Registration number: 08796159

Gwynt y Môr OFTO plc

Annual Report and Financial Statements

for the Year Ended 31 March 2023

Gwynt y Môr OFTO plc

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Gwynt y Môr OFTO plc

Company Information

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Gwynt y Môr OFTO plc

Operating and Financial Review

Introduction
This Operating and Financial Review explains the operations of Gwynt y Môr OFTO plc (the "Company" or the "OFTO") and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2023, as well as those matters which are likely to affect its future development and performance.

The immediate parent company of the Company is Gwynt y Môr OFTO Holdings Limited, a company registered in England and Wales, United Kingdom.

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

Background
The Office of Gas and Electricity Markets Authority ("Ofgem" and the "Authority"), in partnership with the Department for Business, Energy & Industrial Strategy ("BEIS"), 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. Offshore transmission owners are subject to the conditions of a transmission licence (the "Licence").

The Company holds the Licence, awarded by the Authority on 11 February 2015. The asset was purchased by the use of senior secured loans and subordinated debt. This Licence, amongst other matters, permits and requires the Company to maintain and operate the Gwynt y Môr offshore electricity transmission assets with a revenue entitlement period of 20 years from the date funds were drawn on 17 February 2015. The Company's offshore electricity transmission system exports the output of the Gwynt y Môr wind farm owned by Gwynt y Môr Offshore Wind Farm Limited ("GYMOWFL") to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Company to be certified as complying with the unbundling requirements of European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). On 12 January 2015, the Company 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 Company has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

The Company's offshore electricity transmission system
The Company transmits the electrical power of the Gwynt y Môr wind farm from the offshore connection point of the Company's electrical assets with the electrical assets owned by GYMOWFL to the onshore connection point of the Company'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 Môr offshore wind farm comprises 160 turbines, with a combined capacity of around 574 megawatts ("MW"), and is located within the Liverpool Bay area of the Irish Sea, approximately 15km off the North Wales coast. The power that is generated by the wind farm is transported to shore by the Company 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 GYMOWFL and run to the offshore electricity substations that are owned by the Company. 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 Company's onshore electricity substation at Bodelwyddan. At the onshore substation the power factor of the electricity is corrected using reactive compensation equipment and the voltage is raised to 400kV by two 132/400kV transformers also owned by the Company. The power is then delivered to the NGET 400kV substation which adjoins the Company's onshore substation.

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

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

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

The Company's operating model
The Company's operating model is to outsource all operational and maintenance ("O&M") activities. From purchasing the OFTO assets the O&M activities were outsourced to Balfour Beatty Utility Solutions Limited ("BBUS"). In early 2021 BBUS advised the Company that they wished to exit the OFTO O&M market. In December 2021 the Company appointed EDS HV Limited ("EDS HV") as O&M operator, replacing BBUS. EDS HV have established themselves as a highly experienced and credible O&M contractor.

Balfour Beatty Investments Limited ("BBI") provides certain financial and management services to the Company 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 Company meets its Licence obligations and complies with good industry practice. The Company 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 Company in accordance with the PSA.

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

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Company's assets and operations requires a strong 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 facilitates compliance with law, regulations and licence conditions.

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

A failure by the Company to materially comply with the terms of the Licence could ultimately lead to the revocation of the Licence. The 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.

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

Regulated revenue and incentives
The Licence awarded by the Authority to the Company determines how much the Company may charge for the offshore transmission services that it provides to NGET in any relevant charging period in accordance with a regulatory formula. Each charging period is from 1 April to 31 March. The Licence also provides the Company with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Company's transmission system in any given calendar period versus the regulatory target. The regulatory target availability is 98% (2022: 98%) of the total megawatt hour capacity of the Company's electricity transmission system (as determined by the Company's System Capability Statement) in any given charging period, or part thereof.

Operating and Financial Review (continued)

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

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

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

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

In respect of net penalties which are outstanding at the end of the charging period then, in principle, the charges in respect of the following financial period are lowered by an amount that would reduce the charges for that financial period by the amount of the net penalty. However, the reduction in charges can never exceed 10% of the base revenue for that period. To the extent that the cumulative net penalty, if applied, to the Company's charges would result in those charges being reduced by more than 10% of the base revenue for that period, 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 charging period can be carried forward is five periods.

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

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

Operating and Financial Review (continued)

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

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

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

Under the terms of the TOCA with NGET, the Company 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 2022 to 31 March 2023 was 576 MW (2022: 576 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 Company's actual transmission availability during any performance period - which in turn determines the Company's performance credits or penalties as described under "Regulated revenue and incentives" earlier in this Operating and Financial Review.

The Company has provided 99.24% transmission availability during the period 1 April 2022 to 31 March 2023 (2022: 99.28% (previously stated as 87.62% prior to EE Claim relief) based on the declared capacity of the transmission system - see "Transmission System Availability" below. The reduction in availability was caused by the following planned and unplanned outages:

- In June to July 2022 the OFTO employed a contractor to conduct a repair to replace 7.5km of defective subsea cable within export circuit 3 (SSEC3). The total outage lasted for 34 days. The OFTO submitted an exceptional event (EE) claim to Ofgem to recover the lost revenue. Ofgem gave a positive decision to the EE claim but deducted 5 days due to delays that Ofgem deemed were the responsibility of the contractor.
- In October 2022 there was a short duration outage (8hr, 27mins) associated with a minor fault on one of the static VAR compensators (SVC1) that resulted in the disconnection of the associated supergrid transformer (SGT1) within the onshore substation. The availability was reduced to 50% for the duration of the outage.
- In December 2022 there was a short duration outage associated with topping up the oil in supergrid transformer 2 (SGT2) within the onshore substation. The availability was reduced to 50% for the duration of the outage.

The Company 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.

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

Key performance indicators ("KPIs")
The Company has identified the following KPIs as being instrumental to the management of the transmission business. Such KPIs include financial and non-financial KPIs:

	2023 £ 000	2022 £ 000
Loss before tax		
Objective: To reduce loss / increase profit (1)		
Result: Achieved	(144)	(16,874)
Cash available for debt service: *Net cash inflow from operating activities plus net cash inflow from investing activities*		
Objective: To increase (2)		
Result: Achieved	22,933	22,770

(1) Where appropriate adjustments will be made where events give rise to unusual patterns of income, expenditure and/or one-off events.
(2) After adjustment for the initial acquisition cost of the OFTO assets.

Non-financial KPIs	**Objective**	**Result**
Maximise transmission availability: Making the transmission system available to transmit electricity over the performance period	To exceed the Licence target availability 98%	Achieved - 2023: 99.24% (2022: 99.28% (previously stated as 87.62% prior to EE Claim relief).
Ensure that the quality of electricity at the export connection point is compliant with SQSS (Security and Quality of Supply Standard) and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion	Achieved - 2023 and 2022: Compliant during both periods
Health & Safety: 1) Zero lost time incidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under the Company's Natural Resources Wales ("NRW") Marine Licence	To have zero health and safety accidents	Achieved - 2023 and 2022: No health and safety accidents and fully compliant with NRW licence in both period

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

In December 2021 the Company replaced Balfour Beatty Utility Solutions as the O&M contractor with EDS HV. EDS HV have proved to be a competent O&M contractor, delivering services in accordance with the O&M plan that has been accepted by the Lenders Technical Advisor (Mott Macdonald) and agreed with the Company.

Transmission system availability

In October 2020, export cable 3 (SSEC3) suffered a subsea cable fault. The root cause was identified to be a latent defect within the fibre optic cable (FOC). The cable fault was repaired in 2021 and the circuit was returned to service on 7 March 2021.

In the lead up to the 2020 SSEC3 cable fault, the Company had identified a number of breaks in the cables FOCs that extended over 4km, although later testing extended this to 6km. On occurrence of the SSEC3 cable fault the Company did not have access to sufficient cable to remove the full length of defective cable, therefore the Company conducted a focused repair to address the immediate cable fault to return the circuit to service. At the same time the company ordered length 8.5km of new cable, sufficient to conduct a follow up repair in 2022 (see above) and to restock the Company's strategic spares holding.

The impact of the cable failures on the financial viability of the Company has been mitigated by a number of actions taken by the Company and by the strength of the regulatory regime:

a) The Company is able to meet all debt repayments

b) The maximum revenue at risk is capped at 10% per annum meaning revenue streams will remain

c) Income Adjusting Event and insurance recovery claims are in progress. In July 2023, Ofgem published their determination ruling that the OFTO can recover the costs incurred in the Stage 1 (20/21) SSEC3 repair.

d) Reserves are fully funded ensuring adequate cash resources to meet future emergency and financing outflows

e) Backup of PBCE (Project Bond Credit Enhancement) facility which is a reserve facility that can be utilised to meet senior debt repayments and has a maximum value of 15% of the outstanding senior secured loan balance. Drawdowns of this facility of £10.9m and £11.2m were made in June 2021 and March 2022 respectively. A principal repayment of £8.8m was made in March 2023, bringing the closing balance at 31 March 2023 to £13.3m.

