

Registration number: 08796189

Gwynt y Môr OFTO Holdings Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 March 2022



Gwynt y Môr OFTO Holdings Limited

Contents

Company Information	1
Operating and Financial Review	2 to 20
Strategic Report	21 to 23
Directors' Report	24 to 25
Corporate Governance Statement	26 to 28
Statement of Directors' Responsibilities	29
Independent Auditor's Report to the Members of Gwynt y Môr OFTO Holdings Limited	30 to 33
Consolidated Income Statement	34
Consolidated Statement of Comprehensive Income	35
Consolidated Statement of Financial Position	36
Statement of Financial Position	37
Consolidated Statement of Changes in Equity	38
Statement of Changes in Equity	39
Consolidated Statement of Cash Flows	40
Notes to the Financial Statements	41 to 69

Gwynt y Môr OFTO Holdings Limited

Company Information

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Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review

Introduction

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

GOHL's subsidiary Gwynt y Môr OFTO plc (the "Subsidiary" and the "OFTO"), is a holder of an Offshore Electricity Transmission Licence (the "Licence") granted under the Electricity Act 1989. The licence was awarded to the Subsidiary on 11 February 2015 by The Gas and Electricity Markets Authority (the "Authority" and "Ofgem").

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

This Operating and financial review explains the operations of the Subsidiary and the main trends and factors underlying the development and performance of the Subsidiary during the period ended 31 March 2022, as well as those matters which are likely to affect its future development and performance. This is because the Subsidiary's activities and performance are the principal contribution to the Group's activities and performance.

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

Background

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

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

The Subsidiary's offshore electricity transmission system

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

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

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

The Subsidiary's long term business objectives

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

The Subsidiary's financial objective is to provide financial returns to shareholders consistent with, or in excess of, the business plan that supported its tender offer for the Gwynt y Môr offshore transmission system. The Subsidiary 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 Subsidiary's operating model

The Subsidiary'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 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 Subsidiary through a Professional Services Agreement ("PSA"). As part of its general asset management responsibilities BBI fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Subsidiary meets its Licence obligations and complies with good industry practice. The Subsidiary has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

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

The Subsidiary's approach to managing the business

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

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Subsidiary's assets and operations requires 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 Subsidiary enjoys benefits and is subject to a number of regulatory and contractual obligations arising from and including: the Licence; the Transmission Owner Construction Agreement ("TOCA") with NGET and the System Operator - Transmission Owner Code ("STC"). The Subsidiary's operations are also subject to a range of industry specific legal requirements.

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

Licence obligations

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

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

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Regulated revenue and incentives

The Licence awarded by the Authority to the Subsidiary determines how much the Subsidiary 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 Subsidiary with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Subsidiary's transmission system in any given calendar period versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of the Subsidiary's electricity transmission system (as determined by the Subsidiary's System Capability Statement) in any given charging period, or part thereof.

Transmission charges are based on the target transmission system availability of 98% (2021: 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 Subsidiary's "base revenue". For the avoidance of doubt, the Subsidiary's transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

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

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

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

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 Subsidiary'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 Subsidiary faces that affect the level of transmission system availability and therefore affect potential incentive credits and penalties. The principal risks associated with transmission system availability stem from the following:

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

As the end of the 20 year Licence period approaches the agreed regulatory formula relating to the Subsidiary's ability to collect credits as explained above changes. There is an acceleration of the Subsidiary's ability to collect such credits in its invoicing 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 Subsidiary's onshore electricity network and costs charged by the Authority associated with running the offshore transmission tender regime, the Subsidiary is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required.

Transmission system capability (capacity)

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

Under the terms of the TOCA with NGET, the Subsidiary provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for the period 1 April 2021 to 31 March 2022 was 576 MW (2021: 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 Subsidiary's actual transmission availability during any performance period - which in turn determines the Subsidiary's performance credits or penalties as described under "Regulated revenue and incentives" earlier in this Operating and Financial Review.

The Subsidiary has provided 87.62% transmission availability during the period 1 April 2021 to 31 March 2022 (2021: 94.16%) 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:

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

- Application of an export cap to export circuit 3 (SSEC3) reduced the capacity of this circuit to 52.8%, which reduced the overall availability by 13.2%. The cap was applied for 365 days.
- Repairs to a gas insulated bus-bar on the offshore platform West (OSPW). This required a short term planned outage of export circuit 4 (SSEC4) for 5 days, 3 hours and 32 minutes in April 2021. The overall availability was reduced by 25% by this outage.
- Repairs to supergrid transformer 1 (SGT1). This required a short term planned outage of SGT1 for 1 day, 5 hours and 1 minute in August 2021. The overall availability was reduced by 50% by this outage.
- The failure of a relay on offshore platform East (OSPE) in August resulted in an unplanned outage that lasted for 1 day, 18 hours and 59 minutes. The overall availability was reduced by 25% by this outage.
- The failure of a relay within the onshore substation in February resulted in an unplanned outage of export circuit 3 (SSEC3) that lasted for 1 day, 3 hours and 16 minutes. The overall availability was reduced by 25% by this outage.
- The Subsidiary will be submitting exceptional event claims to Ofgem to recover the revenue lost due to these outages and the SSEC3 export cap.

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

Transmission system quality of supply

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

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

Key performance indicators ("KPIs")

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

	2022 £ 000	2021 £ 000
Loss before tax		
Objective: To reduce loss / increase profit (1)		
Result: Achieved	(16,874)	(16,883)
Cash available for debt service: <i>Net cash inflow from operating activities plus net cash inflow from investing activities</i>		
Objective: To increase (2)		
Result: Achieved	<u>22,770</u>	<u>1,808</u>

(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 offshore transmission assets.

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

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%	Not achieved - 2022: 87.62% (2021: 94.16%).
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 - 2022 and 2021: 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 - 2022 and 2021: No health and safety accidents and fully compliant with NRW licence in both periods.

The Company's operational performance

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

Up until December Balfour Beatty Utility Solutions continued to deliver services in accordance with the O&M plan that has been accepted by the Lenders Technical Advisor (Mott MacDonald) and agreed with the Company. In December BBUS were replaced by EDS HV who put in place a very similar O&M plan based on the manufacturer's recommendations and supplemented by local knowledge of the EDS HV team.

Transmission system availability

In March 2015 export cable 1 (SSEC1) suffered a subsea cable fault, in September 2015 export cable 2 (SSEC2) suffered a cable fault. In both cases the root cause was believed to be damage done to the cables during manufacture. In October 2020, export cable 3 (SSEC3) suffered a subsea cable fault, in this case the root cause was identified to be a latent defect within the fibre optic cable. In each case the automatic system protection operated correctly to safely isolate the fault and ensure that none of the other circuit elements were affected.

