
Rebecca Collins	0 of 0
Sean McLachlan	0 of 0: Appointed 20 August 2015, Resigned 17 December 2015
Simon Rooke	0 of 0: Appointed 17 December 2015

The compliance committee met in July 2016 to receive the compliance report for the year ended 31 March 2016 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 <http://www.gymofto.co.uk>) that addresses how the Subsidiary has addressed its Licence obligations.

***Health, Safety and Environment***

The Board recognises that the nature of the Group'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.

**Gwynt y Mor OFTO Holdings Limited**

**Registered number:** 8796189

**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



Patrick McCarthy  
Company Secretary

**Gwynt y Mor OFTO Holdings Limited**  
**Independent auditors' report**  
**to the members of Gwynt y Mor OFTO Holdings Limited**

We have audited the financial statements of Gwynt y mor OFTO Holdings Limited for the year ended 31 March 2016, which comprise 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 and Company Cash Flow Statement, the accounting policies and the related notes 1 to 19. 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.

This report is made solely to the Group'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 Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and 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 accounts**

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.

**Opinion on the accounts**

In our opinion the accounts:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2016 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**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 applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the 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 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 Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 Auditors  
London, United Kingdom

28 July 2016

**Gwynt y Mor OFTO Holdings Limited  
Group Income Statement  
for the year ended 31 March 2016**

**GWYNT Y MÔR  
OFTO**

	Notes	2016 £'000s	2015 £'000s
<b>Operating income</b>	3	3,755	631
Operating costs	4	(9,318)	(606)
<b>Operating (loss)/profit</b>		<u>(5,563)</u>	<u>25</u>
Finance income	5	16,105	1,367
Other finance income	5	75	7
Finance costs	5	(14,368)	(1,954)
<b>Loss before taxation</b>		<u>(3,751)</u>	<u>(555)</u>
Income taxation credit	6	690	81
<b>Loss attributable to equity shareholders</b>		<u><u>(3,061)</u></u>	<u><u>(474)</u></u>

The notes on pages 36 to 62 form part of these financial statements.

The results reported above relate to continuing operations.



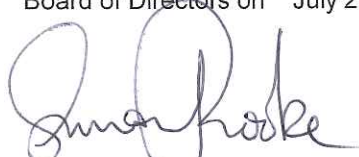
**Gwynt y Mor OFTO Holdings Limited  
Group statement of comprehensive income  
for the year ended 31 March 2016**

	Notes	2016 £'000s	2015 £'000s
<b>Loss for the financial year</b>		(3,061)	(474)
<b>Amounts to be reclassified subsequently to profit or loss when specific conditions are met</b>			
Net Gain/(net loss) taken to equity in respect of cash flow hedges	13	4,521	(8,624)
Deferred taxation arising on cash flow hedges	6	(986)	1,725
<b>Total other comprehensive income/(loss)</b>		<u>3,535</u>	<u>(6,899)</u>
<b>Total comprehensive income/(loss) for the year attributable to equity shareholders</b>		<u><u>474</u></u>	<u><u>(7,373)</u></u>

**Gwynt y Mor OFTO Holdings Limited  
Statement of Financial Position  
as at 31 March 2016**

	Notes	GROUP		COMPANY	
		2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>Non-current assets</b>					
Investments	7	-	-	51	51
Transmission owner asset	8	345,472	358,376	-	-
Deferred taxation asset	9	1,510	1,806	-	-
<b>Total non-current assets</b>		<b>346,982</b>	<b>360,182</b>	<b>51</b>	<b>51</b>
<b>Current assets</b>					
Prepayments & accrued income		13,636	732	-	-
Transmission owner asset	8	7,496	713	-	-
Cash and cash equivalents	10	9,088	19,265	-	-
<b>Total Current Assets</b>		<b>30,220</b>	<b>20,710</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>		<b>377,202</b>	<b>380,892</b>	<b>51</b>	<b>51</b>
<b>Current Liabilities</b>					
Borrowings	11	(15,319)	(10,216)	-	-
Trade and other payables	12	(7,839)	(2,907)	-	-
<b>Total current liabilities</b>		<b>(23,158)</b>	<b>(13,123)</b>	<b>-</b>	<b>-</b>
<b>Non-current liabilities</b>					
Borrowings	11	(356,790)	(366,467)	-	-
Derivative financial liabilities	13	(4,103)	(8,624)	-	-
<b>Total non-current liabilities</b>		<b>(360,893)</b>	<b>(375,091)</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>		<b>(384,051)</b>	<b>(388,214)</b>	<b>-</b>	<b>-</b>
<b>Net liabilities</b>		<b>(6,849)</b>	<b>(7,322)</b>	<b>51</b>	<b>51</b>
<b>Equity</b>					
Called up share capital	14	51	51	51	51
Cash flow hedge reserve	15	(3,364)	(6,899)	-	-
Retained earnings	15	(3,535)	(474)	-	-
<b>Total equity</b>		<b>(6,848)</b>	<b>(7,322)</b>	<b>51</b>	<b>51</b>