Operating and Financial Review (continued)

The performance of the Company's transmission system for the performance year to March 2023 was as tabulated below:

	Note	Performance Period April 2022 to March 2023	April 2021 to March 2022
Maximum system availability (MWhrs)	(a)	5,028,240	5,028,240
Actual system availability (MWhrs)		4,989,239	4,992,103
Actual system availability (%)		99.24%	99.28% (previously stated as 87.62% prior to EE Claim relief).
Regulatory target system availability (%)		**98%**	**98%**
Availability credits/(penalties) (£)			
Net availability credits / (penalties) for the performance year commencing January 2022 (January 2021)		990,310	640,040
Net availability credits / (penalties) at 31 March 2023 (31 March 2022)	(b)	**990,310**	**640,040**

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

b) Net availability credits / (penalties) at 31 March 2023 relate to the year January to December 2022 - and will be received in the period April 2023 to March 2024 (at 31 March 2022 they relate to the year January to December 2021 and were paid in the period April 2022 to March 2023).

Quality of supply

The quality of supply constraints agreed with NGET (see "Transmission system quality of supply" above) requires the Company 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 Company'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 Company closely monitors compliance with these qualities of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Company to meet these qualities of supply obligations.

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

Health, safety and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety, and the environment. Safety is critical both to business performance and to the culture of the Company. The operation of the Company's assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm, and to safeguard members of the general public. The Board is pleased to report that there has been no reportable H&S incidents in this reporting year.

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

In April 2021, the Company conducted repairs to address a SF6 gas leak on a 132kV bus-bar on offshore substation platform West (OSP-W). The gas leak in the lead up to this repair was reported at the time to Defra who in November instructed the Environment Agency to conduct an investigation. The Company provided the EA with all requested information. On 17 August 2022, Defra wrote to the Company giving the final decision of the EA investigation, that there was no evidence of breaches, and so no offence was committed, therefore no sanctions would be applied against Gwynt y Mor OFTO Plc. The Company considers that its actions in responding to the gas leak have been fully vindicated and now considers this matter closed.

Stakeholder relationships

The potentially hazardous nature of the Company's operations and the environmentally sensitive nature of the locations where its assets are located require the Company to engage and communicate with a wide audience of stakeholders and to establish good relationships with them. As well as industry participants and local and national government bodies this audience includes: Port Authorities; the emergency services; the maritime community; environmental agencies and organisations; landowners and the general public. The Company engages with shareholders on an 'as-necessary' basis. The Directors consider that stakeholder relationships are satisfactory.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company have been discussed and referenced in the Strategic Report.

The Company's financial performance

Summary

The financial performance of the Company for the period ended 31 March 2023, and its financial position as at 31 March 2023, was satisfactory and is summarised below.

The Company reports its results in accordance with International Financial Reporting Standards ("IFRS") as adopted by the UK.

	2023 £ 000	2022 £ 000
Operating profit/(loss)	1,852	(16,666)
Net finance income	(1,996)	(208)
Loss before tax	(144)	(16,874)
Taxation	(958)	3,501
Loss after taxation	(1,102)	(13,373)

	2023 £ 000	2022 £ 000
Net cash inflow from operating activities and other investing activities	22,933	22,770
Net cash flows from financing activities	(32,810)	(197)
Net cash inflow/(outflow)	(9,877)	22,573

Revenue and finance income

Revenue and financial income is derived from the Company's activities as a provider of transmission services. The vast majority of the Company's revenue is derived from NGET.

Non-bank interest financial income for the year amounted to £14,151k (2022: £14,286k) and effectively represents the financial income that would have been generated from an efficient stand-alone "transmission owner". The financial income has been recorded in accordance with the principal accounting policies adopted by the Company. A discussion of the accounting policies and critical accounting judgements adopted by the Company are disclosed in Note 1 and 2 respectively.

Revenue for the year amounted to £4,593k (2022: £4,301k) and primarily represents the revenue 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. Revenue has been recorded in accordance with the principal accounting policies adopted by the Company.

Operating costs
Operating costs for the year amounted to £2,741k (2022: £21,567k). The significant reduction in costs year on year is due to cable repair costs incurred in the prior year.

Operating profit / (loss)
Operating profit being the residual of operating income, other operating income and operating costs amounted to £1,852k (2022: loss of £16,666k).

Other finance income
Other finance income of £571k (2022: £8k) relates solely to interest earned on bank deposits.

Finance costs
Finance costs amounted to £16,718k (2022: £14,502k). Funding was required to acquire the transmission system (Transmission owner asset) from GYMOWFL and the acquisition of the Transmission owner asset took place on 17 December 2014.

The vast majority of the finance costs relates to the interest cost of servicing senior debt holders and PBCE facility interest, of £8,247k (2022: £7,794k) and holders of subordinated debt £8,420k (2022: £7,667k). Other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner.

Taxation
The net taxation on loss before taxation for the period is a charge of £958k (2022: credit of £3,501k) and relates solely to deferred taxation. There was no current taxation arising in the period (2022: £Nil) as the taxable profit was £Nil (2022: £Nil).

A taxation credit of £1,071k (2022: credit of £6,576k) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at 31 March 2023.

Loss after taxation
The loss for the period after taxation amounted to £1,102k (2022: loss of £13,373k).

Cash flows
Net cash flows generated by operations amounted to £22,362k (2022: £22,762k) primarily reflecting the amounts invoiced to and received from NGET in relation to the provision of transmission services from 1 April 2022 through to 31 March 2023 (2022: 1 April 2021 through to 31 March 2022) net of cash outflows relating to operating activities incurred during the period of operation from 1 April 2022 through to 31 March 2023. Net cash flows generated by operations also includes inflows relating to Income Adjusting Event claims, relating to recoveries of cable repair costs incurred in prior periods. Net cash flows generated by operations for the year ending 31 March 2023 also includes repair costs incurred in the Stage 2 SSEC3 cable repair.

Net cash flows generated by investing activities amounted to £571k (2022: £8k).

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 and included interest received of £571k (2022: £8k) amounted to £22,933k (2022: £22,770k). Net cash flows from financing activities amounted to £32,810k (2022: £197k).

Principal payments to senior debt holders during the year amounted to £24,531K (2022: £14,967k) and payments to service senior debt in the year amounted to £8,229k (2022: £7,282k).

Operating and Financial Review (continued)

Interest payments to subordinated debt holders during the year amounted to £Nil (2022: £Nil).

No corporation tax was paid in the period, due to a taxable profit of £Nil (2022: £Nil) being made in the year.

No dividend was paid in the year (2022: £Nil).

Statement of financial position and consideration of financial management

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

Statement of Financial Position
The Company's Statement of Financial Position at 31 March 2023 is summarised below:

	2023 £ 000	2022 £ 000
Assets		
Non-current assets		
Transmission owner asset	272,409	287,479
Deferred tax assets	14,267	14,154
	286,676	301,633
Current assets		
Transmission owner asset	16,585	11,493
Trade and other receivables	1,735	3,865
Cash and cash equivalents	18,543	28,420
	36,863	43,778
Total assets	323,539	345,411
Non-current liabilities		
Loans and borrowings	(317,650)	(333,639)
Derivative financial instruments	(38,920)	(34,636)
	(356,570)	(368,275)
Current liabilities		
Loans and borrowings	(22,450)	(22,556)
Trade and other payables	(14,752)	(20,498)
	(37,202)	(43,054)
Total liabilities	(393,772)	(411,329)

Transmission owner asset and decommissioning
The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Gwynt y Môr offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Company. A discussion of the accounting policies and critical accounting judgements adopted by the Company are disclosed in Note 1 and 2 respectively.

The Transmission owner asset was acquired on 17 February 2015 from Gwynt y Môr Offshore Wind Farm 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 £9,696k, this remains management's best estimate of decommissioning costs as at 31 March 2023.

Deferred taxation
The Company has recognised a deferred tax asset of £4,537k (2022: £5,495k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the period, including taxable losses. There is also a deferred tax asset of £9,730k (2022: £8,659k) relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at 31 March 2023.

Net debt
Net debt is defined as all borrowings less cash and cash equivalents (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 2023 net debt stood at £360,477k (2022: £362,411k) and included £38,920k (2022: £34,636k) 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 Company is funded through a combination of senior secured loans, 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.

The senior secured loan 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 the senior secured loan outstanding. All of the senior secured loan is serviced on a six monthly basis and is expected to amortise over the life of the project through to February 2034. The total carrying value of the senior secured bonds outstanding at 31 March 2023 amounted to £232,700k (2022: £248,438k) and the PBCE facility drawn at this date amounted to £13,323k (2022: £22,097k). As detailed in note 16, the Company drew down £10.9m and £11.2m in June 2021 and March 2022 respectively, and repaid £8.8m in March 2023, in relation to the PBCE facility.

The senior secured bonds carry a fixed rate coupon which requires servicing on a half yearly basis. The PBCE facility carries a fixed margin plus a variable element linked to SONIA.

The subordinated debt ranks behind the senior secured borrowing and is held by the Group's intermediate Company, Gwynt y Môr OFTO Intermediate Limited ("GYMOIL").