In the lead up to the 2020 SSEC3 cable fault, the Company had identified a number of breaks in the fibre optic cables that extended over 4km. 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 and ordered a length of new cable sufficient to conduct a follow up repair in 2022 and to restock the Company's strategic spares holding.

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

- a) The Subsidiary is able to meet all debt repayments.
- b) There is a 10% revenue cap meaning revenue streams will remain.
- c) Income Adjusting Event and insurance recovery claims are in progress.

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

- d) Reserves fully funded before the cable breaks occurred ensuring adequate cash resources to meet repair costs.
- e) Backup of PBCE (Project Bond Credit Enhancement) facility which is a reserve facility that can be utilised and is 15% of the outstanding senior secured loan balance. On 7 May 2021, the Company obtained approval from the bondholders and the PBCE Provider, the European Investment Bank, to access these funds during a waiver period which runs to September 2022. The Company is permitted to access funds totalling £24.2m during that period, and on 7 June 2021 the Company drew down an initial £10.9m. A further drawdown was made on 31 March 2022 of £11.2m.

In the prior year, the Company incurred costs of £14,798k in relation to the 2020 SSEC3 cable fault. Insurance recovery and income adjusting event claims are in progress.

The performance of the Subsidiary's transmission system for the performance year to March 2022 was as tabulated below:

	Note	Performance Period	
		April 2021 to March 2022	April 2020 to March 2021
Maximum system availability (MWhrs)	(a)	5,028,240	5,028,240
Actual system availability (MWhrs)		4,405,495	4,734,556
Actual system availability (%)		87.62%	94.16%
Regulatory target system availability (%)		98%	98%
Availability credits/(penalties) (£)			
Net availability credits / (penalties) for the performance year commencing January 2021 (January 2020)		(1,780,983)	1,362,543
Net availability credits / (penalties) at 31 March 2022 (31 March 2021)	(b)	(1,780,983)	1,362,543

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

b) Net availability credits / (penalties) at 31 March 2022 relate to the year January to December 2021 - and will be received in the period April 2022 to March 2023 (at 31 March 2021 they relate to the year January to December 2020 and were paid in the period April 2021 to March 2022).

Quality of supply

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

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

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Health, safety and environmental performance

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

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

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 has provided the EA with all requested information and now awaits the result of the EA's report which will be sent to DeFRA. The Company has complied with the Marine licence obligations transferred under the Sale and Purchase Agreement ("SPA") by GYMOWFL when the transmission assets were acquired by the Company.

Stakeholder relationships

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

Principal risks and uncertainties

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

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

The Group's financial performance

Summary

The financial performance of the Subsidiary for the period ended 31 March 2022, and its financial position as at 31 March 2022, was satisfactory and is summarised below.

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

	2022 £ 000	2021 £ 000
Operating loss	(16,666)	(16,396)
Net finance income	(208)	(487)
Loss before tax	(16,874)	(16,883)
Taxation	3,501	2,644
Loss after taxation	(13,373)	(14,239)
	2022 £ 000	2021 £ 000
Net cash inflow from operating activities and other investing activities	22,770	1,808
Net cash flows used in financing activities	(197)	(22,771)
Net cash inflow/(outflow)	22,573	(20,963)

Revenue and finance income

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

Financial income for the year amounted to £14,286k (2021: £15,425k) 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 Subsidiary. A discussion of the accounting policies and critical accounting judgements adopted by the Group are disclosed in Note 1 and 2 respectively.

Revenue for the year amounted to £4,901k (2021: £5,589k) 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 Subsidiary.

Operating costs

Operating costs for the year amounted to £21,567k (2021: £21,985k).

Operating loss

Operating loss being the residual of operating income, other operating income and operating costs amounted to £16,666k (2021: loss of £16,396k).

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Other finance income

Other finance income of £8k (2021: £78k) relates solely to interest earned on bank deposits.

Finance costs

Finance costs amounted to £14,502k (2021: £15,990k). 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 £7,794k (2021: £7,950k) and holders of subordinated debt £7,667k (2021: £6,988k). Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset and as a result of the PBCE drawdowns made in the year.

Taxation

The net taxation on loss before taxation for the period is a credit of £3,501k (2021: credit of £2,644k) and relates solely to deferred taxation. There was no current taxation arising in the period (2021: £Nil) as the taxable profit was £Nil (2021: £Nil).

A taxation credit of £6,576k (2021: credit of £319k) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2022.

Loss after taxation

The loss for the period after taxation amounted to £13,373k (2021: loss of £14,239k).

Cash flows

Net cash flows generated by operations amounted to £22,762k (2021: £1,730k) primarily reflecting the amounts invoiced to and received from NGET in relation to the provision of transmission services from 1 April 2021 through to 31 March 2022 (2021: 1 April 2020 through to 31 March 2021) net of cash outflows relating to operating activities incurred during the period of operation from 1 April 2021 through to 31 March 2022, and drawdowns made in the year on the PBCE facility.

Net cash flows generated by investing activities amounted to £8k (2021: £78k).

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 £8k (2021: £78k) amounted to £22,770k (2021: £1,808k). Net cash generated outflow from financing activities amounted to £197k (2021: £22,771k).

Principal payments to senior debt holders during the year amounted to £14,967k (2021: £14,055k) and payments to service senior debt in the year amounted to £7,282k (2021: £7,678k).

Interest payments to subordinated debt holders during the year amounted to £Nil (2021: £996k).

No corporation tax was paid in the period, due to a taxable profit of £Nil (2021: £Nil) being made in the year.

No dividend was paid in the year (2021: £Nil).

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

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

Statement of Financial Position

The Group's Statement of Financial Position at 31 March 2022 is summarised below:

	2022	2021
	£ 000	£ 000
Assets		
Non-current assets		
Transmission owner asset	287,479	297,383
Deferred tax assets	14,154	4,077
	<u>301,633</u>	<u>301,460</u>
Current assets		
Transmission owner asset	11,493	15,223
Trade and other receivables	3,865	1,545
Cash and cash equivalents	28,420	5,847
	<u>43,778</u>	<u>22,615</u>
Total assets	<u>345,411</u>	<u>324,075</u>
Non-current liabilities		
Loans and borrowings	(333,639)	(325,917)
Derivative financial instruments	(34,636)	(10,964)
	<u>(368,275)</u>	<u>(336,881)</u>
Current liabilities		
Loans and borrowings	(22,556)	(14,967)
Trade and other payables	(20,498)	(7,676)
	<u>(43,054)</u>	<u>(22,643)</u>
Total liabilities	<u>(411,329)</u>	<u>(359,524)</u>

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Transmission owner asset and decommissioning

The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Gwynt y Môr offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Group. A discussion of the accounting policies and critical accounting judgements adopted by the Group 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 £8,583k, this remains management's best estimate of decommissioning costs as at 31 March 2022.