These financial statements, comprising the Group Income Statement, Group Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Consolidated Statement of Cash flow, and notes to the financial statements, on pages 30 to 62 were approved by the Board of Directors on July 2016 and were signed on its behalf by:



Simon Rooke  
Director

Approved by the board on 13 July 2016

**Gwynt y Mor OFTO Holdings Limited**  
**Statement of Changes in Equity**  
**for the year ended 31 March 2016**

<b>GROUP</b>	<b>Share capital</b>	<b>Cash flow Hedge Reserve</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>At 1 April 2014</b>	-	-	-	-
Recognised income and expense for the year	-	-	(474)	(474)
Cash flow hedge movements in the year	-	(8,624)	-	(8,624)
Deferred taxation on cash flow hedge movements in the year	-	1,725	-	1,725
<b>Total comprehensive loss</b>	<b>-</b>	<b>(6,899)</b>	<b>(474)</b>	<b>(7,373)</b>
Shares issued	51	-	-	51
<b>At 31 March 2015</b>	<b>51</b>	<b>(6,899)</b>	<b>(474)</b>	<b>(7,322)</b>
<b>At 1 April 2015</b>	51	(6,899)	(474)	(7,322)
Recognised income and expense for the year	-	-	(3,061)	(3,061)
Cash flow hedge movements in the year	-	4,521	-	4,521
Deferred taxation on cash flow hedge movements in the year	-	(986)	-	(986)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>3,535</b>	<b>(3,061)</b>	<b>474</b>
<b>At 31 March 2016</b>	<b>51</b>	<b>(3,364)</b>	<b>(3,535)</b>	<b>(6,848)</b>
<b>Notes</b>	14	15	15	

**Gwynt y Mor OFTO Holdings Limited  
Statement of Changes in Equity  
for the year ended 31 March 2016**

<b>COMPANY</b>	<b>Share capital</b>	<b>Cash flow Hedge Reserve</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>At 1 April 2014</b>	-	-	-	-
Issue of ordinary shares	51	-	-	51
Total comprehensive loss	-	-	-	-
<b>At 31 March 2015</b>	<u><b>51</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>51</b></u>
<b>At 1 April 2015</b>	51	-	-	51
Issue of ordinary shares	-	-	-	-
Total comprehensive loss	-	-	-	-
<b>At 31 March 2016</b>	<u><b>51</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>51</b></u>
<b>Notes</b>	14	15	15	

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.