Current funding structure (continued)

The subordinated debt was issued by GYMOIL on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2023 the total principal carrying value of the subordinated loan outstanding amounted to £45,592k (2022: £45,592k).

Ordinary equity share capital amounted to £51k at 31 March 2023 (2022: £51k).

Going concern, liquidity, and treasury management

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

The expected cash in-flows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under "Regulated revenue and incentives". In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is considered to be very low. As at 31 March 2023 there were no sums outstanding from NGET and from 31 March to the date of this report all amounts due from NGET had been received on time.

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

The Company 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.

Having incurred several offshore cable breaks in previous periods the Directors have determined that the Company will remain a going concern into the foreseeable future for the following reasons:

a) The Company 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 cash reserves

e) Financial ratios are expected to remain above the default level, as per the financial covenants.

Operating and Financial Review (continued)

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

The hedging arrangements are explained in more detail below under "Hedging arrangements". In summary the RPI swaps have the impact of effectively converting a proportion of the RPI variable cash flows arising from the Company'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 Company in relation to its transmission services that are not subject to the RPI swaps arrangements.

The EIB has provided a letter of credit at a level of 15% of the senior secured loan outstanding, less any existing withdrawals, giving £21,940k at 31 March 2023, as a form of subordinated credit enhancement instrument for the Company in relation to the senior secured loan and the hedging agreements. Under the terms of the loan instrument, the senior secured loan is redeemable from 2035.

Credit rating

It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. The rating agency carries out regular and periodic reviews of the rating. The Company 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 Company'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 Company operates; the nature of the principal contractual arrangements in place; the insurance arrangements; and the credit risk of all material counterparties in arriving at their assessment of the appropriate credit rating.

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

This is borne out in the latest credit rating of the Company as prescribed by Moody's, which is Baa1 stable and remains investment grade.

On-going funding requirements
The Company does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding. As mentioned within "Current funding structure" above, the Company obtained approval to access the PBCE instrument, and drew down amounts of £10.9m and £11.2m on 7 June 2021 and 31 March 2022 respectively. A repayment of £8.8m was made in March 2023. The Company does not expect to require any other additional external funding over the expected life of the project. Debt servicing and other obligations of the Company are expected to be met by the cash inflows generated by the Company. Consequently, based on the current capacity of the existing transmission system operated by the Company, there is minimal refinancing risk.

To the extent that a requirement for significant expenditure is required in the future as a result of additional capital works being required to provide incremental transmission capacity, there is a mechanism in the Company's transmission licence to allow the Company to increase its charges in respect of such expenditure. The Directors would expect that such additional expenditure would be capable of 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 Company generally invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. At 31 March 2023, the Company had £Nil (2022: £Nil) on deposit of which £Nil (2022: £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 £17,907k (2022: £2,782k) that the Company can only use for special purposes. The Common Terms Agreement ("CTA") defines the requirements to transfer in and withdraw funds from these accounts. The remaining cash balance 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 Company has some variability of cash flows in relation to the interest it earns on its investments, as typically these investments are held in deposits with a typical maturity of six months or less and earn variable rates of interest. However, in the context of the other cash flows generated by the Company these amounts are insignificant.

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

RPI swaps
The Company has entered into arrangements with third parties for the purpose of exchanging the 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 Company enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the vast majority of cash flows from the project are expected to be generated.

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

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

The majority of the Company'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 Company can meet its obligations under the terms of the Company's borrowing arrangements and therefore reduce the risk of default. The Directors believe that RPI swaps have a highly effective hedging relationship with the forecast cash inflows that are considered to be highly probable, and as a consequence have concluded that these derivatives 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 2023 was £38,920k (2022: £34,636k). A corresponding entry has been recorded in other comprehensive income.

Lending covenants and other restrictions

The Company is subject to certain covenants and conditions under lending agreements with the debt holders. The Company entered into the lending agreements to allow it to fund the acquisition of the Transmission owner asset. Under these lending agreements, a Security and Bond Trustee has been appointed to represent the senior debt holders and to monitor compliance by the Company with the conditions of the lending agreements it has entered into. In addition, a Technical Adviser and an Insurance Adviser have also been appointed under the terms of the lending agreements to support the 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 Company is required to operate on the basis of a financial plan while the lending agreements are in place (20 periods) which the Security Trustee has approved and subject to certain allowances; any deviation from that plan requires the approval of the Security Trustee. The financial plan is refreshed on a six monthly basis and revised on an annual basis as required;

2) The Company is required to deliver financial and other information at specified intervals (typically six monthly) to the Security Trustee;

3) The lending agreements specify the bank accounts that the Company is permitted to operate and in addition, restrict the way in which those accounts should be operated - this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose;

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

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

6) The Company is required to maintain adequate insurances at all times;

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

There is a risk that if the Company materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, the Company 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 Company 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 Company has met all of the lending covenants and conditions and has continued to do so through to the date of this report.

Accounting policies

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

Presentation of financial statements

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

Financial Instruments

The Company has elected to apply hedge accounting to its derivative financial instruments, where it is allowable under the relevant standards.

Critical accounting judgements

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

A discussion of critical accounting judgements is contained within Note 2 of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments and commences on page 47.

Gwynt y Môr OFTO plc

Strategic Report for the Year Ended 31 March 2023

The Directors present their strategic report for the year ended 31 March 2023.

Principal activities and business review

A full description of the Company's principal activities and business review are contained in the Operating and Financial Review, which are incorporated by reference into this report.

Review of the business

The results for the year are set out on page 37. The loss for the year after taxation was £1,102k (2022: loss of £13,373k).

The net liabilities position of the Company as at 31 March 2023 was £70,233k (2022: £65,918k). The financial position of the Company as at the year end is in-line with the Directors' expectations and as per the Statement of Financial Position on page 39.

The Company continues to vigorously explore the multiple sources of recovery of the cable repair costs as detailed in the Operating and Financial review.

The Directors expect the Company to continue its operations for the foreseeable future and the Directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

Key Performance Indicators

The Company 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 7.

	2023 £ 000	2022 £ 000
Loss before tax	(144)	(16,874)
Cash available for debt service	22,933	22,770

The significant loss before tax in the previous year was chiefly due to a provision recognised for cable repair costs. The loss before tax in the current year is largely due to finance costs being incurred in excess of finance income.

Cash available for debt service is defined as net cash inflow from operating activities plus net cash inflow from investing activities. Cash available for debt service was comparable with the previous year.

The Company's prime operational KPI's 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. These are disclosed in the Operating and Financial review.

Principal risks and uncertainties

The Company 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.

Contractual relationships

The Company 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 Company's results and could ultimately result in termination of the concession. To manage this risk the Company has regular meetings with NGET.

Export cable depth of burial risk
The OFTO has previously reported that sections of the subsea cables have become exposed and in some areas the cables were buried at a shallower depth than originally reported by the Developer. This suggested that the cables were at a higher risk of third party damage from fishing / anchors. The OFTO has conducted a probabilistic assessment of the risk based on actual fishing activity along the cable routes and this has indicated a low risk of damage. This has been recognised by some of the OFTO's insurers (who have relaxed the exclusion that had been imposed) and discussions with the remaining insurers are ongoing. The OFTO will continue to monitor the situation by reviewing the results of routine subsea surveys.

SSEC3 fibres
n February 2020 the OFTO discovered that both fibre optic cables (FOC), Main and Spare, within the SSEC3 cable were broken at different locations within the subsea section of the cable. On 15 October 2020, a power core fault occurred on SSEC3 about 1.3km from one of the FOC breaks. The OFTO repaired the power core fault on 7 March 2021 and took action to plan a further intervention to remove the FOC breaks that remained on SSEC3. This included ordering 8.5km of new cable and limiting the export capacity on SSEC3 to 52.8% to reduce the risk of another cable failure before the OFTO could remove the FOC breaks.

The OFTO entered a repair contract with N-Sea Offshore Wind BV to conduct a repair in Spring 2022. After a successful repair operation, the SSEC3 cable was returned to service at full capacity on 13 July 2022. Initial testing confirmed that all known breaks in the cable were removed as planned. The OFTO has submitted Income Adjusting Event claims to Ofgem with the intention of recovering the costs of this repair.

In October 2022, routine checks of the fibre integrity found that all the fibres of the SSEC3 main fibre optic cable (FOC) were broken close to the new field joint at KP5.0. Since October 2022, several new FOC breaks have been identified between the shoreline and KP5.0. The OFTO has taken action to reduce the risk of a power core fault and is investigating what further actions are necessary. In line with Good Industry Practice, the OFTO holds the necessary spares to conduct a repair in the event of a fault.

With regards to the Stage 1 and Stage 2 SSEC3 repair operations that were undertaken in 2021 and 2022 respectively, the OFTO has submitted Income Adjusting Event (IAE) claims to Ofgem with the aim of recovering the costs incurred to the greatest extent possible.

Regarding the Stage 1 SSEC3 repair, which concluded in March 2021, an IAE Claim was submitted to Ofgem in June 2021. Following a positive Minded To decision in January 2022, the OFTO included recovery of these repair costs less a £3m deductible and certain disallowed costs in its 22/23 revenue submission. A positive final decision was published by Ofgem in July 2023, although as noted more fully in Note 2, this cost recovery has not yet been reflected in the OFTO's Income Statement as at 31 March 2023.

