

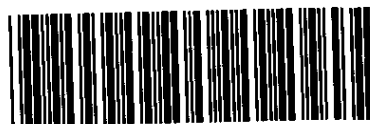
BLUE TRANSMISSION

**Blue Transmission Walney 2 (Holdings)
Limited**

Annual Report and Financial Statements 2018/19

Registered in England and Wales. Company number: 07795885

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Blue Transmission Walney 2 (Holdings) Limited

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Blue Transmission Walney 2 (Holdings) Limited

Company Information

The board of directors	Matthew Edwards Graham Farley Matthew Pitts Gary Thornton Tomoyuki Okuda	(appointed 28 November 2018) (resigned 28 November 2018)
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Company secretary	Infrastructure Managers Limited
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Registered office	Cannon Place 78 Cannon Street London EC4N 6AF
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Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Level 4 Atria One 144 Morrison Street Edinburgh EH3 8EX
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Blue Transmission Walney 2 (Holdings) Limited

Strategic Report

For the year ended 31 March 2019

The Directors present the strategic report of the Company for the year ended 31 March 2019.

Principal objectives

The principal objective of the Company is that of a holding company.

The Company holds 100% of the ordinary shares of Blue Transmission Walney 2 Limited ("BTW2"), its sole subsidiary undertaking. In addition, it holds an investment in unsecured loan notes issued by BTW2 which are described further under "Returns from Subsidiary Undertaking" in the Directors' report.

Review of the Business

The Company's sole expense comprises the interest expense on the loan notes it has issued to Blue Transmission Investments which are described further under "Returns from Subsidiary Undertaking" in the Directors' report.

Future Developments

The Directors intend for the business to continue to operate in line with the contractual terms and do not expect any strategic changes.

Key Performance Indicators

Key performance indicators are considered inappropriate for this Company. The performance of the Company's sole subsidiary BTW2 from a cash perspective is assessed on a quarterly basis by the testing of the covenants of the senior debt providers, the key indicator being the debt service cover ratio. The subsidiary and has been compliant with the covenants laid out in the loan agreements.

Principal Risks and Uncertainties

The principal financial risks and uncertainties of the Company arise from the performance of its Subsidiary undertaking, BTW2. The Company can only service its loan obligations and pay dividends to its parent undertaking if BTW2 continues to service its loan obligations and pay dividends to the Company.

Approved on behalf of the Board



Matthew Pitts

Director

26 June 2019

Blue Transmission Walney 2 (Holdings) Limited

Directors' Report

For the year ended 31 March 2019

Country of Registration and Principal Activity

The Company is registered in England and Wales and its principal activity is as a holding company.

The principal activity of BTW2, the Company's sole subsidiary undertaking, is to provide an electricity transmission service to the electricity system operator for Great Britain. BTW2 owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore distribution system operated by Electricity North West ("ENW").

The Company's Financial Position

The profit attributable to equity shareholders for the year amounted to £3,067k (2018: £3,142k).

The Company's income for the year ended 31 March 2019 relates to the interest that was received and receivable in respect of the loan notes held in BTW2 and returns from the equity investment in BTW2.

The Company's sole expense comprises the interest expense on the loan notes it has issued to Blue Transmission Walney 2 Investments Limited ("BTW2I") – see "Parent undertaking" below.

During the year dividends of £3,067k were distributed (2018: £3,142k). Particulars of dividends distributed are detailed in note 4 to the financial statements.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed within Company Information on page 1.

Directors' and Officers' liability insurance cover is arranged.

Qualifying third party indemnity provisions

The Company has made qualifying third-party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Parent undertaking

The Company is a wholly owned subsidiary undertaking of BTW2I which is incorporated in Jersey. The ultimate parent undertaking is Blue Transmission Investments Limited (BTI). BTI is also incorporated in Jersey.

The Company has issued unsecured loan notes to BTW2I in amounts and on terms that are identical to those unsecured loan notes issued to the Company by BTW2. A description of the unsecured loan notes issued by BTW2 are described below under "Returns from Subsidiary Undertaking".

Returns from Subsidiary Undertaking

On 3 October 2012, BTW2 Limited issued £17,325k unsecured 9.9% Loan Notes 2032 to the Company. During the year ended 31 March 2019, the Company recognised interest income of £1,730k (2018: 1,726k). The principal amount outstanding at 31 March 2019 was £17,948k (2018: £17,925k) and is included within "Investments in Subsidiary Undertaking" in the balance sheet. The Company recognised dividends received amounting to £3,067k during the year (2018: £3,142k).

Blue Transmission Walney 2 (Holdings) Limited

Directors' Report (continued)

For the year ended 31 March 2019

Donations and research and development

No charitable or political donations were made during the year (2018: £nil) and expenditure on research and development activities was £nil (2018: £nil).

Financial instruments

With the exception of the Company's equity and loan investments in BTW2, the loan liability to its parent undertaking and any interest due to its parent undertaking, or due from BTW2, the Company has no other financial instruments.

Going concern

Having made enquiries, the Directors consider that the Company has adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company.

Future developments

The Directors expect the Company to continue its activities as a holding company for the foreseeable future.

Employee involvement

The Company does not have any employees, and does not expect to engage any employees in the foreseeable future.

Audit information

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

Cash flow statement

No cash flow statement is presented for the year ended 31 March 2019 (2018: none), as no cash flows have been paid or received by the Company.

Approved on behalf of the Board



Matthew Pitts

Director

26 June 2019

Blue Transmission Walney 2 (Holdings) Limited
Cannon Place
78 Cannon Street
London
EC4N 6AF

Blue Transmission Walney 2 (Holdings) Limited

Statement of Directors' Responsibilities

For the year ended 31 March 2019

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

In accordance with Section 418 of the Companies Act 2006, Directors' Report shall include a statement, in the case of each Director in office at the date the Directors' Report is approved, that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved on behalf of the Board



Matthew Pitts
Director
26 June 2019

Independent Auditors' Report to the members of Blue Transmission Walney 2 (Holdings) Limited

For the year ended 31 March 2019

Report on the audit of the financial statements

Opinion

In our opinion, Blue Transmission Walney 2 (Holdings) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2019; the income statement, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent Auditors' Report to the members of Blue Transmission Walney 2 (Holdings) Limited (continued)

For the year ended 31 March 2019

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Director's Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Independent Auditors' Report to the members of Blue Transmission Walney 2 (Holdings) Limited (continued)

For the year ended 31 March 2019

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Mark Hoskyns-Abraham (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
26 June 2019

Blue Transmission Walney 2 (Holdings) Limited

Accounting policies

For the year ended 31 March 2019

A. Basis of preparation of financial statements under IFRS

These financial statements have been prepared on a going concern basis and in accordance with EU endorsed International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRS IC) and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared using consistent accounting policies updated, where necessary, to ensure that the accounting policies adopted reflect all IFRS accounting standards that have been endorsed by the EU and any related interpretations issued by the IFRS IC that are mandatory for the year ended 31 March 2019. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

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

The Company is exempt from preparing group financial statements as it and its subsidiary are included by consolidation in the Group financial statements of Blue Transmission Investments Limited.

B. Investments in Subsidiary Undertaking

The investments in Subsidiary Undertaking comprise the Company's investments in the ordinary shares and loan receivables due from its subsidiary undertaking. These investments are financial instruments and are classified as 'Investments in Subsidiary Undertaking'.