**Gwynt y Mor OFTO Holdings Limited  
Consolidated Statement of Cash Flows  
for the year ended 31 March 2016**

	Notes	GROUP		COMPANY	
		2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>Cash flows from operating activities</b>					
Operating (loss)/profit for the year		(5,563)	25	-	-
Adjustments for:					
Income recognised in respect of financial asset		22,161	(546)	-	-
Increase in debtors		(12,904)	(732)	-	-
Increase in creditors		4,931	2,903	-	-
		<u>14,188</u>	<u>1,625</u>	<u>-</u>	<u>-</u>
<b>Net cash flows generated by operating activities</b>		<u><b>8,625</b></u>	<u><b>1,650</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
<b>Cash flows from investing activities</b>					
Acquisition of investment in subsidiaries		-	-	-	(51)
Acquisition of transmission owner asset including day one transaction costs		66	(360,041)	-	-
Cash receivable on the finance asset		-	2,865	-	-
Interest received		75	7	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net cash flow generated by/(used in) investing activities</b>		<u><b>141</b></u>	<u><b>(357,169)</b></u>	<u><b>-</b></u>	<u><b>(51)</b></u>
<b>Cash flows from financing activities</b>					
Proceeds of share issues		-	51	-	51
Proceeds from senior debt received		-	334,593	-	-
Proceeds of subordinated loans received		-	45,592	-	-
Interest Paid		(9,272)	(1,405)	-	-
Repayment of senior debt		(9,671)	(4,047)	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net cash flow (used in)/generated by financing activities</b>		<u><b>(18,943)</b></u>	<u><b>374,784</b></u>	<u><b>-</b></u>	<u><b>51</b></u>
<b>Net cash (used)/generated</b>					
Cash generated by operating activities		8,625	1,650	-	-
Cash generated by/(used in) investing activities		141	(357,169)	-	(51)
Cash (used in)/generated by financing activities		(18,943)	374,784	-	51
		<u><b>(10,177)</b></u>	<u><b>19,265</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
Cash and cash equivalents at 1 April 2015 / 2014		<u>19,265</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at 31 March 2016 / 2015	16	<u><b>9,088</b></u>	<u><b>19,265</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
<b>Cash and cash equivalents comprise:</b>					
Cash at bank		9,088	19,265	-	-
Bank overdrafts		-	-	-	-
		<u><b>9,088</b></u>	<u><b>19,265</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

**Gwynt y Mor OFTO Holdings Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**1 Summary of significant accounting policies**

**A Basis of preparation**

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 2016, 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 J, Critical accounting judgements, key assumptions and sources of estimation uncertainty on page 40-41.

**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.

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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**B Transmission availability arrangements (continued)**

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 which is shared. 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. 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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**F 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 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 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 Investments**

Investments as detailed in note 7 are stated at cost less impairment (if any).



**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**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) and to minimise the risk of changing LIBOR in connection with the Senior Term loan interest payments (Interest Rate 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.

**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.

**Gwynt y Mor OFTO Holdings Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

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

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

Assumptions and estimates are reviewed on an on-going basis and any revisions to them are recognised in the period the revision occurs. The following is a summary of the critical accounting policies adopted by the 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.

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 December 2014) – 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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**J Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)**  
**ii) Operating and finance income (continued)**

**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.

**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 and LIBOR 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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**J 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.

**v) Recoverability of Cable Repair Costs**

The recoverability of costs incurred as part of the cable repair is currently being pursued with the insurers. The insurers are disputing their liability on the SSEC1 cable failure.

The insurers' position concerning the SSEC2 cable failure is not yet confirmed but it is anticipated that they will adopt a similar position. The OFTO has reserved its position in relation to both failures and negotiations are ongoing.

A claim is also being pursued with the cable manufacturer. If neither insurance nor the manufacturer pays on these claims an Income Adjusting Event Claim for recovery of the equivalent costs from Ofgem will be pursued.

**K Accounting developments**

**i) Accounting standards as applied to these financial statements**

In preparing the financial statements the Group has complied with IFRS, International Accounting Standards (IAS) and interpretations applicable for 2015/16. Interpretations and amendments have been adopted by the Group in the current period:

- Improvements to IFRSs (2010-2012)
- Improvements to IFRSs (2011 - 2013)

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

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments;
- IFRS 14 Regulatory Deferral Accounts;
- IFRS 15 Revenue from Contracts with Customers; and
- IFRS 16 Leases.

**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; and
- 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:

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**K Accounting developments (continued)**

**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.

**2 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 activities 1). The Group and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Group Income Statement, the Statement of Financial Position and consolidated cash flow statement on pages 30, 32 and 35 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 43 to 62.

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 in 2015.

**3 Operating income**

Operating income of £3,755k (2015: £631k) 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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**6 Income taxation credit**

a) Taxation on items included in the Income Statement

The net taxation credit for the year is £690k (2015: £81k), and the composition of that credit is shown in the table below.