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

Liquidity risk
The Company adopts a prudent approach to liquidity management by maintaining sufficient liquid resources to meet its obligations. Due to the nature of the project, cash flows are reasonably predictable and so this is not a major risk area for the Company.

Interest rate risk
The financial risk management objective of the Company is to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. The senior secured loan has a fixed coupon rate which mitigates interest rate risk on borrowings.

Climate Change
Management has assessed the potential impact of climate change on the business and, in particular, on the ability of the Company to safely maintain asset availability in future years, and has determined that there is unlikely to be a material impact.

Economic Conditions
The Directors have considered the consequences to the Company of the current economic conditions, including the high rate of inflation, increasing energy costs and the impact of the war in Ukraine. As at the date of signing this report, this has not had a significant impact on the Company, and it is not currently anticipated that this will have a significant impact in the future. This is primarily due to the contractual nature of most of the Company's cash flows, including those which cover financing, which ensures that any inflationary changes to expenditure will be largely offset by equivalent changes to the Company's revenue.

Section 172 Companies Act 2006 Statement
The Directors have a duty to promote the success of the Company for the benefit of the shareholders as a whole and to describe how this duty has been performed with regard to those matters set out in Section 172 of the Companies Act 2006 ("Section 172").

The Directors have identified the Company's main stakeholders as the following:

- *The Company's shareholders, bondholders and credit providers*
  Principal considerations of the board are to ensure that the Company is meeting shareholder, credit provider and bondholder expectations regarding its ability to meet its financing obligations. These are discussed at all board meetings, which are held regularly throughout the year. The board regularly discusses the obligations under the financing contracts, and how to ensure these are fulfilled. The board also ensure that senior management communicate regularly with the credit providers to ensure their engagement is optimised and to keep them updated on matters as required.
- *Ofgem*
  The board recognises the importance of working in partnership with Ofgem to ensure compliance with the Licence. The Company fosters this partnership through regular meetings with representatives from Ofgem. The Company provides regular quarterly reporting to Ofgem on the availability of the transmission asset as required under the Licence. The board ensure that they are available should Ofgem wish to meet.
- *The O&M Service Provider*
  The board maintains a constructive relationship with the O&M service provider, EDS HV Limited. The Company has regular meetings with the O&M service provider which include discussions on performance, processes, future plans and key service delivery. The O&M service provider prepares reports to the Company which contains service provision information and relevant information about the performance of the contract which are reviewed by the Company's management.
- *The Professional Services Provider*
  The Company has outsourced the management of the Company to Balfour Beatty Investments Limited ("the PSA provider"). The delivery by the PSA provider of its services is fundamental to the long-term success of the Company. Regular reporting is provided to the Company by the staff seconded into the Company by the PSA provider. This includes their attendance at board meetings and through regular monthly reporting.

Throughout the year the board has given due consideration during its discussions and decision-making of the matters set out in Section 172 and below is a description of how the Directors have had regard to these matters when performing their duties:

a) *the likely consequences of any decision in the long term*
The communication and reporting provided to the Company ensures that the board is fully informed and able to make appropriate decisions.

b) *the interests of the Company's employees,*
The Company has no employees. The Company does, however, pay due regard to the interests and safety of those who perform services on its behalf.

c) *the need to foster the Company's business relationships with suppliers, customers and others*
The Company has policies and procedures in place to ensure that regular communication is maintained with all parties. The board is committed to ensuring that the underlying principles of the contracts are upheld by working in partnership with all parties to the arrangements. The directors ensure that the supply chain is managed effectively in order to ensure that the Company's obligations under the Licence can be upheld.

d) *the impact of the Company's operations on the community and the environment*
The Company is committed to minimising environmental disruption from its activities. The board upholds the Company's environmental values in all its activities and require all parties to the arrangement to do the same. The board recognises that the Company is a key partner in ensuring the transmission of electricity to the National Grid and encourages all of its supply chain and customers to consider and deliver Environmental, Social and Governance values and initiatives to achieve socially responsible investing.

e) *the desirability of the Company maintaining a reputation for high standards of business conduct*
The Company is committed in its day to day activities and dealings with all parties to uphold the highest standard of business conduct and integrity.

f) *the need to act fairly as between members of the Company*
The members of the Company are represented at board meetings by their appointed directors. Conflicts on matters to be discussed are identified at each meeting of the board. Any member of the executive committee representing a member with a conflict of interest may therefore be excluded from any discussion or vote in regard to it.

The Directors are cognisant of their duty under Section 172 in their deliberation as a board on all matters. Decisions made by the board consider the interest of all the Company's key stakeholders and reflect the board's belief that the long-term sustainable success of the Company is linked directly to its key stakeholders.

Future Developments
There has been no indication of any significant future developments in the business.

Approved by the Board on 28/07/2023 and signed on its behalf by:

....
B M Burgess
Director

Gwynt y Môr OFTO plc

Directors' Report for the Year Ended 31 March 2023

The Directors have pleasure in presenting their Annual Report and the financial statements for the year ended 31 March 2023.

The following information has been disclosed in the Strategic Report:

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

Results and Dividends
The audited financial statements for the year ended 31 March 2023 are set out on pages 37 to 69. The loss for the year after taxation was £1,102k (2022: loss of £13,373k).

The Directors do not propose to declare a dividend in respect of the year ended 31 March 2023 (2022: £Nil).

Share Capital
The issued share capital of the Company at 31 March 2023 was £ 50,999 consisting of 50,999 ordinary shares of £1 each.

Directors' of the Company
The Directors, who held office during the year, were as follows:

B M Burgess

P E Gill (Resigned 18 October 2022)

S Rooke

J L Sherman (appointed 18 October 2022)

B R Walker

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

Political donations
No political donations were made during the year (2022: £Nil).

Charitable donations
No charitable donations were made during the year (2022: £Nil).

Research and development
Expenditure on research and development activities was £Nil (2022: £Nil).

Employee involvement
The Company does not have any employees, and does not expect to engage any employees in the foreseeable future - see "The Company's Operating Model" in the Operating and Financial Review on page 3.

Creditor payment policy
The Company'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 Company at 31 March 2023 were equivalent to 120 day's (2022: 52 day's) purchases, based on the average daily amount invoiced by suppliers during the year.

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

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

Disclosure of information to the auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Reappointment of auditors
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 28/07/2023 and signed on its behalf by:

....
B M Burgess
Director

Gwynt y Môr OFTO plc

Corporate Governance Statement

The Company 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 Company is required to prepare.

As a subsidiary undertaking of Gwynt y Môr OFTO Holdings Limited ("GYMOHL") the Company operates within the corporate governance framework of GYMOHL and its Subsidiary undertakings ("the Group"). Consequently, an understanding of the Group's governance framework is required to understand the Company's position within that framework.

Appointments to the Board of Directors of GYMOHL and its Subsidiary undertakings are governed by a shareholders' agreement (the "Agreement") between the two shareholders of GYMOHL that jointly control this company 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 four Directors, with two Directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Group Company has a nomination committee and the performance of the Boards is not evaluated.

The Agreement ensures that Boards are balanced, with no one shareholder having majority representation, and allows the Group to draw on the respective financial and operational expertise of each of its shareholders. Accordingly, the Directors have the relevant expertise and experience, drawn from their involvement in a wide range of infrastructure companies, to define and to develop the strategy of the Company 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.

The Board of GYMOHL

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

Audit committee

The Company does not have an internal audit function or Audit Committee as the Directors have concluded that the cost of such functions would be disproportionate to the benefits. Duties normally fulfilled by an Audit Committee are fulfilled by the board and include the following:

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 Company, as the case may be;

b) reviewing the economy, efficiency and effectiveness of the Company'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 Company;

d) maintaining an appropriate relationship with the external auditor; and

e) ensuring that audit objectivity and independence is maintained.

The Company

Board and management meetings

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

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

Directors and their attendance at Company Board meetings

The Directors of the Company are as shown below. Board meetings were held on eight 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.

- B M Burgess - 6 of 6
- B R Walker - 5 of 6
- S Rooke - 5 of 6
- P E Gill - 3 of 4
- J L Sherman - 2 of 2

Compliance committee

The Company has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role 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 LLP as Compliance Officer. Henderson Loggie LLP is not engaged in the management or operation of the Company's Licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Boards of the Company at least once annually.

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

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

- P E Gill - 1 of 1
- S Rooke - 1 of 1

The compliance committee met in June 2023 to receive the compliance report for the year ended 31 March 2023 from the compliance officer and in turn produced a report approved by the Board.

B M Burgess replaced P E Gill as a member of the Compliance Committee during the year, following the resignation of P E Gill as Director.

Corporate Governance Statement (continued)

Compliance statement
The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from http://gymofto.co.uk) that addresses how the Company has addressed its Licence obligations.

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

The Company is also part of an HSE forum with some other offshore transmission operators to provide a mechanism for sharing and learning. The HSE Forum meets quarterly.