Applicable from 1 April 2018

The loan receivable is recognised at amortised cost, using the effective interest rate method, less any appropriate allowances for estimated irrecoverable amounts.

The Company investment in the ordinary shares of its subsidiary undertaking is measured at the lower of their carrying amount and fair value less costs to sell.

Following the implementation IFRS 9, the Company recognises impairment by calculating the expected credit losses (where applicable) using one of the following two approaches:

- For assets where the credit risk has not significantly changed since initial recognition, a credit loss allowance is calculated by assessing the credit risk for the next twelve months.
- For assets where the credit risk has significantly changed since initial recognition, a credit loss allowance is calculated by assessing the lifetime credit risk.

Credit risk allowances are recognised directly in the income statement.

Blue Transmission Walney 2 (Holdings) Limited

Accounting policies (continued)

For the year ended 31 March 2019

B. Investments in Subsidiary Undertaking (continued)

Applicable up to 31 March 2018

The Company investment in the ordinary shares of its subsidiary undertaking is carried at cost less any appropriate allowance for impairment.

A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the terms of the loan will not be collected or where there are indications of impairment in the case of the investment in the ordinary shares of the subsidiary undertaking. Indications that the loan receivable may become irrecoverable or that the investment in the ordinary shares of the subsidiary undertaking would be impaired would include financial difficulties of the subsidiary undertaking, likelihood of the subsidiary undertaking's insolvency, and default or significant failure of payment under the loan agreement.

C. Borrowing

Borrowing, which comprise loan notes issued to the Company's parent undertaking, are initially recorded at the net proceeds received. Subsequently the borrowing is stated at amortised cost, using the effective interest rate method.

D. Interest income and expense

Interest income receivable and interest expense payable are recognised in the balance sheet and income statement in accordance with the terms of the contractual arrangements.

E. Income taxation

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

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

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

Blue Transmission Walney 2 (Holdings) Limited

Accounting policies (continued)

For the year ended 31 March 2019

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

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

i) Investments in Subsidiary Undertaking

The carrying value of the investments in Subsidiary Undertaking at 31 March 2019 are recorded in the Company's balance sheet at amortised cost less any expected credit loss. The Company has to determine whether there is an expected credit loss by considering the probability of default. If the investments in Subsidiary Undertaking are considered low credit risk at the reporting date, IFRS 9 allows a 12 month expected credit loss to be recognised. However if not low risk, then a lifetime expected credit loss is recognised. The expected credit loss is derived using an external rating of the subsidiary and applying a default rate published by an external ratings agency.

G. Accounting developments

i) Accounting standards as applied to these financial statements

In preparing these financial statements the Company has complied with IFRS, International Accounting Standards (IAS) and Interpretations applicable either for accounting periods starting by 1 April 2018 or ending by 31 March 2019 and have been endorsed by the EU. No new accounting standards, amendments to standards or interpretations that have been issued and endorsed by the EU and are applicable to these financial statements for the first time have had any significant effect on the measurement of assets and/or liabilities or any of the disclosures included herein.

ii) New accounting standards, amendments to standards and interpretations issued but not effective in these unaudited financial statements

New accounting standards, amendments to standards and interpretations which have been issued but which are not effective in these financial statements are not expected to have any material impact on the financial statements of the Company.

H. Cash flow statement

No cash flow statement is presented for the year ended 31 March 2019 (2018: none), as no cash flows have been paid or received by the Company.

Blue Transmission Walney 2 (Holdings) Limited

Income statement

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Income from shares in group undertaking		3,067	3,142
Interest income	2	1,730	1,726
Interest expense	2	(1,730)	(1,726)
Profit on ordinary activities before taxation		3,067	3,142
Taxation on profit on ordinary activities	3	-	-
Profit attributable to equity shareholders		3,067	3,142

The notes on pages 15 to 18 form part of these financial statements.

The results reported above relate to continuing operations.

The Company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of comprehensive income has been presented.

Blue Transmission Walney 2 (Holdings) Limited

Balance sheet

As at 31 March 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investments in Subsidiary Undertaking	5	<u>18,123</u>	<u>18,100</u>
Total non-current assets		18,123	18,100
Current assets			
Amounts owed by Subsidiary Undertaking		<u>814</u>	<u>813</u>
Total current assets		814	813
Total assets		18,937	18,913
Current liabilities			
Amounts owed to parent undertaking		<u>(814)</u>	<u>(813)</u>
Total current liabilities		(814)	(813)
Non-current liabilities			
Borrowing	6	<u>(17,948)</u>	<u>(17,925)</u>
Total non-current liabilities		(17,948)	(17,925)
Total liabilities		(18,762)	(18,738)
Net assets		175	175
Equity			
Called up share capital	7	175	175
Retained earnings	9	<u>-</u>	<u>-</u>
Total equity		175	175

Company number: 07795885

The financial statements set out on pages 9 to 18 were approved by the Board of Directors on 26 June 2019 and were signed on its behalf by:



Matthew Pitts
Director

Blue Transmission Walney 2 (Holdings) Limited

Statement of changes in equity

For the year ended 31 March 2019

	Note	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017		175	-	175
Profit attributable to equity shareholders		-	3,142	3,142
Dividend distributions	4	-	(3,142)	(3,142)
At 31 March 2018		<u>175</u>	<u>-</u>	<u>175</u>
Profit attributable to equity shareholders		-	3,067	3,067
Dividend distributions	4	-	(3,067)	(3,067)
At 31 March 2019		<u>175</u>	<u>-</u>	<u>175</u>

Blue Transmission Walney 2 (Holdings) Limited

Notes to the financial statements

For the year ended 31 March 2019

1. Profit attributable to equity shareholders

Auditors' remuneration is borne by the subsidiary undertaking.

The Directors did not receive any remuneration from the Company during the year (2018: £nil).

There were no employees in the year (2018: None).

2. Net interest expense

Net interest expense is as tabulated below:

	2019 £'000	2018 £'000
Interest income		
Interest on loan notes held in Subsidiary Undertaking	<u>1,730</u>	<u>1,726</u>
	1,730	1,726
Interest expense		
Interest on loan notes due to parent undertaking	<u>(1,730)</u>	<u>(1,726)</u>
	(1,730)	(1,726)
Net interest expense	<u>-</u>	<u>-</u>

3. Taxation on profit on ordinary activities

The taxation charge differs from (2018: differs from) the main rate of corporation tax in the UK of 19% (2018: 19%) for the reasons outlined below:

	2019 £'000	2018 £'000
Profit on ordinary activities before taxation	<u>3,067</u>	<u>3,142</u>
Taxation at 19% (2018: 19%) on profit before taxation	583	597
Effects of:		
- income not chargeable for tax purposes	<u>(583)</u>	<u>(597)</u>
Taxation charge for the year	<u>-</u>	<u>-</u>

Blue Transmission Walney 2 (Holdings) Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

4. Dividends

Equity Dividends

	2019 £'000	2018 £'000
Interim dividends	<u>3,067</u>	<u>3,142</u>

Interim ordinary dividends of £17.53 per ordinary share were distributed during the year (2018: £17.96) to the Company's immediate parent undertaking Blue Transmission Walney 2 Investments Limited ("BTW2I").

On 25 May 2019, the Board approved the distribution of an interim dividend of £4.92 per ordinary share amounting to £861,000. This dividend is not recognised in the financial statements for the year ended 31 March 2019 in accordance with IFRS.