The taxation credit on current year losses arising in the year represents deferred taxation, and has been computed at 20% (2015: 21%) and adjusted to re-measure at 18% (2015: 20%). There is no current taxation included in the Income Statement (2015: £nil).

The taxation credit for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 21%) for the reasons outlined below:

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
Loss before taxation	(3,751)	(555)
Taxation at 20% (2015: 21%) on loss before taxation	750	117
<b>Effects of:</b>		
permanent differences	(69)	(36)
effect of change of tax rate	9	-
<b>Total tax credit</b>	<u><u>690</u></u>	<u><u>81</u></u>

**b) Taxation on items included in other comprehensive income**

The net taxation charge on items included in other comprehensive income for the year is -£986k (2015: £1,725k credit) and comprises a charge on items arising in the current year of £813k computed at 18% (2015: 20%) on gains of £4,521k (2015: £8,624k loss) and a charge relating to the effect of rate change of £173k. The taxation charge on items arising in the current year represents deferred taxation. There is no current taxation included in other comprehensive income (2015: £nil).

**7 Investments**

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
At 1 April 2015 / 2014	51	-
Additions	-	51
<b>At 31 March 2016 / 2015</b>	<u><u>51</u></u>	<u><u>51</u></u>

GOHL has 100% investments in the following subsidiary undertakings:

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

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

Investments are stated at cost less impairment.

Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016

**4 Operating Costs**

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
Operations and maintenance	1,174	323
Insurance costs	748	98
Cable repair costs	6,000	-
Non-domestic rates	855	85
Professional services fees	169	39
Auditor's remuneration	29	28
Other professional services	319	32
Other	23	1
<b>Total</b>	<b>9,318</b>	<b>606</b>

Auditor's remuneration comprises:

Auditor's remuneration <sup>(1)</sup>	15	15
Other services supplied pursuant to legislation <sup>(2)</sup>	14	13
<b>Total</b>	<b>29</b>	<b>28</b>

Additional services from the auditors include Non-statutory audit of Gwynt Y Môr OFTO Holdings Limited for £7k (2015: 7k). This is in regards to cross subsidiaries compliance as per the Licence. 2015 also included 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 compliance statement.

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.

**5 Net interest income**

Net interest income is as expense is as tabulated below:

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Interest income</b>		
Interest on bank accounts and deposits	75	7
Finance income	16,105	1,367
	<b>16,180</b>	<b>1,374</b>
<b>Interest expense and other financial costs</b>		
Interest on senior debt	(9,767)	(1,153)
Interest on subordinated debt	(4,568)	(480)
Other financial costs	(33)	(321)
	<b>(14,368)</b>	<b>(1,954)</b>
<b>Net interest income/(expense)</b>	<b>1,812</b>	<b>(580)</b>

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**8 Transmission owner asset**

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

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Opening Balance</b>	359,089	-
Additions	-	360,041
<b>Income recognised in the income statement:</b>		
Interest income	16,105	1,367
<b>Other Movements</b>		
Cash expenditure	2,582	546
Cash received	(24,808)	(2,865)
<b>Closing Balance</b>	<u><b>352,968</b></u>	<u><b>359,089</b></u>
<b>Comprising:</b>		
Amounts falling due within one year	7,496	713
Amounts falling due after more than one year	345,472	358,376
	<u><b>352,968</b></u>	<u><b>359,089</b></u>

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2016 was £491,511k (2015: £367,265k). 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 4.03% per year, (2015: 4.50% per year).

**9 Deferred taxation asset**

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

	<b>Fair value losses on derivatives</b>	<b>Accelerated capital allowances</b>	<b>Tax losses</b>	<b>Total</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>At 1 April 2015</b>	1,725	(634)	715	1,806
Additions	(813)	(10,002)	10,683	(132)
Effect of change in tax rate	(173)	(63)	72	(164)
<b>At 31 March 2016</b>	<u><b>739</b></u>	<u><b>(10,699)</b></u>	<u><b>11,470</b></u>	<u><b>1,510</b></u>

The deferred tax asset is expected to be recoverable over the asset's life and utilised on future taxable profits.

The fair value losses on derivatives are recognised in the statement of comprehensive income. Accelerated capital allowances and tax losses are recognised in the income statement.