Approved by the Board on ...28/07/2023... and signed on its behalf by:

....
B M Burgess
Director

Gwynt y Môr OFTO plc

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors acknowledge their responsibilities 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair value of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report includes a fair value of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc

1 Our opinion is unmodified
We have audited the financial statements of Gwynt y Môr OFTO plc (the "Company") for the year ended 31 March 2023, which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter in arriving at our opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Carrying value of Transmission Owner asset
Risk vs 2022: ◄►
Refer to page 46 (accounting policy).

The risk
Impairment of Financial asset
The transmission owner asset has been recognised in accordance with the principles of IFRIC 12 and the carrying value of the asset represents the allocation of the estimated future transmission availability charges to the asset.

The carrying value of the financial asset is significant and at risk of impairment as it is dependent on estimated future cash flows of transmission availability charges and various costs to be incurred. As at 31 March 2023, the company held the transmission owner asset at £289m after recognising an impairment reversal of £nil (2022: £1m impairment loss).

The assessment of the carrying value of the transmission owner asset is subjective due to the inherent uncertainty involved in forecasting and discounting these future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value has a high degree of estimation uncertainty, with a potential outcome greater than our materiality for the financial statements as a whole.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc (continued)

Our response
We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

- **Comparing forecasts:** We challenged the appropriateness of cost estimates and assessed whether or not estimates showed any evidence of management bias. Our challenge was based upon our assessment of historical accuracy of the Company's forecasts, versus prior year forecast, comparison of forecast cost estimates in current year versus the prior year and expectations based on our knowledge of the Company and experience of the industry in which it operates.
- **Assessing transparency:** Assessed the adequacy of the company's disclosures in respect of the carrying value of transmission owner asset.

Our results
We found that the company's conclusion that the carrying value of the transmission owner asset was not impaired and the impairment reversal is acceptable.

We continue to perform procedures over Service Revenue Recognition. However, based on limited susceptibility of forecast assumptions to manipulation, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit
Materiality for the regulatory financial statements as a whole was set at £3,100k (2022: £3,433k) determined with reference to a benchmark of total assets, of which it represents 1% (2022: 1%).

We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the regulatory financial statements as a whole.

Performance materiality was set at 75% (2022: 75%) of materiality for the regulatory financial statements as a whole, which equates to £2,325k (2022: £2,575k). We applied this percentage in our determination of performance materiality because we did not identify any factors indicated an elevated level of risk.

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £155k (2022: £172k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level set out above and was performed remotely.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc (continued)

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources and/or metrics relevant to debt covenants over this period were:

- Potential service failure points by Gwynt y Mor Plc being accrued in excess of the allowable levels in the contract which would cause an event of default under the financing documents.

We also considered less predictable but realistic second order impacts, resulting in reduced financial resources to meet debt obligations, which would cause an event of default under the financing documents.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc (continued)

Our procedures also included:

- We critically assessed the Directors' going concern assessment, including the reasonableness of the key assumptions used by the company and Gwynt y Môr Intermediate (the intra-group related party) in their cash flow forecasts by considering our knowledge of the entity.
- We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations - ability to detect

Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud (fraud risks) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors and management as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for whistleblowing, as well as whether they have knowledge of any actual, suspected or alleged fraud; and
- Reading Board meeting minutes.
- Using analytic procedures to identify unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions. We did not identify any additional fraud risks.

We have not identified any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on criteria and comparing the identified entries to supporting documentation. These included but not limited to entries posted to unusual account combinations/seldom used accounts and post-closing entries.
- Assessing significant accounting estimates for bias.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and the Energy Act 2014. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to use or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc (continued)

6 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information, presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover those reports and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Corporate governance disclosures

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

We are also required to report to you if a corporate governance statement has not been prepared by the Company. We have nothing to report in these respects.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 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.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Gwynt y Môr OFTO plc (continued)

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 29, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

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

Dan Gibson

Dan Gibson (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

Date: 31 July 2023

Gwynt y Môr OFTO plc

Income Statement for the Year Ended 31 March 2023

	Note	2023 £ 000	2022 £ 000
Revenue	4	4,593	4,301
Other operating income	5	-	600
Other operating expenses		(2,741)	(21,567)
Operating profit/(loss)		**1,852**	**(16,666)**
Finance income	6	14,722	14,294
Finance costs	6	(16,718)	(14,502)
Loss before tax		**(144)**	**(16,874)**
Income tax (charge)/credit	10	(958)	3,501
Loss for the year		**(1,102)**	**(13,373)**

The above results were derived from continuing operations.

Gwynt y Môr OFTO plc

Statement of Comprehensive Income for the Year Ended 31 March 2023

	2023 £ 000	2022 £ 000
Loss for the year	(1,102)	(13,373)
Items that may be reclassified subsequently to profit or loss		
Unrealised loss on cash flow hedges before tax	(4,284)	(23,672)
Income tax effect	1,071	6,576
	(3,213)	(17,096)
Total comprehensive income for the year	**(4,315)**	**(30,469)**

The notes on pages 42 to 69 form an integral part of these financial statements.

Gwynt y Môr OFTO plc

(Registration number: 08796159)
Statement of Financial Position as at 31 March 2023

	Note	2023 £ 000	2022 £ 000
Assets			
Non-current assets			
Transmission owner asset	11	272,409	287,479
Deferred tax assets	10	14,267	14,154
		286,676	301,633
Current assets			
Transmission owner asset	11	16,585	11,493
Trade and other receivables	12	1,735	3,865
Cash and cash equivalents	13	18,543	28,420
		36,863	43,778
Total assets		**323,539**	**345,411**
Equity and liabilities			
Equity			
Share capital	14	(51)	(51)
Cash flow hedging reserve		29,190	25,977
Retained earnings		41,094	39,992
Total equity		70,233	65,918
Non-current liabilities			
Loans and borrowings	16	(317,650)	(333,639)
Derivative financial instruments	17	(38,920)	(34,636)
		(356,570)	(368,275)
Current liabilities			
Loans and borrowings	16	(22,450)	(22,556)
Trade and other payables	18	(14,752)	(20,498)
		(37,202)	(43,054)
Total liabilities		(393,772)	(411,329)
Total equity and liabilities		**(323,539)**	**(345,411)**

Approved by the Board on 28/07/2023 .... and signed on its behalf by:

....
B M Burgess
Director

The notes on pages 42 to 69 form an integral part of these financial statements.

Gwynt y Môr OFTO plc

Statement of Changes in Equity for the Year Ended 31 March 2023

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2021	51	(8,881)	(26,619)	(35,449)
Loss for the year	-	-	(13,373)	(13,373)
Other comprehensive income	-	(17,096)	-	(17,096)
At 31 March 2022	**51**	**(25,977)**	**(39,992)**	**(65,918)**

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2022	51	(25,977)	(39,992)	(65,918)
Loss for the year	-	-	(1,102)	(1,102)
Other comprehensive income	-	(3,213)	-	(3,213)
At 31 March 2023	**51**	**(29,190)**	**(41,094)**	**(70,233)**

Gwynt y Môr OFTO plc

Statement of Cash Flows for the Year Ended 31 March 2023

	2023 £ 000	2022 £ 000
Cash flows from operating activities		
Loss for the year	(1,102)	(13,373)
Adjustments to cash flows from non-cash items		
Finance income	(14,722)	(14,294)
Finance costs	16,718	14,502
Income tax expense	958	(3,501)
	1,852	(16,666)
Working capital adjustments		
Income recognised in respect of financial asset	24,128	28,926
Decrease/(increase) in trade and other receivables	2,130	(2,320)
(Decrease)/increase in trade and other payables	(5,748)	12,822
Net cash flow from operating activities	22,362	22,762
Cash flows from investing activities		
Interest received	571	8
Cash flows from financing activities		
Interest paid	(8,229)	(7,282)
Proceeds from bank borrowing draw downs	-	22,097
Repayment of senior debt	(24,531)	(14,967)
Other movement	(50)	(45)
Net cash flows from financing activities	(32,810)	(197)
Net (decrease)/increase in cash and cash equivalents	(9,877)	22,573
Cash and cash equivalents at 1 April	28,420	5,847
Cash and cash equivalents at 31 March	18,543	28,420

1 Accounting policies

Gwynt y Môr OFTO plc (company registration number: 08796159) is a company incorporated, domiciled and registered in the United Kingdom. The address of its registered office is: Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne, NE12 8BU.

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 United Kingdom. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for the accounting period, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000, unless otherwise stated.

The Company's immediate parent undertaking, Gwynt y Môr OFTO Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Gwynt y Môr OFTO Holdings Limited are available to the public and may be obtained from the address in note 24.

The Financial Statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

1 Accounting policies (continued)

Going concern

The Company's business activities, together with the factors likely to affect its future developments and position, are set out in the Operating and Financial Review, the Strategic Report and the Directors' Report.

The Company has net liabilities of £70,233k as at 31 March 2023 and generated a loss for the year then ended of £1,102k. The main reason for the net liability position is due to the current market value of the Inflation rate swap financial liability along with accumulated losses.