5. Investments in Subsidiary Undertaking

	2019 £'000	2018 £'000
Cost at 1 April	18,100	18,100
Repayments	-	-
Capitalised interest	23	-
Cost at 31 March	<u>18,123</u>	<u>18,100</u>

The investments held at 31 March 2019 comprise: £175k (2018: £175k) in all of the ordinary share capital of BTW2; and £17,948k (2018: £17,925k) in respect of unsecured 9.9% Loan Notes 2032.

The principal activity of Blue Transmission Walney 2 Limited (BTW2) is to provide an electricity transmission service to the electricity system operator of Great Britain.

The results of BTW2 for the year ended 31 March 2019 and the capital & reserves at 31 March 2019 were as follows:

	2019 £'000	2018 £'000
Profit attributable to equity shareholders for the year	4,224	2,170
Capital and Reserves	(2,229)	(2,492)

The registered office of BTW2 is Cannon Place, 78 Cannon Street, London, EC4N 6AF.

Blue Transmission Walney 2 (Holdings) Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

6. Borrowing

The following table analyses the Company's borrowing:

	2019 £'000	2018 £'000
Non-current		
Amounts owed to parent undertaking	<u>17,948</u>	<u>17,925</u>

The amounts owed to parent undertaking is unsecured, and carries a fixed coupon of 9.9% per annum. This loan is contractually repayable on 31 October 2032.

The borrowing is carried at amortised cost.

There have been no instances of default or other breaches of the terms of the loan agreement during the year in respect of the loan outstanding at 31 March 2019 (2018: None).

7. Called up share capital

Share capital is as analysed below.

	No. (thousands)	£'000
Allotted, called up and fully paid		
At 1 April 2017, 1 April 2018 and 31 March 2019	<u>175</u>	<u>175</u>

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

8. Related party transactions

A summary of funding transactions with the immediate parent undertaking (BTW2I) is shown below:

	2019 £'000	2018 £'000
Borrowing from immediate parent undertaking (principal)		
At 1 April	17,925	17,925
Capitalised interest	23	-
At 31 March	<u>17,948</u>	<u>17,925</u>

Blue Transmission Walney 2 (Holdings) Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

8. Related party transactions (continued)

The borrowing from the immediate parent undertaking was negotiated on normal commercial terms and is repayable in accordance with the terms of the unsecured 9.9% loan notes 2032.

Amounts due from BTW2 and owed to BTW2I in respect of accrued interest as at 31 March 2019 amounted to £814k (2018: £813k).

During the year, the Company recognised interest income from BTW2 of £1,730k (2018: £1,726k) and an interest expense on the loan with BTW2I of £1,730k (2018: £1,726k). The Company recognised dividends received from BTW2 of £3,067k (2018: £3,142k) and recognised dividend distributions of £3,067k (2018: £3,142k) to BTW2I during the year.

No amounts have been provided at 31 March 2019 (2018: £nil), and no expense was recognised during the year (2018: £nil) in respect of bad or doubtful debts for any related party transactions.

9. Retained earnings

	2019 £'000	2018 £'000
At 1 April	-	-
Profit attributable to equity shareholders	3,067	3,142
Equity dividends	(3,067)	(3,142)
At 31 March	-	-

The Company recognised dividend distributions amounting to of £3,067k (2018: £3,142k) to its immediate parent BTW2I during the year.

10. Parent companies

Blue Transmission Walney 2 (Holdings) Limited's immediate parent company is Blue Transmission Walney 2 Investments Limited (Incorporated in Jersey). The ultimate controlling party is Blue Transmission Investments Limited (incorporated in Jersey). Blue Transmission Investments Limited consolidates the financial statements of the Company.

BLUE TRANSMISSION

Blue Transmission Investments Limited

Annual Report and Group Financial Statements 2018/19

Incorporated in Jersey. Company number: 106705

WEDNESDAY

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Group Strategic Report

For the year ended 31 March 2019

Introduction

This Group Strategic Report explains the operations of Blue Transmission Investments Limited ("the Company") and that of its subsidiaries, and the main trends and factors underlying the development and performance of the Company and its subsidiaries during the year ended 31 March 2019, as well as those matters which could affect its future development and performance.

The principal activity of the Company is that of a holding Company and is incorporated in Jersey. The Company together with its subsidiaries comprise "the Group".

The principal activity of the Group, through its operating subsidiaries Blue Transmission Walney 1 Limited ("BTW1"), Blue Transmission Walney 2 Limited ("BTW2"), Blue Transmission Sheringham Shoal Limited ("BTSS"), and Blue Transmission London Array Limited ("BTLA") is to provide an electricity transmission service. Up to and including 31 March 2019, this service was provided to National Grid Electricity Transmission plc ("NGET") and since 1 April 2019 this service has been provided to National Grid Electricity System Operator Limited ("NGESO"). Electricity transmission system operator responsibilities for Great Britain were transferred from NGET to NGESO with effect from 1 April 2019. Through BTW1, BTW2, BTSS and BTLA the Group owns and operates four transmission systems which electrically connect four offshore wind farm generators to the onshore electricity transmission system owned either by NGET or an electricity distribution company.

Background

The Office of Gas and Electricity Markets ("Ofgem"), supporting government initiatives, 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 each new tranche of transmission assets required by offshore generators will be owned and operated by offshore transmission owners ("OFTOs"). OFTOs are subject to the conditions of a transmission Licence.

The Company has four operating subsidiaries, all of which are OFTO's, and each OFTO has been granted an Offshore Electricity Transmission Licence ("Licence") by The Gas and Electricity Markets Authority ("the Authority"), that amongst other matters, requires each OFTO to maintain and operate the assets of the OFTO for the duration of the Licence and permits the OFTO to charge for the provision of transmission services for a period of 20 years from the date of that Licence. A brief description of each OFTO is provided below:

- i) BTW1 was awarded a Licence which came into force on 21 October 2011. BTW1 exports the electricity output of the Walney 1 wind farm owned by Walney (UK) Offshore Windfarms Limited ("WOWL") to NGET's onshore electricity transmission system;
- ii) BTW2 was awarded a Licence which came into force on 26 September 2012. BTW2 exports the electricity output of the Walney 2 wind farm owned by WOWL to Electricity North West Limited's onshore electricity distribution system;
- iii) BTSS was awarded a Licence which came into force on 27 June 2013. BTSS exports the electricity output of the Sheringham Shoal wind farm owned by Scira Offshore Energy Ltd ("Scira") to Eastern Power Network's onshore electricity distribution system;
- iv) BTLA was awarded a Licence which came into force on 10 September 2013. BTLA exports the electricity output of the London Array wind farm owned by a consortium of investors to NGET's onshore electricity transmission system.

Group Strategic Report continued

For the year ended 31 March 2019

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators to be certified as complying with the unbundling requirements of a European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). All OFTOs in the Group have ongoing obligations and are required to make certain ongoing declarations to the Authority pursuant to the Licence they have been granted have been and continue to be compliant with the third package requirements throughout the year and through to the date of this report.

The Group's offshore electricity transmission systems

The Group's principal activity, which is carried out by its OFTO subsidiaries, is to transmit the electrical power of wind farms from the offshore connection points of the Group's electrical assets, which interface with the electrical assets owned by the wind farms, to the onshore connection points of the Group's assets with the electricity transmission system of NGET, or that of an electricity distribution company. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

The wind farm turbines are interconnected in "strings" by medium voltage submarine cables that act as a power collection and transport system. The medium voltage cables are owned by the wind farms and run to offshore electricity substations that are owned by the Group's OFTOs. At the offshore electricity substation, the voltage is "stepped up" by an electrical transformer and then transported to land by high voltage submarine cables buried in the sea floor. At landfall the submarine cables are joined to land cables that run to the Group's onshore electricity substations. At the substations the power factor of the electricity is corrected using reactive compensation equipment, and the transported power is then connected into the NGET electricity transmission system, either directly or through an electricity distribution company's electrical network.