The Finance Act 2015 was enacted on 26 October 2015 which provides for further rate reductions to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. These rates were substantively enacted at the statement of financial position date and have been reflected in the calculation. A rate reduction to 17% from 1 April 2020 has been announced but is not yet substantively enacted.



**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**10 Cash and cash equivalents**

Cash and cash equivalents comprise short-term deposits of £nil (2015: £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 £9,088k (2015: £15,345k) 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 £nil (2015: £3,920k) 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.

**11 Borrowings**

The following table analyses borrowings:

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Current</b>		
Bonds - fixed rate	10,080	9,671
Bond interest	191	65
Subordinated debt loans	5,048	480
	<u><b>15,319</b></u>	<u><b>10,216</b></u>
<b>Non-current</b>		
Bonds - fixed rate	315,417	325,497
Subordinated debt loans	45,592	45,592
Less arrangement fees	(4,219)	(4,622)
	<u><b>356,790</b></u>	<u><b>366,467</b></u>
<b>Total borrowings</b>	<u><u><b>372,110</b></u></u>	<u><u><b>376,683</b></u></u>

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Total borrowings are repayable as follows:</b>		
In one year or less	15,319	10,216
In more than one year, but not more than two years	10,919	10,080
In more than two years, but not more than three years	11,674	10,919
In more than three years, but not more than four years	12,961	11,674
In more than four years, but not more than five years	14,055	12,961
In more than five years other than by instalments	311,401	325,455
Less Arrangement Fees	(4,219)	(4,622)
	<u><u><b>372,110</b></u></u>	<u><u><b>376,683</b></u></u>

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**11 Borrowings (continued)**

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 subsidiary, Gwynt Y Mor OFTO Intermediate 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 18.

The Group is in distribution lockup and no distributions can currently be made to shareholders. 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 2016.

**12 Trade and other payables**

Trade and other payables are as tabulated below.

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
Trade payables	2,469	-
Other taxes	1,181	188
Accrued expenses	4,189	2,719
	<u><b>7,839</b></u>	<u><b>2,907</b></u>

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.

**13 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.

**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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**13 Derivative financial instruments (continued)**

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 2016 was £4,103k (2015: £8,624k). 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 £3,364k (2015: £6,899k).

Ineffective portion of cash flow hedge recognised in the income statement was £nil (2015: £nil).

Further details regarding financial instruments and their related risks are given in note 18.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**14 Called-up share capital**

Share capital is as analysed below.

	GROUP		COMPANY	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>Authorised, allotted, called-up and fully paid</b>				
Opening balance	51	-	51	-
Shares issued	-	51	-	51
<b>Closing balance</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>

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.

**15 Reserves**

The Group's reserves are analysed below.

	Retained earnings	Cash flow hedge reserve	Total
	£'000s	£'000s	£'000s
<b>At 1 April 2014</b>			
Retained 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
<b>At 31 March 2015</b>	<b>(474)</b>	<b>(6,899)</b>	<b>(7,373)</b>
Retained loss for the year	(3,061)	-	(3,061)
Gain on cash flow hedges taken to equity	-	4,521	4,521
Deferred taxation on cash flow hedges	-	(986)	(986)
<b>At 31 March 2016</b>	<b>(3,535)</b>	<b>(3,364)</b>	<b>(6,899)</b>

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**16 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:

	2016 £'000s	2015 £'000s
Movement in cash and cash equivalents	(10,177)	19,265
Net decrease/(increase) in borrowings <sup>1</sup>	9,671	(381,850)
<b>Change in net debt resulting from cash flows</b>	<b>(506)</b>	<b>(362,585)</b>
Non-cash net interest expense included in net debt	4,841	5,167
Change in fair values of derivatives	4,521	(8,624)
<b>Movement in net debt in the year</b>	<b>8,856</b>	<b>(366,042)</b>
Net debt at start of year	(366,042)	-
<b>Net debt at end of year</b>	<b>(357,186)</b>	<b>(366,042)</b>

<sup>1</sup> Arising from the proceeds of loans net of repayments.