The Directors have prepared cash flow forecasts covering a period of 14 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The Company's operating cash inflows are largely dependent on transmission service receipts from National Grid Electricity Transmission plc ("NGET") in its capacity as National Electricity Transmission Systems Operator ("NETSO"). NETSO is a statutory role granted by the Secretary of State. The regulatory regime concerning the insolvency of the NETSO/NGET and the strength of the underlying covenant is governed by the Energy Act 2004. NGET's transmission licence contains certain conditions. These include:

- Prohibiting NGET from carrying on activities other than those permitted by its licence;
- Requiring that the business of NGET has sufficient managerial and financial resources available to it to conduct licenced activities;
- Requiring NGET to maintain an investment grade issuer credit rating;
- Prohibiting the creation of 'cross-default' obligations; and
- Prohibiting NGET from giving or receiving any cross-subsidy from any other group business.

The Directors expect transmission revenues to be received even in reasonably possible downside scenarios.

The Company continues to provide the asset in accordance with the Licence and has achieved availability levels in line with expectations. As a result, the Directors do not believe there is any likelihood of a material impact to its revenue stream.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, even in downside scenarios, due to the underlying contractual terms. However, in the unlikely event of a subcontractor failure, the Company has its own business continuity plans to ensure that service provision will continue.

1 Accounting policies (continued)

The Directors believe the Company has sufficient funding in place and expects the Company to be in compliance with its debt covenants even in downside scenarios.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Transmission availability arrangements

The Company 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 Company for transmission network availability is consistent with that interpretation.

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

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

A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12. The Transmission owner asset includes: the cost of acquiring the Transmission network asset from the constructor of the network; and those costs incurred that are directly attributable to the acquisition of the transmission network. Decommissioning costs will be a service provided at the end of the contract under the terms of the contract and were factored into the pricing of the contract, as such they have been treated as a revenue generating activity under IFRIC 12 and costs will therefore be recognised as incurred, as opposed to being under the scope of IAS 37. The Transmission Owner Asset has been classified as a financial asset.

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;
- as finance income;
- as operating income.

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.

1 Accounting policies (continued)

Revenue, operating and finance income

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

Operating income 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 Company's transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring the transmission assets on behalf of a 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 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. As permitted under IFRS 9, the effective interest rate has been recalculated to reflect the market movements in the retail price index. This recalculation will take place on an annual basis.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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 tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

1 Accounting policies (continued)

Financial instruments

Classification and measurement

Trade and other receivables are recognised initially at transaction price less attributable transaction costs. Trade and other payables are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any credit losses in the case of trade receivables.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Senior secured loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Subordinated debt is initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period.

Cash and cash equivalents comprise cash balances and call deposits.

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. 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.

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.

Impairment of financial 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.

1 Accounting policies (continued)

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

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.

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty
The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

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

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 Company has determined that the Transmission owner asset will be recovered over a period of 20 years from the date of Licence grant (11 February 2015) – being the principal period over which the Company is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

In circumstances where the estimated future cash flows applied to the carrying value of the Financial Asset is not expected to cover the current carrying value of the financial asset, the Company will recognise an impairment.

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 Company, the level of income attributed to finance income (see below) would be amended.

2 Critical accounting judgements and key sources of estimation uncertainty (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 Company, the level of income attributed to operating income (see above) would be amended.

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

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

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

The Company's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the Income Statement. As referred to above, the Company carries its derivative financial instruments in its 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 Company, but use observable market data in respect of RPI as an input to valuing those derivative financial instruments.

Income Adjusting Event recognition

As explained more fully in the Operating and Financial Review and Strategic Report, the OFTO has submitted Income Adjusting Event claims to Ofgem with the aim of recovering the costs incurred in the SSEC3 cable repairs occurring in 2021 and 2022.

With regards to the IAE Claim submitted following the initial SSEC3 repair completed in March 2021, a positive decision was published by Ofgem in July 2023. The claim amount awarded was £11,376k, which represents the repair costs claimed of £14,376k less a deductible of £3,000k. This recovery has not been reflected in the Income Statement at 31 March 2023 as Ofgem's decision is subject to challenge for three months from the date of publishing.

3 Operating segment

The Board of Directors is the Company's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment - electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities). The Company and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and cash flow statement on pages 37, 39 and 41 respectively. Additional notes relating to the Company and segment are shown in the notes to the financial statements on pages 42 to 69.

The electricity transmission operation of the Company 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 Bodelwyddan in Denbighshire, North Wales.

All of the Company's sales and operations take place in the UK and its territorial waters.

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

4 Revenue

	2023 £ 000	2022 £ 000
Revenue	4,593	4,301

Revenue relates primarily to the Company's activity as a provider of electricity transmission services to the Company's principal customer - NGET. The vast majority of the Company's income is derived from NGET.

5 Other operating income

The analysis of the Company's other operating income for the year is as follows:

	2023 £ 000	2022 £ 000
Effer Cranes Settlement	-	600

6 Finance income and costs

	2023 £ 000	2022 £ 000
Finance income		
Interest income on bank deposits	571	8
Finance income	14,151	14,286
Total finance income	14,722	14,294

6 Finance income and costs (continued)

	2023 £ 000	2022 £ 000
Finance costs		
Interest on subordinated debt	(8,420)	(7,667)
Interest on senior debt	(8,247)	(7,794)
Reversal of impairment/(impairment) of financial asset	-	1,006
Other finance costs	(51)	(47)
Total finance costs	(16,718)	(14,502)
Net finance costs	(1,996)	(208)

7 Staff costs

All staff costs are incurred by Balfour Beatty Investments Limited, which seconds its employees to the Company and charges related services costs. The Company had 0 employees during the current or prior year.

8 Directors' remuneration

The Directors received no material salary, fees, or other benefits in the performance of their duties in respect of the Company in the current or prior year.

9 Auditor's remuneration

Fees payable for the audit of these Financial Statements were £37k to KPMG LLP (2022: £32k). This represents fees payable for services in relation to engagements which are required to be carried out by the auditor.

Fees payable to the Company's auditor in respect of services in relation to engagements performed as per the Licence were £28k to KPMG LLP (2022: £24k).

10 Income tax

Tax charged/(credited) in the income statement

	2023 £ 000	2022 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	728	(2,173)
Arising from changes in tax rates and laws	230	(1,328)
Total deferred taxation	958	(3,501)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2022 - higher than the standard rate of corporation tax in the UK) of 19% (2022 - 19%).

The differences are reconciled below:

10 Income tax (continued)

	2023 £ 000	2022 £ 000
Loss before tax	(144)	(16,874)
Corporation tax at standard rate	(27)	(3,206)
Deferred tax expense (credit) relating to changes in tax rates or laws	230	(1,328)
Decrease (increase) from differences arising from changes in financial assets	755	1,033
Total tax charge/(credit)	958	(3,501)

The Company earns its results primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the current UK corporation tax rate of 19% (2022: 19%).

Deferred tax is measured at a tax rate of 25% in line with rates enacted by the Finance Act 2021 which was enacted on 24 May 2021, a rate change arises in the tax reconciliation due to this being calculated at 19%.

Amounts recognised in other comprehensive income

	2023 Tax (expense) benefit £ 000	2022 Tax (expense) benefit £ 000
Deferred Tax on unrealised cash flow hedges	1,071	6,576

Deferred tax

10 Income tax (continued)

Deferred tax movement during the year:

	At 1 April 2022 £ 000	Recognised in income statement £ 000	Recognised in other comprehensive income £ 000	At 31 March 2023 £ 000
Fair value losses on derivatives	8,659	-	1,071	9,730
Accelerated capital allowances	(2,117)	(912)	-	(3,029)
Tax losses carry-forwards	7,612	(46)	-	7,566
Net tax assets/(liabilities)	14,154	(958)	1,071	14,267

Deferred tax movement during the prior year:

	At 1 April 2021 £ 000	Recognised in income statement £ 000	Recognised in other comprehensive income £ 000	At 31 March 2022 £ 000
Fair value losses on derivatives	2,083	-	6,576	8,659
Accelerated capital allowances	(3,137)	1,020	-	(2,117)
Tax losses carry-forwards	5,131	2,481	-	7,612
Net tax assets/(liabilities)	4,077	3,501	6,576	14,154

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

The opening deferred tax balances in the financial statements were measured at 25%. For the year end 31 March 2023, a tax rate of 25% has been applied in line with rates enacted by the Finance Act 2021 which was enacted on 24 May 2021.

11 Transmission owner asset

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

	2023 £ 000	2022 £ 000
Opening balance	298,972	312,606
Other movements:		
Cash expenditure	3,684	3,376
Cash received	(27,813)	(32,302)
Reversal of impairment/(impairment)	-	1,006
Income recognised in the income statement:		
Interest income	14,151	14,286
At 31 March	288,994	298,972

	2023 £ 000	2022 £ 000
Amounts falling due within one year	16,585	11,493
Amounts falling due after more than one year	272,409	287,479
	288,994	298,972

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2023 was £301,048k (2022: £329,170k). The basis for estimating the fair value of the Transmission owner asset was to estimate the total net cash flows arising from the asset over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate of 5.65% per year (2022: 3.78% per year).