Deferred taxation

The Company has recognised a deferred tax asset of £5,495k (2021: £1,994k) 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 £8,659k (2021: £2,083k) relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2022.

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 2022 net debt stood at £362,411k (2021: £346,001k) and included £34,636k (2021: £10,964k) 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 Group 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 2022 amounted to £248,438k (2021: £262,894k) and the PBCE facility drawn at this date amounted to £22,097k (2021: £Nil). As detailed in note 17, on 7 May 2021, the Company obtained approval from the bondholders and the European Investment Bank, to access the PBCE funds during a waiver period which runs to September 2022. The Subsidiary is permitted to access funds totalling £24.2m during that period, and on 7 June 2021 and 31 March 2022 the Company drew down £10.9m and £11.2m respectively.

The senior secured loans 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 loan and is held by the Group's intermediate Subsidiary, Gwynt y Môr OFTO Intermediate Limited ("GYMOIL").

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

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 2022 the total principal carrying value of the subordinated loan outstanding amounted to £45,592k (2021: £45,592k).

Ordinary equity share capital amounted to £51k at 31 March 2022 (2021: £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 Subsidiary 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 Subsidiary over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under “Regulated revenue and incentives”. In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is considered to be very low. As at 31 March 2022 there were no sums outstanding from NGET and from 31 March to the date of this report all amounts due from NGET had been received on time.

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

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

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 Subsidiary is able to meet all debt repayments
- b) There is a 10% revenue cap meaning revenue streams will remain
- c) Insurance recovery and income adjusting claims are in progress
- d) Sufficient cash reserves
- e) Financial ratios are expected to remain above the default level, as per the financial covenants.

Gwynt y Môr OFTO Holdings Limited

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

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

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

The EIB has provided a letter of credit at a level of 15% of the senior secured loan outstanding which is £15,529k at 31 March 2021 as a form of subordinated credit enhancement instrument for the Subsidiary 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 Subsidiary that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. The rating agency carries out regular and periodic reviews of the rating. The Subsidiary has maintained an investment grade credit rating in respect of its senior debt consistent with its obligations under the licence.

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

It is the Directors' assessment, that having regards to the principal risks and uncertainties regarding cash flows, the creditworthiness of counterparties, the regulatory environment, the insurance arrangements and other matters that are discussed in this Operating and Financial Review, that there are reasonable grounds to believe that the rating agency will continue to confirm that the Subsidiary's 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 Subsidiary as prescribed by Moody's, which is Baa1 negative and remains investment grade.

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

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. 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 Subsidiary's transmission licence to allow the Subsidiary to increase its charges in respect of such expenditure. The Directors would expect that such additional expenditure would be capable of being funded based on the increased cash flows arising from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

Surplus funds

The Subsidiary 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 2022, the Subsidiary had £Nil (2021: £Nil) on deposit of which £Nil (2021: £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 £2,782k (2021: £5,806k) that the Subsidiary 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 Subsidiary has some variability of cash flows in relation to the interest it earns on its investments, as typically these investments are held in deposits with a typical maturity of six months or less and earn variable rates of interest. However, in the context of the other cash flows generated by the Subsidiary these amounts are insignificant.

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Hedging arrangements

General

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

RPI swaps

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

As previously described (see "Regulated revenue and incentives"), under the terms of the Licence, regulatory and other contractual agreements, the Subsidiary is permitted to charge its customer, NGET, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the 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 Subsidiary's transmission services (impacted by changes in actual RPI) in exchange for a known and predetermined stream of rising cash flows over the same period.

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

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

The carrying value of the RPI swaps liability at 31 March 2022 was £34,636k (2021: £10,964k). A corresponding entry has been recorded in other comprehensive income.

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Lending covenants and other restrictions

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

- 1) The Subsidiary is required to operate on the basis of a financial plan while the lending agreements are in place (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 Subsidiary 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 Subsidiary is permitted to operate and in addition, restrict the way in which those accounts should be operated - this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose;
- 4) The Subsidiary is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments it cannot exceed a specified gearing ratio;
- 5) The Subsidiary is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically this results in the Subsidiary investing in term deposits with maturities not exceeding six months;
- 6) The Subsidiary is required to maintain adequate insurances at all times;
- 7) The Subsidiary is required to meet all the conditions contained within the lending agreements before any servicing of the subordinated debt holders can take place or any distributions can be made to shareholders.

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

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

Gwynt y Môr OFTO Holdings Limited

Operating and Financial Review (continued)

Accounting policies

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

Presentation of financial statements

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

Financial Instruments

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

A discussion of critical accounting 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 Holdings Limited

Strategic Report for the Year Ended 31 March 2022

The Directors present their strategic report for the year ended 31 March 2022.

Principal activities and business review

A full description of the Group'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 34. The loss for the year after taxation was £13,373k (2021: loss of £14,239k).

The net liabilities position of the Group as at 31 March 2022 was £65,919k (2021: £35,449k). The financial position of the Group as at the year end is in-line with the Directors' expectations and as per the Statement of Financial Position on page 36.

The Subsidiary 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 Group 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 Group's activities in the next year.

Key Performance Indicators

The Group has set specific business objectives, which are monitored using key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below and in the Operating and financial review on page 7.

	2022 £ 000	2021 £ 000
Loss before tax	(16,874)	(16,883)
Cash available for debt service	<u>22,770</u>	<u>1,808</u>

Loss before tax in the year to 31 March 2022 is comparable to the previous year. The loss before tax in both years is primarily caused due to significant operating expenses incurred not marked up into the financial asset.

Cash available for debt service is defined as net cash inflow from operating activities plus net cash inflow from investing activities. There was an increase in cash available for debt service in 2022 compared with 2021 due to a drawdown of £22,097k of the PBCE facility.

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

Contractual relationships

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

Gwynt y Môr OFTO Holdings Limited

Strategic Report for the Year Ended 31 March 2022 (continued)

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

In February 2020 the OFTO discovered that both fibre optic cables (FOC) within the SSEC3 cable appeared broken. Further investigations identified further breaks in the main and spare FOC. On 15 October 2020, a power core fault occurred on SSEC3 about 1.3km from one of the known FOC breaks. The OFTO commissioned a repair that resolved the power core fault but did not remove the other known FOC breaks in the circuit. In addition, during the activities to repair this fault there was an uncontrolled lowering of the repaired cable onto the seabed, which caused the cable to exceed its minimum bend radius in several locations and to form a loop rising above the seabed. Neither this event, nor the fact that FOC faults remain in SSEC3 prevented SSEC3 being returned to service on 7 March 2021. The cable passed the required electrical tests and has remained in service following re-energisation. The OFTO imposed an export cap of 52.8% to reduce the risk of further cable failure which remained in place until 10 June 2022, at which point the cable was deactivated to facilitate a further repair that will restore long term performance to the circuit. This repair is in progress at the date of this report and the SSEC3 cable was put back into service at full capacity in July 2022.