**(b) Analysis of changes in net debt**

	Cash and cash equivalents £'000s	Borrowings £'000s	Derivatives £'000s	Total £'000s
<b>At 1 April 2014</b>	-	-	-	-
Cash flow	19,265	(381,850)	-	(362,585)
Change in fair values	-	-	(8,624)	(8,624)
Non-cash net interest	-	5,167	-	5,167
<b>At 31 March 2015</b>	<b>19,265</b>	<b>(376,683)</b>	<b>(8,624)</b>	<b>(366,042)</b>
Cash flow	(10,177)	9,671	-	(506)
Change in fair values	-	-	4,521	4,521
Non-cash net interest	-	4,841	-	4,841
<b>At 31 March 2016</b>	<b>9,088</b>	<b>(362,171)</b>	<b>(4,103)</b>	<b>(357,186)</b>

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**17 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.

	Undertakings with joint control		Other	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>Expenditure</b>				
Interest <sup>(1 including indexation)</sup>	4,544	480	-	-
Services received <sup>(2,3)</sup>	-	4,968	10,146	36
	<u>4,544</u>	<u>5,448</u>	<u>10,146</u>	<u>36</u>

	Total	
	2016 £'000s	2015 £'000s
<b>Expenditure</b>		
Interest <sup>(1 including indexation)</sup>	4,544	480
Services received <sup>(2,3)</sup>	10,146	5,004
	<u>14,690</u>	<u>5,484</u>

	Undertakings with joint control		Other	
	2016 £'000s	2015 £'000s	2016 £'000s	2015 £'000s
<b>Outstanding balances at 31 March:</b>				
Borrowings payable <sup>1 (principal)</sup>	45,592	45,592	-	-
Interest accrual <sup>1</sup>	5,048	480	-	-
Other	-	-	271,926	-
	<u>50,640</u>	<u>46,072</u>	<u>271,926</u>	<u>-</u>

	Total	
	2016 £'000s	2015 £'000s
<b>Expenditure</b>		
Borrowings payable <sup>1 (principal)</sup>	45,592	45,592
Interest accrual <sup>1</sup>	5,048	480
Other	271,926	-
	<u>322,566</u>	<u>46,072</u>

1 Relates to funding related transactions and balances with the intermediate undertaking (GYMOIL) all interest has been directly attributed to the Group.

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 £nil (2015: £4,968k) were in respect of services that were directly attributable to the Group and £nil (2015: £nil) were in respect of services that were allocated to the Group.

3 The other services rendered at 31 March 2016 of £10,146k relates to amounts due to Balfour Beatty Investments Limited and Balfour Beatty Utility Solutions Limited (2015: £36k).

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**17 Related party transactions (continued)**

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

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Borrowings from intermediate undertaking (principal)</b>		
Opening balance	46,072	-
Advances	-	45,592
Non-cash interest	4,568	480
<b>Closing balance</b>	<b><u>50,640</u></b>	<b><u>46,072</u></b>

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 (2015: £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 2016 by virtue of it being a related party in BBOHL through to 31 March 2016. 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.

Equitix Transmission 2 Limited ("Equitix") was a related party of the Group during the year ended 31 March 2016 by virtue of it being a related party of a Group that held 40% of the equity shareholding in Gwynt Y Mor OFTO Plc through to 31 March 2016. 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 2016 by virtue of it being a related party in BBOHL through to 31 March 2016. 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 2016 (2015: £nil), and no expense was recognised during the year (2015: £nil) in respect of bad or doubtful debts for any related party transactions.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**18 Information relating to financial instruments and the management of risk (continued)**

	Valuation Method	Carrying value	
		2016 £'000s	2015 £'000s
<b>Assets</b>			
<u>Non-current</u>			
Transmission owner asset	Level 3	352,968	359,089
		<u>352,968</u>	<u>359,089</u>
<b>Liabilities</b>			
<u>Non-current</u>			
Fixed rate bank bond	Level 2	315,417	325,497
Loan notes 2035	Level 2	45,592	45,592
Derivative financial instruments	Level 2	-	-
		<u>361,009</u>	<u>371,089</u>