12 Trade and other receivables

	2023 £ 000	2022 £ 000
Trade Debtors	1,006	-
Prepayments and accrued income	729	3,865
	1,735	3,865

13 Cash and cash equivalents

Cash and cash equivalents include amounts of £17,907k (2022: £2,782k) that the Company can only use for specific purposes. The remaining cash and cash equivalents of £635k (2022: £25,638k) are held for general corporate purposes.

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

14 Share capital

Allotted, called up and fully paid shares

	2023		2022	
	No.	£	No.	£
Ordinary shares of £1 each	50,999	50,999	50,999	50,999

The Company has one class of Ordinary Share with a nominal value of £1 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 Company.

15 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share capital	Nominal value of share capital subscribed for.
Hedging reserve	The cash flow hedge reserve is used to record the portion of the gain or loss on a hedging instrument that is determined to be an effective hedge.
Profit and loss account	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

16 Loans and borrowings

	2023 £ 000	2022 £ 000
Current loans and borrowings		
Senior secured loans	17,124	15,756
PBCE principal	5,326	6,555
PBCE interest	-	245
	22,450	22,556

	2023 £ 000	2022 £ 000
Non-current loans and borrowings		
Senior secured loans	215,574	232,439
PBCE principal	7,997	15,542
Subordinated debt loans	45,592	45,592
Subordinated debt interest	48,487	40,066
	317,650	333,639

16 Loans and borrowings (continued)

The following table reconciles the movement of borrowings for the period ending 31 March 2023.

	£ 000
At 31 March 2022	356,193
Repayments	(24,531)
Interest accrued	16,667
Interest paid	(8,229)
At 31 March 2023	340,100

The fixed rate bonds under the commercial facility and PBCE facility drawn in the previous year comprise the senior secured loans, and are secured over all of the assets of the Company. The maturity date of the fixed rate bonds is February 2034 and the Coupon rate is 2.778%.

The PBCE facility was drawn in the previous year and the interest rate contained a fixed margin plus a variable element linked to LIBOR. This interest rate benchmark was discontinued on 31 December 2021 and, after this date, the facility was transitioned onto an alternate benchmark of the same fixed margin, plus SONIA plus CAS. This transition of the interest rate benchmark has been applied in these financial statements. The impact on the financial statements of the transition is not material.

The subordinated debt has been subscribed by the fellow subsidiary, Gwynt y Môr OFTO Intermediate Limited. The subordinated debt bears interest at 9.60% per annum and is repayable according to the borrowing agreement. All of the secured loan stock is classed as non-current as there are no payments of interest or principal expected within the next 12 months due to the terms under the agreement between the parties.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 20.

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 2023.

17 Derivative financial instruments

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

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 58.5%) of variable cash inflows arising from the operation of the Company's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 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.

17 Derivative financial instruments (continued)

Under the terms of the Licence, regulatory and other contractual agreements, the Company 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 increase in RPI over the previous 12-month period commencing from September to September. Where there is a reduction, or no increase, in the retail price index over the relevant period, then the charges remain unaltered from the previous year. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges. The vast majority of the Company's cash outflows relate to borrowings 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 Company can meet its obligations under the terms of its borrowing arrangements.

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

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The carrying value of all derivative financial liabilities at 31 March 2023 was £38,920k (2022: £34,636k). All of the movement in the fair value of these derivative instruments has been recorded in the cash flow hedge reserve amounting to loss of £3,213k net of deferred tax (2022: loss of £17,096k net of deferred tax).

The ineffective portion of the cash flow hedge recognised in the income statement was £Nil (2022: £Nil).

Further details regarding financial instruments and their related risks are given in notes 21 and 22.

18 Trade and other payables

	2023 £ 000	2022 £ 000
Trade payables	915	3,099
Accrued expenses	12,316	16,222
VAT payable	1,521	1,177
	14,752	20,498

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.

19 Reconciliation of liabilities arising from financing activities

	At 1 April 2021 £ 000	Financing cash flows £ 000	Fair value changes £ 000	Non-cash net interest £ 000	At 31 March 2022 £ 000
Cash and cash equivalents	5,847	22,570	-	-	28,417
Borrowings	(340,884)	151	-	(15,460)	(356,193)
Derivatives	(10,964)	-	(23,672)	-	(34,636)
	(346,001)	22,721	(23,672)	(15,460)	(362,412)

	At 1 April 2022 £ 000	Financing cash flows £ 000	Fair value changes £ 000	Non-cash net interest £ 000	At 31 March 2023 £ 000
Cash and cash equivalents	28,417	(9,874)	-	-	18,543
Borrowings	(356,193)	32,761	-	(16,668)	(340,100)
Derivatives	(34,636)	-	(4,284)	-	(38,920)
	(362,412)	22,887	(4,284)	(16,668)	(360,477)

20 Fair value measurement

The following is an analysis of the Company'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 Company's financial instruments have quoted prices. Consequently, the following techniques have been used to determine fair values as follows:

- Cash and cash equivalents - approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset - based on the net present value of total net discounted cash flows arising from the asset, using a discount rate of 5.65% (2022: 3.78%);
- Current borrowings - approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings - based on the net present value of net discounted cash flows, using a discount rate of 5.65% (2022: 3.78%);
- Derivative financial instruments - based on the net present value of discounted cash flows.

The discount rates above are derived by taking the expected yield from UK gilt treasury bonds with a similar maturity to the offshore transmission licence as at the year end date, with an additional risk factor applied.

The tables below compare the carrying value of the Company'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.

20 Fair value measurement (continued)

Assets - carrying value
2023

	Total £ 000
Transmission owner asset	272,409

Assets - carrying value
2022

	Total £ 000
Transmission owner asset	287,479

Assets - fair value
2023

	Level 3 £ 000
Transmission owner asset	285,174

Assets - fair value
2022

	Level 3 £ 000
Transmission owner asset	329,170

Liabilities - carrying value
2023

	Total £ 000
Senior secured loans	215,574
PBCE Facility	7,997
Subordinated debt	94,079
Derivative financial instruments	38,920
	356,570

Liabilities - carrying value
2022

	Total £ 000
Senior secured loans	232,439
PBCE Facility	15,542
Subordinated debt	85,658
Derivative financial instruments	34,636
	368,275

20 Fair value measurement (continued)

Liabilities - fair value
2023

	Level 2 £ 000	Level 3 £ 000
Senior secured loan	-	194,692
PBCE Facility	-	8,293
Subordinated debt	-	85,634
Derivative financial instruments	38,920	-
	38,920	288,619

Liabilities - fair value
2022

	Level 2 £ 000	Level 3 £ 000
Senior secured loans	-	241,111
PBCE Facility	-	23,194
Subordinated debt	-	80,234
Derivative financial instruments	34,636	-
	34,636	344,539

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

With the exception of the Transmission owner asset and borrowings, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Company's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data. RPI swaps have been valued by management by discounting future cash flows from the Company's financial model, with reference to bank valuations from two banks; Sumitomo Mitsui Banking Corporation ("SMBC") and The Bank of Tokyo-Mitsubishi UFJ Ltd ("MUFG"). A swap previously held with HSBC Bank Plc was novated to MUFG during the year, with identical terms.

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 non-current transmission asset has been valued at £285,174k using a discount rate of 5.65%. At a discount rate of 6.15%, the fair value of the asset is £278,997k and at a discount rate of 5.15% the fair value of the asset is £291,581k.

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.

21 Financial instruments

The Company's financial instruments are shown in the table below. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments be undertaken. The main risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk and inflation risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period. The Company has no foreign currency transactions. All of the Company's borrowings are denominated in sterling.

Financial assets

	Carried at amortised cost		Carried at fair value	
	2023 £ 000	2022 £ 000	2023 £ 000	2022 £ 000
Trade and other receivables	1,735	3,865	-	-
Financial asset	288,994	298,972	-	-
Cash and cash equivalents	18,543	28,420	-	-
	309,272	331,257	-	-

Financial liabilities

	Carried at amortised cost		Carried at fair value	
	2023 £ 000	2022 £ 000	2023 £ 000	2022 £ 000
Derivative financial instruments	-	-	38,920	34,636
Senior secured loan	232,698	248,195	-	-
PBCE Facility	13,323	22,342	-	-
Subordinated loan	94,079	85,658	-	-
Trade and other payables	14,752	20,498	-	-
	354,852	376,693	38,920	34,636

22 Financial risk management and impairment of financial assets

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

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

Market risk

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

The Company operates in the UK and has no significant exposure to foreign currency, and therefore this has an immaterial impact on market risk. Short-term financial assets and liabilities, such as trade receivables and payables, are not subject to market risk. Interest rate risk arises from the use of the 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. The cash flows arising from the Transmission owner financial asset fluctuate with positive changes in RPI. The Company has entered into a series of RPI swaps to significantly reduce this cash flow risk. 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.

The vast majority of the Company'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 Company's activities.