The Group's long-term business objectives

The Group's OFTO subsidiary undertakings are incorporated as special purpose vehicles to hold transmission Licences. The Group's non-financial objectives are, therefore, consistent with the objectives of the Licences. The Group will achieve these objectives by ensuring that the Group is compliant with the Licences; industry codes and legislation; and by operating and maintaining the transmission systems in accordance with good industry practice.

The Group's financial objective is to provide aggregate financial returns to shareholders consistent with, or in excess of, the business plans that supported its tender offers for each of the individual offshore electricity transmission systems that were subsequently acquired. The Group will achieve this objective by:

- meeting its revenue targets by operating the transmission systems at availability levels equal to, or higher than, the Licence targets;
- adopting and maintaining a financing structure for each of its ultimate subsidiary undertakings that is, as a minimum, as efficient as that contemplated by their business plans; and
- controlling costs and seeking efficiency improvements.

Group Strategic Report continued

For the year ended 31 March 2019

Future Developments

The Company's sole purpose is to hold and operate its offshore electricity transmission systems and comply with each Licence which has been awarded to each OFTO in the Group; no changes to this objective are likely in the future.

The Group's operating model

The Group's operating model is to outsource all operational and maintenance ("O&M") and management activities for all four OFTOs to independent third parties. The Board has been satisfied with the performance of all O&M contractors.

Frontier Power Limited ("FPL") provides certain management services to the Group through Management Services Agreements ("MSAs"). As part of its general asset management responsibilities FPL fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Group meets its obligations under each Licence issued to the OFTOs and that each OFTO complies with good industry practice. The Group mitigates the performance risk of its outsourced service providers through a contracting process.

Additional technical, accounting and administration support is provided to the Group by Infrastructure Managers Limited ("IML").

At 31 March 2019, the Company had no employees (2018: none). Given the operating model adopted by the Group, it is not expected that the Group or Company is likely to employee any staff directly for the foreseeable in the future.

The Company acts as a service company within the Group so that certain administrative costs can be shared across the companies within the Group in such a manner that each company in the Group pays for a fair and equitable proportion of the costs incurred by the Company.

The Group's approach to managing the business

The Group'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 Group:

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

Group Strategic Report continued

For the year ended 31 March 2019

Principal regulatory, industry contracts and industry code matters

The Group enjoys benefits and is subject to a number of regulatory and contractual obligations arising from and including: the Licences; the Transmission Owner Construction Agreements ("TOCA") with NGET and the System Operator – Transmission Owner Code ("STC") with NGET prior to 31 March 2019 and with NGESO from 1 April 2019. The Group's operations are also subject to a range of industry-specific legal requirements.

Summaries of some of the major features of the Licences, industry contracts and electricity code matters are described as follows.

Licence obligations

Under the terms of the Licences issued to the OFTOs in the Group, they are required to carry out their Licenced activities and have in place governance arrangements that ensure (amongst other obligations) that any company in the Group does not provide cross-subsidies to, or receive cross-subsidies from any other business of any Licensee or of any affiliate of a Licensee. In addition, the Licences place restrictions on the activity of each OFTO in the Group and how each OFTO conducts its transmission activities. While carrying out its transmission business, an OFTO 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 its offshore transmission business. A failure by the Company or its subsidiary undertakings to materially comply with the terms of any Licence could ultimately lead to the revocation of that Licence. The Directors take very seriously their obligations to comply with the terms of each Licence and has processes, procedures and controls in place to ensure compliance.

Regulated revenue and incentives

The Licences awarded by the Authority determine how much each OFTO in the Group may charge for its transmission services to NGET (through to 31 March 2019) and NGESO (from 1 April 2019) in any relevant charging year in accordance with a regulatory formula. The charging year is from 1 April to 31 March. The Licences also provide an incentive to each of the Group's OFTOs to maximise the availability of their respective offshore electricity transmission systems to transmit electricity in any given calendar year, also known as the performance year, versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of each of the Group's electricity transmission systems (as determined by each of the OFTO's relevant System Capability Statement) in any given calendar year, or part thereof.

Transmission charges are based on target transmission system availability of 98% in respect of each OFTO in the Group; the charges increase on 1 April following any given year by reference to an increase in a benchmark UK retail price index ("RPI") applicable to each OFTO. The revenues derived from charges based on this target availability in respect of each individual OFTO represent each individual OFTO's "base revenue". For the avoidance of doubt, none of the Group's transmission charges are exposed to commodity or generation risk.

As previously noted, the Licences contain mechanisms to incentivise each OFTO in the Group to provide the maximum possible electricity transmission system availability, having regard to the safe running of the systems. Each OFTO 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 are designed to encourage each OFTO in the Group to proactively manage transmission system availability across the year by focusing maintenance activities, which could lower transmission system availability, into those months with the lowest targets and related penalties or credits.

Group Strategic Report continued

For the year ended 31 March 2019

If the achieved transmission system availability is different to the target availability, then there is a mechanism contained within each Licence that could potentially affect the Group's charges and hence its revenue in future periods. The Licences provide 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 calendar year is in excess of the target availability level, then credits are "earned" and if availability is less than target then penalties accrue. These availability credits and penalties are measured in megawatt hours ("MWhrs"). Each OFTO in the Group is then permitted or required under the Licences, as the case may be, to change its prices to convert the availability credits earned or penalties accrued into a financial adjustment to "base revenue". The maximum availability credit which each OFTO can "earn" and then collect in charges in any one charging year is the financial equivalent of around 5% of base revenue for the immediately preceding charging year and the maximum availability penalty that can be reflected in charges for any one charging year is the financial equivalent of around 10% of base revenue for the immediately preceding charging year. Availability credits and penalties that arise in the first and final period of operations reflect a partial period of operations and the financial impact on charges is apportioned accordingly.

The availability penalties and credits, as measured in MWhrs, are recorded on a monthly, but notional basis, during each calendar year for each OFTO. Individual net monthly penalties are first offset against any brought forward net cumulative credits from the previous calendar year in respect of BTW1, BTW2 and BTSS. Thereafter, in respect of these OFTOs and BTLA, individual monthly net penalties are eligible for offset against credits arising in the current calendar year. The financial conversion of availability credits and penalties is carried out by reference to the "base revenue" for the charging year immediately prior to the charging year that the credits/penalties adjust charges.

If at the end of any calendar year there is a cumulative net availability credit, then in respect of BTW1, BTW2 and BTSS, this net availability credit is eligible to be converted as a financial adjustment to charges at the beginning of the sixth financial year following the end of the calendar year in which the first net availability credit arose. In respect of BTLA the net availability credit is eligible to be converted as a financial adjustment to charges from the beginning of the following financial year. The maximum amount of net availability credit that is available to be converted as a financial adjustment to charges in any one charging year for BTW1, BTW2 and BTSS, is the lesser of the financial effect of the net availability credit that arose in the first calendar year and the financial effect of the cumulative net availability credit outstanding at the end of the preceding calendar year.