**a) Fair value disclosures (continued)**

		Fair value	
		2016 £'000s	2015 £'000s
<b>Assets</b>			
<u>Non-current</u>			
Transmission owner asset	Level 3	491,511	367,265
		<u>491,511</u>	<u>367,265</u>
<b>Liabilities</b>			
<u>Non-current</u>			
Fixed rate bank bond	Level 2	289,726	293,287
Loan notes 2035	Level 2	87,555	92,327
Derivative financial instruments	Level 2	4,103	8,624
		<u>381,384</u>	<u>394,238</u>

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 Group 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. RPI swaps have been calculated using the bank valuations of Sumitomo Mitsui Banking Corporation (SMBC), HSBC Bank Plc, and The Bank Of Tokyo-Mitsubishi UFJ Ltd. The fair value of the fixed rate bond has been restated in 2015 for comparative purposes.

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 Transmission asset has been valued using a discount rate of 4.03%. At a discount rate of 3.53% the fair value of the asset is £513,536k and at a discount rate of 4.53% the fair value of the asset is £470,871k.

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.



**Gwynt y Mor OFTO Holdings Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**18 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 13 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 fluctuate 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 13.

For the reasons outlined in note 13, 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.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**18 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 13; 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 2016 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 18 (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 2016 amounts due from NGET amounted to £nil (2015: £nil).

In respect of the counterparties to the cash flow derivative hedges (RPI swaps and Interest Rate swaps) these arrangements have been entered into with banks. At 31 March 2016, the fair values attributable to these positions were liabilities amounting to £4,103k (2015: £8,624k), 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 Moodys. All of these deposits are subject to insignificant risk of change in value or credit risk.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**18 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 carries 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 2016, senior debt-service costs amounted to £9,767k (2015: £1,153k). There is no contractual obligation for the Group to service the secured borrowing until 17 December 2034, 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 £13,718k (2015: £4,047k).

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 2016, cash and cash equivalents included £9,088k (2015: £15,345k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £nil (2015: £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.

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 £48,825k at 31 March 2016 (2015: £50,275k) which expire in 2035. These facilities were undrawn at 31 March 2016 (2015: £nil) and are available to the Group under certain conditions laid down within the Group's lending agreements.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**18 Information relating to financial instruments and the management of risk (continued)  
b) Management of risk (continued)  
iii) Liquidity risk and Going Concern (continued)**

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 met minimum 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 met. 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 this 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 below shows the undiscounted contractual maturities of financial assets and financial liabilities, including interest.

	2016 0-1 years £'000s	2016 1-2 years £'000s	2016 2-5 years £'000s	2016 > 5 years £'000s
<b>Liquidity risk</b>				
<b>Non-derivative financial assets</b>				
Transmission owner asset	24,741	24,934	106,305	483,499
Cash and cash equivalents	9,088	-	-	-
	<u>33,829</u>	<u>24,934</u>	<u>106,305</u>	<u>483,499</u>
<b>Non-derivative financial liabilities</b>				
Borrowings <small>(including interest payments)</small>	(10,080)	(10,919)	(38,689)	(265,809)
Subordinated debt	(5,048)	-	-	(45,592)
Trade and other non-interest bearing liabilities	(7,839)	-	-	-
	<u>(22,967)</u>	<u>(10,919)</u>	<u>(38,689)</u>	<u>(311,401)</u>
<b>Derivative financial asset</b>				
RPI swaps	(216)	(216)	(648)	(3,023)
	<u>(216)</u>	<u>(216)</u>	<u>(648)</u>	<u>(3,023)</u>
<b>Net total</b>	<u><u>10,646</u></u>	<u><u>13,799</u></u>	<u><u>66,968</u></u>	<u><u>169,075</u></u>

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

b) Management of risk (continued)

iii) Liquidity risk and Going Concern (continued)