22 Financial risk management and impairment of financial assets (continued)

Credit risk

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

Credit risk primarily arises from the Company's normal commercial operations that actually, or potentially, arises from the Company's exposure to: a) NGET in respect of invoices submitted by the Company for transmission services; b) the counterparties to the RPI swaps; and c) short term deposits. There are no other significant credit exposures to which the Company is exposed. The maximum exposure to credit risk at 31 March 2023 is the fair value of all financial assets held by the Company. None of the Company's financial assets are past due or impaired.

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

Having considered the credit risks arising in respect of the exposures to NGET, as detailed above, the Directors consider that those risks are extremely low. At 31 March 2023 amounts due from NGET amounted to £Nil (2022: £Nil).

In respect of the counterparties to the cash flow derivative hedges (RPI swaps) these arrangements have been entered into with banks. At 31 March 2023, the fair values attributable to these positions were liabilities amounting to £38,920k (2022: £34,636k), and as a consequence there is no credit risk to the Company at this date.

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

22 Financial risk management and impairment of financial assets (continued)

Sensitivity analysis

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. 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, 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 Company has no substantive economic impact on the Company 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 Company, 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

	2023 £ 000	2022 £ 000
At fair value	38,920	34,636
RPI + 0.05%	39,417	35,248
RPI - 0.05%	38,422	34,023

RPI fair value sensitivity analysis only impacts equity and not profit and loss, on the assumption that the hedging relationship remains 100% effective, as per the latest financial model forecasts.

22 Financial risk management and impairment of financial assets (continued)

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

As a result of the regulatory environment under which the Company operates; the credit worthiness of the Company's principal customer NGET; and the RPI swaps that has been put in place, the cash inflows generated by the Company are highly predictable and stable. In addition, all of the Companies senior bonds effectively carries a fixed coupon, and based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is expected to generate over the whole period of the project. During the year ended 31 March 2023, senior debt service costs amounted to £32,760k (2022: £22,249k).

There is no contractual obligation for the Company to further service the subordinated debt until 31 March 2034 although it is the Company's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the subordinated debt amounted to £Nil (2022: £Nil).

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

At 31 March 2023, cash and cash equivalents included £17,907k (2021: £2,782k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £635k (2022: £25,638k) which are available for general corporate purposes.

The Company prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Company. These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use. It is the Company's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company'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 (2025).

22 Financial risk management and impairment of financial assets (continued)

During the year the Company has continued to meet its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Company will continue to do so for the foreseeable future. The Company has exceeded its financial covenants in relation to the obligations that it has to senior debt holders and the forecasts continue to support that these will continue to be exceeded. In addition, further liquidity is also available in the form of committed facilities, as referenced above. All of these factors have allowed the Directors to conclude that the Company 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 below 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 Company has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Company selects the shortest available interest calculation periods.

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

The numbers in the following tables have been included in the Company'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.

Maturity analysis

2023	Within 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	After more than 5 years £ 000	Total £ 000
Non-derivative financial assets:					
Transmission owner asset	31,133	29,718	94,584	249,621	405,056
Cash and cash equivalents	18,543	-	-	-	18,543
Non-derivative financial liabilities:					
Senior secured bonds	(23,538)	(22,833)	(68,753)	(160,927)	(276,051)
PBCE Facility	(6,128)	(6,769)	(1,670)	-	(14,567)
Subordinated debt	-	-	(15,641)	(121,895)	(137,536)
Trade and other non-interest bearing liabilities	(14,750)	-	-	-	(14,750)
Derivative financial liabilities:					
RPI Swaps	(1,771)	(2,427)	(8,211)	(20,775)	(33,184)
Net total	3,489	(2,311)	309	(53,976)	(52,489)

22 Financial risk management and impairment of financial assets (continued)

2022	Within 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	After more than 5 years £ 000	Total £ 000
Non-derivative financial assets:					
Transmission owner asset	24,598	31,183	88,731	266,767	411,279
Cash and cash equivalents	28,420	-	-	-	28,420
Non-derivative financial liabilities:					
Senior secured bonds	(22,617)	(23,538)	(66,986)	(226,901)	(340,042)
PBCE Facility	(8,034)	(7,730)	(8,888)	-	(24,652)
Subordinated debt	-	-	(5,714)	(79,944)	(85,658)
Trade and other non-interest bearing liabilities	(20,498)	-	-	-	(20,498)
Derivative financial liabilities:					
RPI Swaps	(61)	(137)	(911)	(5,517)	(6,626)
Net total	1,808	(222)	6,232	(45,595)	(37,777)

Capital risk management

The Company is funded by a combination of senior secured loans, 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.

All of the senior secured loans are serviced on a six monthly basis and are expected to amortise over the life of the project through to 2034. The total carrying value of the loans outstanding at 31 March 2023 amounted to £246,023k (2022: £270,535k). Cover ratios are managed by way of calculating any impact shareholder distributions may have on ratios prior to any distribution taking place.

Senior secured bonds is comprised of fixed bond credit enhanced by the European Investment Bank through the Project Bond Credit Enhancement Instrument ("PBCE") and carries an interest rate of 2.778% per annum. Amounts drawn under the PBCE facility carry an interest rate of SONIA plus a fixed spread and margin.

The subordinated debt ranks behind the senior secured loan and is issued by the Company to Gwynt y Môr OFTO Intermediate Limited. The subordinated debt was issued on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2023 the total principal value of the subordinated debt outstanding amounted to £45,592k (2022: £45,592k).

Ordinary equity share capital at the balance sheet date amounted to £51k (2022: £51k).

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

23 Related party transactions

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

Expenditure with and payables to related parties

	2023 £ 000
Gwynt y Môr OFTO Intermediate Limited - Interest	8,420
Balfour Beatty Investments Limited - Management Services	190
Equitix Transmission 2 Limited - Management Services	-
Balfour Beatty Utility Solutions Limited - O&M Services	174
	8,784

	2022 £ 000
Gwynt y Môr OFTO Intermediate Limited - Interest	7,667
Balfour Beatty Investments Limited - Management Services	271
Equitix Transmission 2 Limited - Management Services	-
Balfour Beatty Utility Solutions Limited - O&M Services	1,709
	9,647

Outstanding balances at 31 March:

	2023 £ 000
Gwynt y Môr OFTO Intermediate Limited - Borrowings payable	45,592
Gwynt y Môr OFTO Intermediate Limited - Interest accrual	48,487
Balfour Beatty Investments Limited - Management Services	594
Equitix Transmission 2 Limited - Management Services	339
Balfour Beatty Utility Solutions Limited - O&M Services	-
	95,012

	2022 £ 000
Gwynt y Môr OFTO Intermediate Limited - Borrowings payable	45,592
Gwynt y Môr OFTO Intermediate Limited - Interest accrual	40,066
Balfour Beatty Investments Limited - Management Services	351
Equitix Transmission 2 Limited - Management Services	230
Balfour Beatty Utility Solutions Limited - O&M Services	174
	86,413

23 Related party transactions (continued)

Borrowings from Gwynt y Môr OFTO Intermediate Limited were negotiated on normal commercial terms and are repayable in accordance with the terms of the subordinated debt agreement. Absent any non-compulsory repayment of the subordinated debt, the subordinated debt is contractually repayable on 16 February 2035.

Balfour Beatty Investments Limited ("BBI") was a related party of the Company during the year ended 31 March 2023 by virtue of it being a related party of Balfour Beatty OFTO Holdings Limited ("BBOHL") through to 31 March 2023. The services provided to the Company by BBI were under normal commercial terms and related to professional management and financial services as described in the Professional Service Agreement.

Equitix Transmission 2 Limited ("Equitix") was a related party of the Company during the year ended 31 March 2023 by virtue of it holding a 40% equity shareholding in Gwynt y Môr OFTO Holdings Limited through to 31 March 2023. The services provided to the Company 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 Company during the year ended 31 March 2023 by virtue of it being a related party in BBOHL through to 31 March 2023. The transactions with BBUS were under the terms agreed in the termination agreement in respect of the Operating and Maintenance Agreement.

No amounts have been provided at 31 March 2023 (2022: £Nil), and no expense was recognised during the year (2022: £Nil) in respect of bad or doubtful debts for any related party transactions.

24 Parent and ultimate parent undertaking

The Company's immediate parent is Gwynt y Môr OFTO Holdings Limited, which is incorporated in the United Kingdom and registered in England and Wales.

The ultimate parent companies and controlling parties are Balfour Beatty plc and Equitix Fund II LP which are incorporated in the United Kingdom and registered in England and Wales. Copies of the financial statements for Balfour Beatty Plc are available from the registered address; 5 Churchill Place, Canary Wharf, London, United Kingdom, E14 5HU. Copies of the financial statements for Equitix Fund II LP are available from the registered address; 3rd Floor (South), 200 Aldersgate Street, London, United Kingdom, EC1A 4HD.

Relationship between entity and parents

The parent of the largest and smallest group in which these financial statements are consolidated is Gwynt y Môr OFTO Holdings Limited.

The address of Gwynt y Môr OFTO Holdings Limited is:

Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne, NE12 8BU

25 Subsequent events

As at the date of the approval of these accounts, there were no material post balance sheet events arising after the reporting date.