Financial risks

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

Liquidity risk

The Group 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 Group.

Interest rate risk

The financial risk management objective of the Group 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.

Brexit

The Directors have considered the consequences to the Group of the United Kingdom having exited the European Union and, as at the date of signing the report, this has not had a significant impact on the Group and it is not anticipated that this will have a significant impact in the future. This is primarily because the Group's contractual agreements, including those which cover its financing, are unlikely to be affected.

COVID-19

The Directors have considered the potential impacts on the Group of the COVID-19 emergency and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Group's ability to continue as a going concern.

The Directors expect that NGET will continue to make payments in accordance with the Licence, and the cash flows of Gwynt y Môr OFTO plc, and therefore of the Group, are unlikely to be affected. Additionally, the Directors have considered the contingency plans that the Group's supply chain has in place and consider that, in conjunction with the government guidance and taking account of reasonably possible counterparty performance, this will enable services to be maintained.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Gwynt y Môr OFTO Holdings Limited

Strategic Report for the Year Ended 31 March 2022 (continued)

Climate Change

Management has assessed the potential impact of climate change on the business and, in particular, on the ability of the Group 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.

Future Developments

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

Approved by the Board on 29 July 2022 and signed on its behalf by:



.....
B M Burgess
Director

Gwynt y Môr OFTO Holdings Limited

Directors' Report for the Year Ended 31 March 2022

The Directors have pleasure in presenting their Annual Report and the consolidated financial statements for the year ended 31 March 2022.

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 2022 are set out on pages 34 to 69. The loss for the year after taxation was £13,373k (2021: loss of £14,239k).

The Directors do not propose to declare a dividend in respect of the year ended 31 March 2022 (2021: £Nil).

Share capital

The issued share capital of the Group at 31 March 2022 was £51,000 consisting of 51,000 ordinary shares of £1 each.

Directors' of the Group

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

B M Burgess

P E Gill

S Rooke

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 (2021: £Nil).

Charitable donations

No charitable donations were made during the year (2021: £Nil).

Employee involvement

The Group does not have any employees, and does not expect to engage any employees in the foreseeable future - see "The Group's Operating Model" in the Operating and financial review on page 3.

Research and development

Expenditure on research and development activities was £Nil (2021: £Nil).

Gwynt y Môr OFTO Holdings Limited

Directors' Report for the Year Ended 31 March 2022 (continued)

Creditor payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Group at 31 March 2022 were equivalent to 52 day's (2021: 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 Group has adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Group. More details of the Group's funding and liquidity position are provided in the Operating and financial review under the headings "Current funding structure" and "Going concern, liquidity and treasury management".

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

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

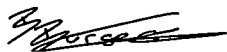
Disclosure of information to the auditor

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 Group'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 Group'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 ~~29 July 2022~~ and signed on its behalf by:



.....
B M Burgess
Director

Gwynt y Môr OFTO Holdings Limited

Corporate Governance Statement

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

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

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

The Board of GYMOHL

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

Audit committee

The Group does not have an internal audit function 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 Group, as the case may be;
- b) reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;
- c) reviewing and approving the internal control and risk management policies applicable to the Group;
- d) maintaining an appropriate relationship with the external auditor; and
- e) ensuring that audit objectivity and independence is maintained.

Gwynt y Môr OFTO Holdings Limited

Corporate Governance Statement (continued)

The Group

Board and management meetings

The Group 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 Group Board is responsible for monitoring the effectiveness of the day-to-day operation and management of the Group's regulated transmission business.

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

Directors and their attendance at Group Board meetings

The Directors of the Group are as shown below. Board meetings were held on 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 - 7 of 8
- B R Walker - 7 of 8
- S Rooke - 8 of 8
- P E Gill - 6 of 8

Compliance committee

The Group has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role to fulfil the compliance requirements of the Licence, without executive functions, with powers of information, assessment, and presentations to the Board. Following consultation with the Gas and Electricity Markets Authority, on 17 December 2015 the Board appointed Henderson Loggie LLP as Compliance Officer. Henderson Loggie LLP is not engaged in the management or operation of the Group's Licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Boards of the Group at least once annually.

The principal role of the Compliance Officer is to provide relevant advice and information to Directors of the Group, the compliance committee and consultants and other third parties providing services to the Group. 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 Group 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 - 2 of 2
- S Rooke - 2 of 2

The compliance committee met in June 2022 to receive the compliance report for the year ended 31 March 2022 from the compliance officer and in turn produced a report approved by the Board.

Compliance statement

The Group 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 Group has addressed its Licence obligations.

Gwynt y Môr OFTO Holdings Limited

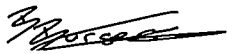
Corporate Governance Statement (continued)

Health, Safety and Environment

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

The Group 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 ~~29 July 2022~~ and signed on its behalf by:



.....
B M Burgess
Director

Gwynt y Môr OFTO Holdings Limited

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

The Directors acknowledge their responsibilities for preparing the Annual Report, Strategic Report, the Directors' Report and the group and parent company 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 Group 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 Group'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 Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and to prevent and detect fraud and other irregularities.

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.

Gwynt y Môr OFTO Holdings Limited

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

Opinion

We have audited the financial statements of Gwynt y Môr OFTO Holdings Limited (the "Company") for the year ended 31 March 2022, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Financial Position, Consolidated Statement of Changes in Equity, Statement of Changes in Equity, Consolidated Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

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 group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and 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 their 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").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

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 Group or the Company's ability to continue as a going concern for the going concern period.

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 Group or the Company will continue in operation.

Gwynt y Môr OFTO Holdings Limited

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

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 and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, 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 and the risk of bias in accounting estimates and judgements such as cash flow assumptions in the operating model.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk 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.

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 statements items.

Gwynt y Môr OFTO Holdings Limited

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

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 2004. 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.

Other information

The Directors are responsible for the other information, which comprises the Strategic Report, the Directors' Report and Operational and financial review. Our opinion on the financial statements does not cover the other information 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. Based solely on that work:

- we have not identified material misstatements in the Directors' report;
- in our opinion the information given in the Strategic Report and the Directors' Report 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.

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

We have nothing to report in these respects.

Gwynt y Môr OFTO Holdings Limited

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

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 and for 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 Group and Parent 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 Group or the Parent 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.

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

Date: 29 July 2022

Gwynt y Môr OFTO Holdings Limited

Consolidated Income Statement for the Year Ended 31 March 2022

	Note	2022 £ 000	2021 £ 000
Revenue	4	4,301	5,589
Other operating income	5	600	-
Other operating expenses		<u>(21,567)</u>	<u>(21,985)</u>
Operating loss		(16,666)	(16,396)
Finance income	6	14,294	15,503
Finance costs	6	<u>(14,502)</u>	<u>(15,990)</u>
Loss before tax		(16,874)	(16,883)
Income tax receipt	10	<u>3,501</u>	<u>2,644</u>
Loss for the year		<u>(13,373)</u>	<u>(14,239)</u>

The above results were derived from continuing operations.