In respect of net availability penalties which are outstanding at the end of the calendar year then, in principle, these net availability penalties would be converted as a financial adjustment to base revenue for the following charging year. Net availability penalties can only be converted as an adjustment to base revenue to the extent that such adjustment does not exceed 10% of the base revenue for the previous charging year. Any net availability penalties not converted as an adjustment to base revenue are carried forward on a cumulative and notional basis and aggregated with additional availability credits and penalties arising in subsequent years. Net availability penalties that arise in any one calendar year can only be carried forward for a maximum of five charging years.

In respect of BTSS, it has an arrangement in place with its O&M provider, that as part of the arrangements relating to the provision of O&M services, the benefits earned, or penalties suffered under the incentive arrangements described above - over the 20-year revenue entitlement period of the Licence - are passed to that provider.

Group Strategic Report continued

For the year ended 31 March 2019

As a result of the arrangements described above, there are a number of risks that the Group 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, each OFTO in the Group seeks to carry out such maintenance without the need for planned outages for the purpose of preventing future unplanned outages and having regard to the safe operation of those assets;
- 3) The management of planned outages of the transmission system having regard to the activities of other interested parties and to bias such outages towards those periods during the year, with the lowest system availability targets and related penalties or credits.

Towards the end of the 20-year revenue entitlement period of the Licence, the agreed regulatory formula relating to the ability of certain OFTO's in the Group to collect performance credits changes. BTW1, BTW2 and BTSS are permitted an acceleration of their ability to collect such credits in its charges as compared with the mechanism described above.

In certain circumstances, and in respect of certain costs such as non-domestic rates relating to the onshore electricity transmission system, and costs charged by the Authority associated with running the OFTO tender regime, each OFTO 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, each OFTO in the Group is incentivised to provide maximise transmission system availability having regard to the safe running of the system. The maximum availability of each of the transmission systems is defined in the respective OFTO's Licence and is expressed in megawatt hours. Details of transmission system availability performance is provided in the Key performance indicators section below.

Transmission system quality of supply

The STC sets out the minimum technical, design, operational and performance criteria that Offshore Transmission Owners must follow to ensure the compliance of their transmission systems. For the Group's transmission systems, the most significant requirements are in respect of the reactive power capability and the quality of the power (as measured by harmonic performance) deliverable at the connection point of each of the Group's transmission systems with the onshore electricity system.

All of the Group's OFTOs have met the requirement to transmit electricity in accordance with the parameters agreed with NGET (NGESO from 1 April 2019) during the year under review and through to the date of this report.

Group Strategic Report continued

For the year ended 31 March 2019

Key performance indicators (“KPIs”)

The Group has identified the following KPIs as being instrumental to the management of the Group’s transmission businesses. Such KPIs include financial and non-financial KPIs:

	Definition	Objective
Financial KPIs		
Operating profit plus interest income, adjusted for the net impact of the BTW2 offshore export cable repair net of insurance recoveries	Profit before costs of financing and taxation: BTW1: £8,841k (2017/18: £7,694k) BTW2: £9,046k (2017/18: £8,000k) BTSS: £14,046k (2017/18: £14,204k) BTLA: £26,518k (2017/18: £27,141k)	To increase*.
Cash available for debt service for each OFTO	Net cash inflows from operating activities plus net cash flow from investing activities BTW1: £10,617k (2017/18: £11,043k) BTW2: £7,638k (2017/18: £18,429k) BTSS: £19,194k (2017/18: £18,542k) BTLA: £39,531k (2017/18: £37,002k)	To increase**.
Non-Financial KPIs		
Maximise transmission availability for each OFTO	Transmission system available to transmit electricity over the performance year to 31 December BTW1 – 2018: 100%; 2017: 99.69% BTW2 – 2018: 91.42%***; 2017: 100% BTSS – 2018: 99.40%; 2017: 99.16%; BTLA – 2018: 99.94%; 2017: 99.86%.	To exceed the Licence target availability of 98%.
Ensure that the quality of electricity at the export connection point is compliant with Security and Quality of Supply Standard (SQSS) and the STC	To meet the standards set by the SQSS and the STC in relation to voltage, reactive power and harmonic distortion.	To be compliant. This has been achieved for each OFTO for 2018/19 and 2017/18.
HS&E	1) Zero lost time accidents (“LTIs”) for employees and contractors; 2) Zero reportable environmental incidents; 3) Compliance with any obligations transferred to each OFTO relating to the Marine Management Organisation (“MMO”) Licence; 4) Zero unauthorised access incidents in accordance with Electricity Safety, Quality and Continuity Regulations (“ESQR”).	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence; 4) Zero unauthorised access incidents in accordance with ESQR. There was one LTI in 2018/19 **** All other objectives were met in 2018/9 and 2017/8.

* See “The Group’s financial performance” later in this Group Strategic Report

** See “The Group’s financial performance - Cash flows” later in this Group Strategic Report

*** See “The Group’s operational performance - Transmission system availability” later in this Group Strategic Report.

**** See “The Group’s operational performance - Health, safety, and environmental performance” later in this Group Strategic Report.

Group Strategic Report continued

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The Group's operational performance

The Group's prime operational objectives are to maximise transmission system availability for each of its OFTOs, and to ensure that the quality of electricity at the respective onshore connection point is compliant with the SQSS and the STC or any derogation thereto having regard in all respects to the safety of employees, contractors and the general public at large.

In support of these objectives the Group has developed a comprehensive asset management policy and framework that is consistent with good industry practice and is applied to each OFTO having regard to their specific circumstances. The policy and framework are derived by applying a risk assessment model that considers the probability and consequences, of failure to determine overall risk to components within the generic asset classes that comprise the OFTO assets: offshore platform; offshore substation; offshore cable; onshore cables and onshore substation.

During the year, the Group has continued the successful application of its asset management policy and framework and has carried out its asset management activities in accordance with the resulting Asset Operating Plan as it applied to each OFTO in the Group. Maintenance activities have been successfully carried out in accordance with the maintenance plan, and each OFTO has developed its network outage plan and this has been submitted to, and approved by, the Great Britain electricity system operator.

Transmission system availability

The performance of the Group's transmission systems for the performance year ended 31 December 2018 and 31 December 2017 are tabulated below and overleaf:

MWhrs	Notes	Performance year ended 31 December 2018			
		BTW1	BTW2	BTSS	BTLA
Maximum system availability (capability - MWhrs)	(a)	1,471,680	1,471,680	2,759,400	5,518,800
Actual system capability (availability - MWhrs)	(b)	1,471,680	1,345,456	2,742,729	5,515,288
Actual system availability (%)	(b)	100%	91.42%	99.40%	99.94%
Regulatory target system availability (%)		98%	98%	98%	98%
Availability credits (MWhrs)					
Net availability credits at 1 April 2018		139,606	153,598	215,299	103,651
Availability credits recovered in charges during financial year 2018/19		-	(7,946)	-	(103,651)
Net movement in availability credits for the performance year	(b)	29,417	(71,561)	42,122	107,643
Net availability credits at 31 March 2019	(c)	169,023	74,091	257,421	107,643

Group Strategic Report continued

For the year ended 31 March 2019

Transmission system availability continued

MWhrs	Notes	Performance year ended 31 December 2017			
		BTW1	BTW2	BTSS	BTLA
Maximum system availability (capability - MWhrs)	(a)	1,471,680	1,471,680	2,759,400	5,518,800
Actual system capability (availability - MWhrs)	(b)	1,467,133	1,471,680	2,736,324	5,510,866
Actual system availability (%)	(b)	99.69%	100%	99.16%	99.86%
Regulatory target system availability (%)		98%	98%	98%	98%
Availability credits (MWhrs)					
Net availability credits at 1 April 2017		113,826	124,180	177,447	58,940
Availability credits recovered in charges during financial year 2017/18		-	-	-	(58,940)
Net movement in availability credits for the performance year	(b)	25,780	29,418	37,852	103,651
Net availability credits at 31 March 2018	(c)	139,606	153,598	215,299	103,651

- a) The maximum system availability of the each individual OFTO's transmission system as declared to the Great Britain electricity system operator during the performance year.
- b) After taking into account any relief permitted by each OFTO Licence or otherwise approved by the Authority.
- c) Net availability credits at 31 March 2019 (31 March 2018) represent any "banked" availability credits through to 31 December 2018 (31 December 2017). Consequently, this excludes any net penalties or potential credits that have arisen between 1 January 2019 and 31 March 2019 (1 January 2018 and 31 March 2018). Scira is the ultimate beneficiary of any availability credits or penalties earned or suffered by BTSS.