	2015 0-1 years £'000s	2015 1-2 years £'000s	2015 2-5 years £'000s	2015 > 5 years £'000s
<b>Liquidity risk</b>				
<b>Non-derivative financial assets</b>				
Transmission owner asset	24,194	25,463	80,667	516,492
Cash and cash equivalents	19,265	-	-	-
	<u>43,459</u>	<u>25,463</u>	<u>80,667</u>	<u>516,492</u>
<b>Non-derivative financial liabilities</b>				
Borrowings <small>(including interest payments)</small>	(9,671)	(10,080)	(35,553)	(279,864)
Subordinated debt				
Trade and other non-interest bearing liabilities	(2,907)	-	-	-
	<u>(12,578)</u>	<u>(10,080)</u>	<u>(35,553)</u>	<u>(279,864)</u>
<b>Derivative financial asset</b>				
RPI swaps	-	(31)	(299)	(6,871)
<b>Net total</b>	<u><b>30,881</b></u>	<u><b>15,352</b></u>	<u><b>44,815</b></u>	<u><b>229,757</b></u>

**Contractual Cash flows**

	2016 Total £'000s	2015 Total £'000s
--	-------------------------	-------------------------

<b>Liquidity risk</b>		
<b>Non-derivative financial assets</b>		
Transmission owner asset	639,479	646,816
Cash and cash equivalents	9,088	19,265
	<u>648,567</u>	<u>666,081</u>
<b>Non-derivative financial liabilities</b>		
Senior Loan	(325,497)	(335,168)
Trade and other non-interest bearing liabilities	(7,839)	(2,907)
	<u>(333,336)</u>	<u>(338,075)</u>
<b>Derivative financial asset</b>		
RPI swaps	(4,103)	(7,201)
<b>Net total</b>	<u><b>311,128</b></u>	<u><b>320,805</b></u>

**Gwynt y Mor OFTO Holdings Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**18 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 13 above. As explained in note 13, 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.

**Swap liability fair value sensitivity**

	<b>RPI</b>
	<b>2016</b>
	<b>£'000s</b>
At fair value	4,103
RPI + 0.5%	4,082
RPI - 0.5%	4,124

Swap liability fair value sensitivity analysis only impacts equity and not profit and loss.

**Gwynt y Mor OFTO Holdings Limited  
Notes to the Financial Statements  
for the year ended 31 March 2016**

**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

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 2016, the total carrying value of senior debt amounted to £321,469k (2015: £330,611k). Cover ratios are managed by way of calculating any impact shareholder distributions may have on ratios prior to any distribution taking place. At present, no distributions to shareholders are being made due to being in financial lockup.

Subordinated debt has been issued to the Group's intermediate undertaking, GYMOIL and carries a fixed rate coupon. At 31 March 2016 the total principal value of the subordinated debt outstanding amounted to £45,592k (2015: £46,072k).

Ordinary equity share capital issued during the year amounted to £nil (2015: £51k).

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.

**19 Ultimate parent companies and controlling parties**

The Group's immediate parent Group is Gwynt Y Mor OFTO Holdings Limited, which is incorporated in the United Kingdom and registered in England and Wales. Gwynt Y Mor OFTO Holdings Limited is the parent Group of the largest and smallest group of which the Group is a member and for which group financial statements are drawn up. The only Group in which the results of Gwynt Y Mor OFTO Plc are consolidated is Gwynt Y Mor OFTO Holdings Limited whose financial statements are available on the Group's website and from 350 Euston Road, Regent's Place, London, NW1 3AX.

The Group's ultimate parent companies and controlling parties are Balfour Beatty plc and Equitix Fund Holdings 2 Limited which are incorporated in the United Kingdom and registered in England and Wales.

**Gwynt y Mor OFTO Holdings Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**18 Information relating to financial instruments and the management of risk**

The Group has the following financial instruments:

	<b>2016</b>	<b>2015</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Financial assets at fair value through profit or loss</b>		
<b>Financial assets that are debt instruments measured at amortised cost:</b>		
Trade and other receivables	15,146	2,538
Financial Asset	352,968	359,089
Cash and cash equivalents	9,088	19,265
	<u><b>377,202</b></u>	<u><b>380,892</b></u>
<b>Financial liabilities at fair value through profit or loss:</b>		
Derivative financial instruments	4,103	8,624
<b>Financial liabilities measured at amortised cost:</b>		
Senior secured loan	321,469	330,611
Subordinated loan	50,640	46,072
Trade and other payables	7,839	2,907
	<u><b>384,051</b></u>	<u><b>388,214</b></u>

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 this page and 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.