Gwynt y Môr OFTO Holdings Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2022

	2022 £ 000	2021 £ 000
Loss for the year	<u>(13,373)</u>	<u>(14,239)</u>
Items that may be reclassified subsequently to profit or loss		
Unrealised loss on cash flow hedges before tax	(23,672)	(1,679)
Income tax effect	<u>6,576</u>	<u>319</u>
	<u>(17,096)</u>	<u>(1,360)</u>
Total comprehensive income for the year	<u>(30,469)</u>	<u>(15,599)</u>

The notes on pages 41 to 69 form an integral part of these financial statements.

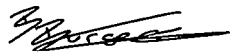
Gwynt y Môr OFTO Holdings Limited

(Registration number: 08796189)

Consolidated Statement of Financial Position as at 31 March 2022

	Note	2022 £ 000	2021 £ 000
Assets			
Non-current assets			
Transmission owner asset	12	287,479	297,383
Deferred tax assets	10	<u>14,154</u>	<u>4,077</u>
		<u>301,633</u>	<u>301,460</u>
Current assets			
Transmission owner asset	12	11,493	15,223
Trade and other receivables	13	3,865	1,545
Cash and cash equivalents	14	<u>28,420</u>	<u>5,847</u>
		<u>43,778</u>	<u>22,615</u>
Total assets		<u>345,411</u>	<u>324,075</u>
Equity and liabilities			
Equity			
Share capital	15	(51)	(51)
Cash flow hedging reserve		25,977	8,881
Retained earnings		<u>39,992</u>	<u>26,619</u>
Total equity		<u>65,918</u>	<u>35,449</u>
Non-current liabilities			
Loans and borrowings	17	(333,639)	(325,917)
Derivative financial instruments	18	<u>(34,636)</u>	<u>(10,964)</u>
		<u>(368,275)</u>	<u>(336,881)</u>
Current liabilities			
Loans and borrowings	17	(22,556)	(14,967)
Trade and other payables	19	<u>(20,498)</u>	<u>(7,676)</u>
		<u>(43,054)</u>	<u>(22,643)</u>
Total liabilities		<u>(411,329)</u>	<u>(359,524)</u>
Total equity and liabilities		<u>(345,411)</u>	<u>(324,075)</u>

Approved by the Board on ~~29 July 2022~~ and signed on its behalf by:



.....
B M Burgess
Director

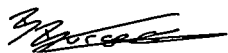
Gwynt y Môr OFTO Holdings Limited

(Registration number: 08796189)

Statement of Financial Position as at 31 March 2022

	Note	2022 £ 000	2021 £ 000
Assets			
Non-current assets			
Investments	11	<u>51</u>	<u>51</u>
Equity and liabilities			
Equity			
Share capital	15	(51)	(51)
Retained earnings		<u>-</u>	<u>-</u>
Total equity		<u>(51)</u>	<u>(51)</u>
Total equity and liabilities		<u>(51)</u>	<u>(51)</u>

Approved by the Board on 29 July 2022 and signed on its behalf by:



.....
B M Burgess
Director

Gwynt y Môr OFTO Holdings Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2020	51	(7,521)	(12,380)	(19,850)
Loss for the year	-	-	(14,239)	(14,239)
Other comprehensive income	-	(1,360)	-	(1,360)
At 31 March 2021	51	(8,881)	(26,619)	(35,449)
	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)

The notes on pages 41 to 69 form an integral part of these financial statements.

Gwynt y Môr OFTO Holdings Limited

Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2020	51	-	51
Profit/(loss) for the year	-	-	-
At 31 March 2021	51	-	51
	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2021	51	-	51
Profit/(loss) for the year	-	-	-
At 31 March 2022	51	-	51

Gwynt y Môr OFTO Holdings Limited

Consolidated Statement of Cash Flows for the Year Ended 31 March 2022

	2022 £ 000	2021 £ 000
Cash flows from operating activities		
Loss for the year	(13,373)	(14,239)
Adjustments to cash flows from non-cash items		
Finance income	(14,294)	(15,503)
Finance costs	14,502	15,990
Income tax expense	(3,501)	(2,644)
	(16,666)	(16,396)
Working capital adjustments		
Income recognised in respect of financial asset	28,926	21,845
Increase in trade and other receivables	(2,320)	(1,063)
Increase/(decrease) in trade and other payables	12,822	(2,656)
Net cash flow from operating activities	22,762	1,730
Cash flows from investing activities		
Interest received	8	78
Cash flows from financing activities		
Interest paid	(7,282)	(8,674)
Proceeds from bank borrowing draw downs	22,097	-
Repayment of senior debt	(14,967)	(14,055)
Other movement	(45)	(42)
Net cash flows from financing activities	(197)	(22,771)
Net increase/(decrease) in cash and cash equivalents	22,573	(20,963)
Cash and cash equivalents at 1 April	5,847	26,810
Cash and cash equivalents at 31 March	28,420	5,847

The notes on pages 41 to 69 form an integral part of these financial statements.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022

1 Accounting policies

Gwynt y Môr OFTO Holdings Limited (company registration number: 08796189) 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 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.

Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March 2022.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

No Income Statement is presented for the Parent Company, as permitted by section 408 of the Companies Act 2006. The Parent Company recorded a result for both financial years of £Nil.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

Going concern

The Group'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 Group has net liabilities of £65,918k as at 31 March 2022 and generated a loss for the year then ended of £13,373k. 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 at least 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides including the impact of COVID-19, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period and to operate within the covenants on its external borrowings.

Specifically, the directors have considered if, in modelled severe but plausible downside scenarios, the level of operational performance of the Group would lead to cash outflows and/or service failure points being awarded against the Group in accordance with the terms of The Group's contract with National grid transmission plc sufficient to cause an event of default under the terms of the Group's external borrowings. To date, taking into account the effect of COVID-19 and other performance issues including historic cable failures the cashflow forecasts indicate that, even in downside scenarios, the Group will be able to meet its liabilities as they fall due.

Consequently, the Directors are confident that the Group and 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 Group'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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

The Directors expect transmission revenues to be received even in reasonably possible downside scenarios. Throughout the COVID-19 pandemic NGET has continued to pay for the transmission services in full and in a timely manner.

The Group 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 Group, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Group has its own business continuity plans to ensure that service provision will continue.

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.

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

Consequently, the Directors are confident that the Group and 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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

Transmission availability arrangements

The Group 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 Group 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 Group 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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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 Group, that being revenue associated with the provision of transmission availability services and consequently, are presented as separate line items within the Income Statement before other costs and net interest costs.