The following is a review of the availability performance of each OFTO:

- i) BTW1: There was 100% reported availability of the transmission system during the performance year ended 31 December 2018 compared with 99.69% for the performance year ended 31 December 2017. These reported availability performance figures exclude the impact of any outages that are attributable to third parties as such outages are permitted to be excluded from the calculation of the reported incentive performance to the Authority and are not reflected in the actual reported availability included in the above table.
- ii) BTW2: During the performance year ended 31 December 2018, there was a failure of a 132 kV disconnector during a routine switching incident which led to an outage of the system which resulted in the reported availability of the system for the performance year ended 31 December falling to 91.42% as compared with the performance year ended 31 December 2017 of 100%. The Group attributes this failure to the design of the interlocking not being consistent with industry standards and has made a claim to the Authority for the outage resulting from this failure to be excluded from the calculation of the availability performance for the year ended 31 December 2018. The result of this claim is unknown at the date of this report.
- iii) BTSS: There were a number of short duration outages in both performance years to carry out routine maintenance activities. Other outages attributable to third parties have been permitted to be excluded from the calculation of the reported incentive performance to the Authority and are not reflected in the actual reported availability included in the above table.

As a result of the arrangements in place with Scira (the O&M provider), any financial penalties or credits arising from actual system availability, will be passed by BTSS to Scira.

- iv) BTLA: Reported availability of the transmission system during the performance year ended 31 December 2018 was 99.94%, compared with 99.86% in the performance year ended 31 December 2017 reflecting short duration outages. Other outages caused by the failure of a generator owned asset have been permitted to be excluded from the calculation of the reported incentive performance to the Authority and are not reflected in the actual reported availability included in the above table. However, there was an impact on operating costs caused by a failure of a generator owned asset– see "The Group's financial performance – Operating costs" later in this Group Strategic Report.

Group Strategic Report continued

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Quality of supply

The quality of supply must comply with the requirements of the STC (see “Principal regulatory, industry contracts and industry code matters - Transmission system quality of supply” above) and each OFTO within the Group is required to transmit electricity within certain parameters in relation to: voltage; reactive power; and harmonic distortion. A failure to meet these quality of supply constraints could result in the Great Britain electricity system operator requiring any one of the Group’s transmission systems to be disconnected from the onshore electrical system, resulting in the loss of transmission availability and reduced incentive credits or performance penalties. Each OFTO in the Group closely monitors compliance with these quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow each OFTO to meet these quality of supply obligations.

During the year under review, and up to the date of this report, each OFTO within the Group has been fully compliant with the STC requirements in respect of reactive power, voltage control and harmonic distortion.

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 Group. The operation of the Group’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. However, during the year ended 31 March 2019 there was one lost time incident when a sub-contractor sustained a knee strain whilst climbing stairs to board a crew transfer vessel. While this incident was believed to be linked to a pre-existing injury, this has highlighted the need for greater scrutiny of sub-contractor health and safety monitoring and the potential for reducing risk from carrying heavy bags. There were no such incidents in the previous year

During the year under review there were two incidents that required to be reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) – as a result of the failure of generator owned assets which damaged the Group’s equipment and had the potential to cause injury - but did not do so. There were no other health or safety incidents that required reporting under applicable legislation.

The Group is committed to reducing the environmental impact of its operations to as low as practically possible. The Group does so by reducing the effect its activities have on the environment by: respecting the environmental status and biodiversity of the area where the Group’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.

There have been no environmental incidents or matters required to be reported to any relevant competent authority during 2018/19 or 2017/18 and each OFTO within the Group has continued to comply with the Marine licence obligations transferred to it since the transmission assets were acquired.

Group Strategic Report continued

For the year ended 31 March 2019

Stakeholder relationships

The potentially hazardous nature of Group's operations and the environmentally sensitive nature of the locations where its assets are located require each OFTO in the Group 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, each OFTO in the Group has defined 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 Group have been discussed and referenced in this Group Strategic Report, alongside, where appropriate a discussion of the operational and financial performance of the Group.

Other

All the directors of the Company are male.

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For the year ended 31 March 2019

The Group's financial performance

Summary

The financial performance of the Group for the year ended 31 March 2019, and its financial position as at 31 March 2019, was satisfactory and is summarised below. In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k or £'000k. The Group reports its results in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; the currency used in reporting these financial statements is GBP.

	2019	2018
	£k	£k
Operating profit	59,448	57,143
Other finance income	324	138
Operating profit plus other finance income	59,772	57,281
Finance costs	(42,211)	(42,395)
Profit before taxation	17,561	14,886
Taxation	(3,132)	(2,645)
Profit after taxation	14,429	12,241
Net cash inflow from operating activities and investing activities ¹	76,995	84,966
Net cash flows used in financing activities	(79,962)	(75,282)

¹ Impacted by cash flows between BTW2 and its insurers and other third parties relating to the BTW2 offshore export cable failure – see "Cash flows" later in this section of the Group Strategic Report.

Operating and finance income

Operating and finance income is derived from the Group's activities as a provider of transmission services. The vast majority of the Group's operating income was derived from NGET up to 31 March 2019. From 1 April 2019 this income is derived from NGESO.

Finance income for the year amounted to £45,323k (2018: £46,439k), and represents the finance income that would have been generated from an efficient standalone "transmission owner". The finance income has been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 35.

Operating income for the year amounted to £24,276k (2018: £22,275k), and primarily represents the operating income that would be generated by an efficient provider of operating services to the Great Britain electricity system operator. 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 standalone transmission owner. Operating income also includes other ancillary income directly related to the operation of offshore electricity transmission systems.

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A failure of the BTW2 offshore transmission export cable during December 2015, resulted in an outage of the transmission system that in turn lead to certain performance incentive penalties being reflected in the amounts charged for transmission services in the years ended 31 March 2017 and 31 March 2018 for this company. As a consequence of the decision by the Authority to grant exceptional event relief for the outage that gave rise to these penalties, BTW2 recovered these penalties through the charges levied on the Great Britain transmission system operator during the year ended 31 March 2019. This has resulted in Group operating income for the year ended 31 March 2019 being higher than for the year ended 31 March 2018.

Operating costs

Total operating costs for the year amounted to £10,151k (2018: £11,571k).