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

Finance income 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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment. The carrying values of these investments are reviewed annually by the Directors to determine whether there has been any impairment to their values.

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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

1 Accounting policies (continued)

Hedge accounting

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

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

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

2 Critical accounting judgements and key sources of estimation uncertainty

Judgements

In the application of the Group'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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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 Group 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 Group 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 Group 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 Group will recognise an impairment. In the prior year, the financial asset was impaired by £1,006k, this has been reversed in the current year.

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

Finance income

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

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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

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

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

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

The Group's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the Income Statement. As referred to above, the Group carries its derivative financial instruments in its Statement of Financial Position at fair value. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by a third party that is independent of the Group, but use observable market data in respect of RPI as an input to valuing those derivative financial instruments.

3 Operating segment

The Board of Directors is the Group's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment - electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities). The Group and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and cash flow statement on pages 34, 36 and 40 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 41 to 69.

The electricity transmission operation of the Group 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 Bodolwyddan in Denbighshire, North Wales.

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

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

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

4 Revenue

	2022 £ 000	2021 £ 000
Revenue	<u>4,301</u>	<u>5,589</u>

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

5 Other operating income

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

	2022 £ 000	2021 £ 000
Effer Cranes Settlement	<u>600</u>	<u>-</u>

6 Finance income and costs

	2022 £ 000	2021 £ 000
Finance income		
Interest income on bank deposits	8	78
Finance income	<u>14,286</u>	<u>15,425</u>
Total finance income	<u>14,294</u>	<u>15,503</u>
Finance costs		
Interest on subordinated debt	(7,667)	(6,988)
Interest on senior debt	(7,794)	(7,950)
Reversal of impairment/(impairment) of financial asset	1,006	(1,006)
Other finance costs	<u>(47)</u>	<u>(46)</u>
Total finance costs	<u>(14,502)</u>	<u>(15,990)</u>
Net finance costs	<u>(208)</u>	<u>(487)</u>

7 Staff costs

All staff costs are incurred by Balfour Beatty Investments Limited, which second its employees to the Group and charges related services costs. The Group 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 Group in the current or prior year.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

9 Auditor's remuneration

Fees payable for the audit of the Group Financial Statements were £37k to KPMG LLP (2021: £24k). This represents fees payable for services in relation to engagements which are required to be carried out by the auditor.

Fees payable to the Group's auditor in respect of services in relation to engagements performed as per the Licence were £24k to KPMG LLP (2021: £15k).

10 Income tax

Tax charged/(credited) in the income statement

	2022 £ 000	2021 £ 000
Deferred taxation		
Arising from origination and reversal of temporary differences	(2,173)	(2,646)
Arising from changes in tax rates and laws	(1,328)	-
Arising from recognised temporary differences from a prior period	-	2
Total deferred taxation	<u>(3,501)</u>	<u>(2,644)</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021: higher than the standard rate of corporation tax in the UK) of 19% (2021: 19%).

The differences are reconciled below:

	2022 £ 000	2021 £ 000
Loss before tax	<u>(16,874)</u>	<u>(16,883)</u>
Corporation tax at standard rate	(3,206)	(3,208)
Deferred tax expense (credit) on financial asset movement	1,033	562
Deferred tax expense (credit) relating to changes in tax rates or laws	(1,328)	-
Deferred tax expense (credit) from recognised temporary difference from a prior period	-	2
Total tax credit	<u>(3,501)</u>	<u>(2,644)</u>

The Group 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% (2021: 19%).

For the year end 31 March 2022, a corporation tax rate of 19% has been applied in line with rates enacted by the Finance Act 2020 which was enacted on 22 July 2020.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

10 Income tax (continued)

Amounts recognised in other comprehensive income

	2022 Tax (expense) benefit £ 000	2021 Tax (expense) benefit £ 000
Deferred Tax on unrealised cash flow hedges	6,576	319

Deferred tax

Group

Deferred tax movement during the 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

Deferred tax movement during the prior year:

	At 1 April 2020 £ 000	Recognised in income statement £ 000	Recognised in other comprehensive income £ 000	At 31 March 2021 £ 000
Fair value losses on derivatives	1,764	-	319	2,083
Accelerated capital allowances	(3,925)	788	-	(3,137)
Tax losses carry-forwards	3,275	1,856	-	5,131
Net tax assets/(liabilities)	1,114	2,644	319	4,077

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 19%. For the year end 31 March 2022, 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. This gives rise to a credit to the profit and loss account of £1,328k and a credit to the SOCIE of £2,078k.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

11 Investments

Summary of the Company investments

	2022 £ 000	2021 £ 000
Investments in subsidiaries	51	51

Group subsidiaries

Details of the Group subsidiaries as at 31 March 2022 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2022	2021
Gwynt y Môr OFTO plc	Concession Company	Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne, NE12 8BU	100%	100%
Gwynt y Môr OFTO Intermediate Limited	Financing Company	Q14 Quorum Business Park, Benton Lane, Newcastle upon Tyne, NE12 8BU	100%	100%

12 Transmission owner asset

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

	2022 £ 000	2021 £ 000
Opening balance	312,606	320,036
<u>Other movements:</u>		
Cash expenditure	3,376	4,672
Cash received	(32,302)	(26,521)
Impairment	1,006	(1,006)
<u>Income recognised in the income statement:</u>		
Interest income	14,286	15,425
At 31 March	298,972	312,606

	Group	
	2022 £ 000	2021 £ 000
Amounts falling due within one year	11,493	15,223
Amounts falling due after more than one year	287,479	297,383
	298,972	312,606

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

12 Transmission owner asset (continued)

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2022 was £329,170k (2021: £354,884k). 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 3.78% per year (2021: 3.16% per year).

13 Trade and other receivables

	Group	
	2022	2021
	£ 000	£ 000
Prepayments and accrued income	3,865	1,545

14 Cash and cash equivalents

Cash and cash equivalents include amounts of £2,782k (2021: £5,806k) that the Group can only use for specific purposes. The remaining cash and cash equivalents of £25,638k (2021: £41k) are held for general corporate purposes.

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

15 Share capital

Allotted, called up and fully paid shares

	2022		2021	
	No.	£	No.	£
Ordinary shares of £1 each	51,000	51,000	51,000	51,000

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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

16 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.

17 Loans and borrowings

	Group	
	2022	2021
	£ 000	£ 000
Current loans and borrowings		
Senior secured loans	15,756	14,967
PBCE principal	6,555	-
PBCE interest	245	-
	<u>22,556</u>	<u>14,967</u>
	Group	
	2022	2021
	£ 000	£ 000
Non-current loans and borrowings		
Senior secured loans	232,439	247,927
PBCE principal	15,542	-
Subordinated debt loans	45,592	45,592
Subordinated debt interest	40,066	32,398
	<u>333,639</u>	<u>325,917</u>

The following table reconciles the movement of borrowings for the period ending 31 March 2022.

	£ 000
At 31 March 2021	340,884
Drawdowns	22,097
Repayments	(14,967)
Interest accrued	15,461
Interest paid	<u>(7,282)</u>
At 31 March 2022	<u>356,193</u>

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

17 Loans and borrowings (continued)

The fixed rate bonds under the commercial facility and PBCE facility drawn in the 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 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 shareholders. The subordinated debt bears interest at 9.60% per annum and is repayable in instalments between 2034 and 2035. 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 21.

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 2022.

18 Derivative financial instruments

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

RPI swaps

The Group 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 Group'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 Group entered into these derivative arrangements on 17 February 2015 with a forward start date for the calculation of the relevant rates commencing on 17 February 2015 and ending on 17 February 2034.

Under the terms of the Licence, regulatory and other contractual agreements, the Group 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 Group's risk management objective and strategy for undertaking these hedges. The vast majority of the Group's cash outflows relate to borrowings that carry a fixed coupon so that both the principal repayments, and coupon payments are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Group can meet its obligations under the terms of its borrowing arrangements.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

18 Derivative financial instruments (continued)

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

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments are carried at fair value. The carrying value of all derivative financial liabilities at 31 March 2022 was £34,636k (2021: £10,964k). 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 £17,096k net of deferred tax (2021: loss of £1,360k net of deferred tax).

The ineffective portion of the cash flow hedge recognised in the income statement was £Nil (2021: £Nil).

Further details regarding financial instruments and their related risks are given in notes 22 and 23.

19 Trade and other payables

	Group	
	2022	2021
	£ 000	£ 000
Trade payables	3,099	3,195
Accrued expenses	16,222	3,910
VAT payable	1,177	571
	20,498	7,676

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.

20 Reconciliation of liabilities arising from financing activities

Group	At 1 April	Financing	Fair	Non-cash	At 31
	2020	cash	value	net	March
	£ 000	flows	changes	interest	2021
	£ 000	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	26,810	(20,963)	-	-	5,847
Borrowings	(348,675)	14,055	-	(6,264)	(340,884)
Derivatives	(9,285)	-	(1,679)	-	(10,964)
	(331,150)	(6,908)	(1,679)	(6,264)	(346,001)

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

20 Reconciliation of liabilities arising from financing activities (continued)

	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)
	<u>(346,001)</u>	<u>22,721</u>	<u>(23,672)</u>	<u>(15,460)</u>	<u>(362,412)</u>

21 Fair value measurement

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

- Cash and cash equivalents - approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset - based on the net present value of total net discounted cash flows arising from the asset, using a discount rate of 3.78% (2021: 3.16%);
- 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 3.78% (2021: 3.16%);
- 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 Group's financial instruments with the fair value of those instruments at the Statement of Financial Position date, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value because the carrying value approximates to fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

Assets measured - carrying value 2022

	Total £ 000
Transmission owner asset	<u>287,479</u>

Assets measured - carrying value 2021

	Total £ 000
Transmission owner asset	<u>297,383</u>

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

21 Fair value measurement (continued)

**Assets - fair value
2022**

	Level 3 £ 000
Transmission owner asset	329,170

**Assets - fair value
2021**

	Level 3 £ 000
Transmission owner asset	354,884

**Liabilities - carrying value
2022**

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

**Liabilities - carrying value
2021**

	Total £ 000
Senior secured loans	247,927
Subordinated debt	77,990
Derivative financial instruments	10,964
	<u>336,881</u>

**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	-
	<u>34,636</u>	<u>344,539</u>

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

21 Fair value measurement (continued)

Liabilities - fair value 2021

	Level 2 £ 000	Level 3 £ 000
Senior secured loans	-	263,667
Subordinated debt	-	110,791
Derivative financial instruments	10,964	-
	<u>10,964</u>	<u>374,458</u>

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

With the exception of the Transmission owner asset 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 Group's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data. RPI swaps have been valued by management by discounting future cash flows from the Group's financial model, with reference to bank valuations from three banks; Sumitomo Mitsui Banking Corporation ("SMBC"), HSBC, and The Bank Of Tokyo-Mitsubishi UFJ Ltd. Management have benchmarked the individual bank valuations against each other to verify the valuations.

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

The Transmission asset has been valued using a discount rate of 3.78%. At a discount rate of 4.28% the fair value of the asset is £341,847k and at a discount rate of 3.28% the fair value of the asset is £364,975k.

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.

22 Financial instruments

The Group's financial instruments are shown in the table below. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments be undertaken. The main risks arising from the Group'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 Group has no foreign currency transactions. All the Group's borrowings are denominated in sterling.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

22 Financial instruments (continued)

Group

Financial assets

	Carried at amortised cost		Carried at fair value	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Trade and other receivables	3,865	1,545	-	-
Financial asset	298,972	312,606	-	-
Cash and cash equivalents	28,420	5,847	-	-
	<u>331,257</u>	<u>319,998</u>	<u>-</u>	<u>-</u>

Financial liabilities

	Carried at amortised cost		Carried at fair value	
	2022	2021	2022	2021
	£ 000	£ 000	£ 000	£ 000
Derivative financial instruments	-	-	34,636	10,964
Senior secured loan	248,195	262,894	-	-
PBCE Facility	22,342	-	-	-
Subordinated loan	85,658	77,990	-	-
Trade and other payables	20,498	7,676	-	-
	<u>376,693</u>	<u>348,560</u>	<u>34,636</u>	<u>10,964</u>

23 Financial risk management and impairment of financial assets

Group

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

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

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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

Market risk

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

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

All 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 Group's activities.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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

Credit risk

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

Credit risk primarily arises from the Group's normal commercial operations that actually, or potentially, arises from the Group's exposure to: a) NGET in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps; and c) short term deposits. There are no other significant credit exposures to which the Group is exposed. The maximum exposure to credit risk at 31 March 2022 is the fair value of all financial assets held by the Group. None of the Group's financial assets are past due or impaired.

NGET is the Group's principal customer and income derived from NGET represents the vast majority of the Group's income. NGET operates a low risk monopoly business within the UK, and the regulatory regime under which they operate results in a highly predictable, and stable, revenue stream. The regulatory regime is managed by The Authority and is considered by the Directors to have a well-defined regulatory framework, which is classified as a predictable and a supportive regime by the major rating agencies. NGET has an obligation to maintain an investment grade credit rating, which it has currently maintained. It is also subject to a regulatory financial 'ring fence' that restricts NGET's ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges. Even in the very unlikely circumstance of NGET's insolvency, it is probable that any amounts outstanding would still be recovered. This arises because NGET is also a 'protected energy 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 2022 amounts due from NGET amounted to £Nil (2021: £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 2022, the fair values attributable to these positions were liabilities amounting to £34,636k (2021: £10,964k), and as a consequence there is no credit risk to the Group at this date.