The most significant cost included within total costs relates to the operations, maintenance and management of the OFTOs and amounted to £8,979k (2018: £10,538k). This cost covers operations and maintenance costs, insurance premiums, management service fees, and non-domestic rates related to the transmission network.

The cost of operations, maintenance and management includes a net credit recognised for the year ended 31 March 2019 amounting to £1,321k (2018: £242k) reflecting the gross amounts recovered under the insurance arrangements and from other third parties net of any costs incurred during the year directly attributable to the BTW2 offshore export cable fault that occurred in December 2015. This factor in particular led to the increase in operating profit for BTW2.

The cost of operations, maintenance and management also includes higher unplanned maintenance costs incurred by BTLA during the year ended 31 March 2019 associated with the investigation and repair of BTLA's equipment that was damaged as a result of the failure of a generator owned asset which occurred in September 2018. This incident also resulted in an unexpected outage of the BTLA transmission system. A further failure of another generator owned asset in January 2019 also resulted in a further outage of the transmission system but did not result in any further damage to BTLA's equipment. As the loss of availability was directly related to the failure of generator owned assets – the outages caused by these failures has not impacted on the reported incentive availability for this OFTO.

Operating profit

Operating profit being the residual of operating income, finance income and operating costs amounted to £59,448k (2018: £57,143k). Operating profit for both years has been affected by the net credit associated with the BTW2 offshore export cable repair - as referenced earlier in this section of the Group Strategic Report under "Operating costs".

Other finance income

Other finance income of £324k (2018: £138k) relates solely to interest earned on bank deposits.

Finance costs

Finance costs amounted to £42,211k (2018: £42,395k). The vast majority of the finance costs relate to the interest cost of bank loans and other borrowings amounting to £28,579k (2018: £29,373k) and £10,989k (2018: £10,903k) respectively. Interest expense and other financial costs primarily arise from the cost of debt used to finance the initial acquisition of the Transmission owner assets.

Finance costs include a net charge amounting to £613k (2018: net charge of £128k) relating to certain hedge ineffectiveness for accounting purposes.

Group Strategic Report continued

For the year ended 31 March 2019

Taxation

The net taxation charge on profit before taxation for the year is £3,132k (2018: £2,645k) and relates solely to deferred taxation. There was no current taxation arising in the year (2018: £nil) as the Group has no taxable profit (2018: no taxable profit). The taxation charge for the year has been computed at 19% (2018: 19%) and was adjusted to 17% (2018: 17%) following a re-measurement of deferred taxation balances at the balance sheet date.

A taxation credit of £1,233k (2018: charge £3,928k) has been recognised in other comprehensive income relating to pre-taxation losses (2018: gains) arising on marking the Group's cash flow hedges to market as at 31 March 2019. The taxation credit (2018: charge) relates solely to deferred taxation. This taxation credit (2018: charge) has been computed at 19% (2018: 19%) and adjusted to 17% (2018: 17%) following a re-measurement of deferred taxation balances at the balance sheet date.

Profit after taxation

Profit for the year after taxation amounted to £14,429k (2018: £12,241k). The increase in profit after taxation over 2018 reflects the impact of the changes on operating profit, finance costs and taxation which are discussed above, in particular, the increase in the pre-taxation net credit recognised during the year associated with the BTW2 offshore export cable repair of £1,321k (2018: £242k).

Cash flows

Net cash flows from operating activities amounted to £76,671k (2018: £84,828k) primarily reflecting the amounts invoiced and received in relation to the provision of transmission services net of operating costs.

Cash inflows arising for the year ended 31 March 2019 included the recovery of all performance incentive penalties that related to the BTW2 offshore export cable failure. This followed the acceptance by the Authority to grant exceptional event relief for the outage caused by the offshore export cable failure and permitted BTW2 to invoice and collect all performance incentive penalties previously suffered by this company in relation to this outage. These performance incentive penalties had adversely impacted the amounts charged and collected for transmission services in the year ended 31 March 2018.

Net cash inflows from operations for both the year ended 31 March 2018 and 31 March 2019 have also been impacted by other cash flows relating to the BTW2 offshore export cable failure in each year. Net cash flows for the year ended 31 March 2018 were favourably impacted by the recovery of amounts from insurers and other third parties directly attributable to this failure, but some of the amounts recovered were payable to BTW2's insurers but these amounts were not paid until the following financial year. Consequently, the net cash flows for the year ended 31 March 2019 have been adversely impacted by the expected net cash out flows to insurers and other third parties directly attributable to the BTW2 offshore export cable failure. This factor substantially explains the overall reduction in both the Group's and BTW2's net cash flows from operating activities during the year ended 31 March 2019 as compared with the year ended 31 March 2018.

Net cash inflows from investing activities amounted to £324k (2018: £138k) and relates entirely to interest income.

Cash available for debt servicing, defined as net cash flows from operating activities plus cash flows generated from investing activities of £324k (2018: £138k), amounted to £76,995k (2018: £84,966k). Net cash outflows from financing activities amounted to £79,962k (2018: £75,282k).

Group Strategic Report continued

For the year ended 31 March 2019

Payments to service senior debt holders during the year amounted to £58,381k (2018: £56,557k).

Payments to other debt holders during the year amounted to £10,583k (2018: £10,681k).

No income taxation was paid in the year (2018: £nil).

Interim ordinary dividends of £10,895k (2018: £7,945k) were paid in the year.

Balance sheet and consideration of financial management

Consolidated Balance sheet

The Group's balance sheet at 31 March 2019 is summarised below:

	Assets £'000	Liabilities £'000	Net assets/ (liabilities) £'000
Non-current Transmission owner assets	792,010	-	792,010
Non-current deferred taxation	1,303	(6,054)	(4,751)
Current assets and liabilities*	27,613	(4,094)	23,519
Non-current decommissioning provision	-	(12,906)	(12,906)
Total before net debt	820,926	(23,054)	797,872
Net debt	51,334	(853,663)	(802,329)
Totals at 31 March 2019	872,260	(876,717)	(4,457)
Totals at 31 March 2018	902,711	(904,674)	(1,963)

* Excluding those current assets and liabilities included within net debt.

Transmission owner assets and decommissioning provisions

The Transmission owner assets are classified as contract assets and financial assets and accounted for as follows: 1) in respect of the BTW1 and BTLA offshore transmission systems - the directly attributable cost of acquiring those assets; and 2) in respect of the BTW2 and BTSS offshore transmission systems the fair value attributable to the acquisition of those transmission systems at their respective dates of acquisition; plus, finance income and adjusted for any amounts that have been invoiced to NGET which are deemed to be attributable to the carrying value of those assets. The net result being that the carrying value of the Transmission owner assets reflects the application of the effective interest rate method, and the carrying value is determined in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group that give rise to these balances is shown in the accounting policies section of the financial statements commencing on page 35.

The total costs of acquiring and the fair values attributed to the Transmission owner assets include an estimate of the costs of decommissioning the Transmission owner assets at the end of their 20-year useful economic lives. At 31 March 2019, the carrying value of the Transmission owner assets was £818,615k (2018: £843,034k) and the decommissioning provisions amounted to £12,906k (2018: £11,964k).

Group Strategic Report continued

For the year ended 31 March 2019

Non-current deferred taxation

The Group has recognised net deferred taxation liabilities of £4,751k (2018: £2,853k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the year, including the fair valuing of all derivative financial instruments. Deferred taxation assets at 31 March 2019 amounted to £1,303k (2018: £1,376k) and deferred taxation liabilities at 31 March 2019 amounted to £6,054k (2018: £4,229k).