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

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

23 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 Group has no substantive economic impact on the Group because of the corresponding economic impact on the underlying derivative financial instruments it is hedging.

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

Swap liability fair value sensitivity

	2022 £ 000	2021 £ 000
At fair value	34,636	10,964
RPI + 0.05%	35,248	11,644
RPI - 0.05%	<u>34,023</u>	<u>10,283</u>

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.

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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

Liquidity risk

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

As a result of the regulatory environment under which the Group operates; the credit worthiness of the Group's principal customer (NGET); and the RPI swaps that has been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, all of the Group's senior debt effectively carries a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole period of the project. During the year ended 31 March 2022, senior debt service costs amounted to £22,249k (2021: £21,733k).

There is no contractual obligation for the Group to further service the subordinated debt until 31 March 2034 although it is the Group's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the subordinated debt amounted to £Nil (2021: £996k).

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

At 31 March 2022, cash and cash equivalents included £2,782k (2021: £5,806k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £25,638k (2021: £41k) which are available for general corporate purposes.

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

Future costs are potentially at risk due to the cost of decommissioning. To mitigate this risk a Decommissioning Reserve Account has been opened and will start to be funded from year 11 (2025).

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

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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

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

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

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

Maturity analysis

	Within 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	After more than 5 years £ 000	Total £ 000
2022					
<u>Non-derivative financial assets:</u>					
Transmission owner asset	24,598	31,183	88,731	266,767	411,279
Cash and cash equivalents	28,420	-	-	-	28,420
<u>Non-derivative financial liabilities:</u>					
Senior secured loan	(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)
<u>Derivative financial liabilities:</u>					
RPI Swaps	(61)	(137)	(911)	(5,517)	(6,626)
Net total	<u>1,808</u>	<u>(222)</u>	<u>6,232</u>	<u>(45,595)</u>	<u>(37,777)</u>

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

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

	Within 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	After more than 5 years £ 000	Total £ 000
2021					
<u>Non-derivative financial assets:</u>					
Transmission owner asset	28,473	27,013	85,977	293,454	434,917
Cash and cash equivalents	5,847	-	-	-	5,847
<u>Non-derivative financial liabilities:</u>					
Senior secured loan	(22,249)	(22,617)	(68,270)	(207,781)	(320,917)
Subordinated debt	-	-	(2,234)	(157,355)	(159,589)
Trade and other non-interest bearing liabilities	(7,676)	-	-	-	(7,676)
<u>Derivative financial liabilities:</u>					
RPI Swaps	302	239	300	(2,949)	(2,108)
Net total	<u>4,697</u>	<u>4,635</u>	<u>15,773</u>	<u>(74,631)</u>	<u>(49,526)</u>

Capital risk management

Capital components

The Group 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.

Senior secured loans are 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. All of the senior secured loans are serviced on a six monthly basis and is expected to amortise over the life of the project through to 2034. The total carrying value of the loans outstanding at 31 March 2022 amounted to £270,535k (2021: £262,894k). Cover ratios are managed by way of calculating any impact shareholder distributions may have on ratios prior to any distribution taking place.

The subordinated debt ranks behind the senior secured loan and is issued by 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 2022 the total principal value of the subordinated debt outstanding amounted to £45,592k (2021: £45,592k).

Ordinary equity share capital at the balance sheet date amounted to £51k (2021: £51k).

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

24 Related party transactions

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

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

24 Related party transactions (continued)

Expenditure with and payables to related parties

	2022 £ 000
Balfour Beatty OFTO Holdings Limited - Interest	4,600
Equitix Transmission 2 Limited - Interest	3,067
Balfour Beatty Investments Limited - Management services	271
Equitix Transmission 2 Limited - Management Services	-
Balfour Beatty Utility Solutions Limited - O&M Services	1,709
	<u>9,647</u>
	2021 £ 000
Balfour Beatty OFTO Holdings Limited - Interest	4,193
Equitix Transmission 2 Limited - Interest	2,795
Balfour Beatty Investments Limited - Management Services	249
Equitix Transmission 2 Limited - Management Services	102
Balfour Beatty Utility Solutions Limited - O&M Services	2,094
	<u>9,433</u>

Outstanding balances at 31 March:

	2022 £ 000
Balfour Beatty OFTO Holdings Limited - Borrowings payable	27,355
Equitix Transmission 2 Limited - Borrowings payable	18,237
Balfour Beatty OFTO Holdings Limited - Interest accrual	24,040
Equitix Transmission 2 Limited - Interest accrual	16,026
Balfour Beatty Investments Limited - Management Services	351
Equitix Transmission 2 Limited - Management Services	230
Balfour Beatty Utility Solutions Limited - O&M Services	174
	<u>86,413</u>
	2021 £ 000
Balfour Beatty OFTO Holdings Limited - Borrowings payable	27,355
Equitix Transmission 2 Limited - Borrowings payable	18,237
Balfour Beatty OFTO Holdings Limited - Interest accrual	19,439
Equitix Transmission 2 Limited - Interest accrual	12,959
Balfour Beatty Investments Limited - Management services	226
Equitix Transmission 2 Limited - Management Services	127
Balfour Beatty Utility Solutions Limited - O&M services	630
	<u>78,973</u>

Gwynt y Môr OFTO Holdings Limited

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

24 Related party transactions (continued)

Borrowings from Balfour Beatty OFTO Holdings Limited and Equitix Transmission 2 Limited were negotiated on normal commercial terms and are repayable in accordance with the terms of the subordinated debt agreement. Repayments of interest were made during the previous year. 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 Group during the year ended 31 March 2022 by virtue of it being a related party of Balfour Beatty OFTO Holdings Limited ("BBOHL") through to 31 March 2022. The services provided to the Group by BBI were under normal commercial terms and related to professional management and financial services as described in the professional service agreement.

Equitix Transmission 2 Limited ("Equitix") was a related party of the Group during the year ended 31 March 2022 by virtue of it holding a 40% equity shareholding in Gwynt y Môr Holdings Limited through to 31 March 2022 through to 31 March 2022. The services provided to the Group by Equitix were under normal commercial terms and related to professional management and financial services.

Balfour Beatty Utility Solutions Limited ("BBUS") was a related party of the Group during the year ended 31 March 2022 by virtue of it being a related party in BBOHL through to 31 March 2022. The services provided to the Group by BBUS were under normal commercial terms and related to operator services as detailed in the Operating and Maintenance Agreement.

No amounts have been provided at 31 March 2022 (2021: £Nil), and no expense was recognised during the year (2021: £Nil) in respect of bad or doubtful debts for any related party transactions.

25 Parent and ultimate parent undertaking

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.

This is the largest and smallest Group in which the results are consolidated.

26 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.