In the opinion of the Directors, based on their enquiries and the forecasts available to them, it is probable that the deferred taxation assets recognised in respect of these temporary differences will be recoverable against future taxable profits that are expected to arise in the future from the Group's operations.

Net debt

Net debt is defined as all borrowings plus any interest accruals, the carrying value of all financial derivative contracts that are marked to market (interest rate and UK Retail Price Index (RPI) related swaps) less cash and deposits.

At 31 March 2019 net debt stood at £802,329k (2018: £819,511k) and included £57,818k (2018: £49,944k) of net liabilities 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

Each individual OFTO is funded by a combination of senior debt, other borrowing, and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator, and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000. All forms of senior debt within each individual OFTO rank *pari passu* with all other forms of senior debt within the same OFTO, such debt being secured and rank above all other borrowings and unsecured creditors within that OFTO.

For each OFTO, senior debt comprises a loan from the EIB together with loans from a syndicate of commercial lenders. All senior debt is serviced on a quarterly basis and is expected to amortise over a 19-year period as compared with the expected useful economic life of 20 years for each of the OFTO projects. The total principal carrying value of EIB and commercial lenders loans outstanding at 31 March 2019 amounted to £668,913k (2018: £697,501k) and are reflected in the Group balance sheet.

The EIB loans carry a fixed rate coupon while the loans from the syndicate of commercial lenders are at variable rates linked to the 3-month Libor rate, and in each case require servicing on a quarterly basis. Each OFTO in the Group have also entered into a series of interest rate swaps with fellow or subsidiary undertakings of the commercial lenders. The commercial lenders loans, and related interest rate swaps, amortise at the same rate over the life of the loan/swap arrangements. Further details of the interest rate swaps are shown below.

The other borrowings included in the Company and Group balance sheet at 31 March 2019 are unsecured and have been issued to the Company's shareholders. The other borrowings were issued by the Company on a commercially priced basis and carry either a fixed rate coupon or a fixed coupon plus an interest rate component linked to the movement in the UK retail price index as published by the Office for National Statistics. At 31 March 2019 the total principal carrying value of the other borrowings outstanding amounted to £123,769k (2018: £123,371k).

Group Strategic Report continued

For the year ended 31 March 2019

Ordinary equity share capital amounted to £1,432k at 31 March 2019 (2018: £1,432k).

Going concern, liquidity, and treasury management

The Directors have confirmed that after due enquiry that they have sufficient evidence to support their conclusion that the Company and its subsidiary undertakings are going concerns, and all have adequate resources now and in the foreseeable future to meet their on-going obligations, including the servicing of debt holders, as those obligations fall due.

The Directors note that consolidated total shareholders' equity at 31 March 2019 is negative (2018: negative) but this position arises as a consequence of the application of certain technical accounting rules associated with hedge accounting which requires the mark-to-market of derivative financial instruments which has resulted in the recognition of a negative cash flow hedge reserve. The existence of a negative cash flow hedge reserve implies derivative net cash outflows will arise in future periods (based on the conditions prevailing at the balance sheet date). However, when these cash flows are considered together with the expected cash flows to be derived from the underlying position being hedged, then the net cash flow is as expected by the Board and is factored into the financial plans of the Group. Further information regarding the Group's "Hedging arrangements" is discussed later in this Strategic Report. Consequently, they have formed the opinion that it is reasonable to adopt the going concern basis in preparing the consolidated financial statements. The other evidence considered to arrive at these conclusions is based on a number of factors which are summarised below.

The expected cash inflows that are likely to accrue to the Group over the foreseeable future from its electricity transmission operations are highly predictable and would not be expected to fall below a certain level as explained above under "Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives". Up to and including 31 March 2019, all of the cash inflows generated by the Group in respect of its electricity transmission services were derived from NGET in its capacity as the then Great Britain electricity system operator. With effect from 1 April 2019, all such services have been provided by the Group to NGESO who now has the Great Britain electricity system operator responsibilities and it has continued to settle all invoices to the date of this report in accordance with its obligations under the STC. Similar to each OFTO in the Group and NGET, NGESO is also regulated by the Authority. The Directors consider the likelihood of a future default by NGESO to be very low.

The Group enjoys certain protections afforded under the Licences granted to the OFTOs. In particular, provided the OFTOs can demonstrate that they have applied good industry practice in the management of their assets, then in the event that an unforeseen incident results suffering an individual loss in excess of £1,000k (in so far as it relates to its activities under the Licence) they can apply to the Authority for an income adjusting event. In these circumstances the Group may be able to recover any loss suffered by any individual OFTO. The Group has also put in place prudent insurance arrangements primarily in relation to property damage, third-party liabilities and in certain cases business interruption of its operating subsidiaries such that it can make claims in the event that an insurable event takes place and thereby continue in business

The Licence protections together with the insurance arrangements put in place reduce uncertainties and address certain risks regarding potential loss of income and/or loss/destruction of assets that arise from remote and/or catastrophic events.

The Group 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 reducing uncertainty) as to the likely cash out-flows that are expected to occur over the life of the projects.

Group Strategic Report continued

For the year ended 31 March 2019

The hedging arrangements are explained in more detail below under "Hedging arrangements". In summary: 1) the net cash flows that arise in relation to the combined effect of the interest rate swap arrangements and the commercial lenders variable rate loans means that the Group can forecast with a high degree of certainty the net impact of these cash outflows over the life of each project; and 2) the RPI swaps have the impact of effectively converting a high proportion of the variable cash flows arising from the Group's transmission services activities into a known and rising series of cash flows over the life of the project. The highly certain cash inflows arising from 2) are available to meet the highly certain cash outflows arising from 1).

Other contractual arrangements with third parties have been entered into that have a pricing mechanism that features linkages to RPI or other indices which have the effect of reducing uncertainty as to the quantum and frequency of cash flows 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 Group in relation to its transmission services that are not subject to the RPI swaps arrangements.

Each OFTO also has access to liquidity facilities which it can access in the event that it has an insurable or income adjusting event. As at 31 March 2019 and 31 March 2018: BTW1's liquidity facility was £3,000k; BTW2's liquidity facility was £5,000k; BTSS's liquidity facility was £6,000k; and BTLA's liquidity facility was £9,000k. The terms of each OFTO Licence strictly prohibit the sharing of financial resources that together with the various lending arrangements in place for each OFTO means that no liquidity facility of any one OFTO would be available for another OFTO to use. Of the liquidity facilities available to each OFTO, all such facilities were undrawn at 31 March 2019 and 31 March 2018.

Finally, under the terms of the other borrowing agreements, absent certain matters of default, the loan notes are redeemable in tranches – the earliest of which is not due until 2031. Therefore, there is no requirement for the Company to service these debts early, although it is expected that it will do so.

Credit rating

It is a condition of the regulatory ring-fence around all four OFTOs that they use their reasonable endeavours to maintain an investment grade credit rating in respect of their senior debt (which is also the senior debt of the Group). The rating agency carries out regular and periodic reviews of the rating. All OFTOs have maintained an investment grade credit rating in respect of their senior debt consistent with their obligations under the Licence.

During the rating agency's assessment of each OFTO's credit rating, amongst other matters, the rating agency will and has considered: the cash flows that have arisen and are expected to arise over the term of the project; the regulatory environment within which the Group 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 Group Strategic Report, that for the foreseeable future, there are reasonable grounds to believe that each rating agency will continue to confirm the senior debt investment grade status for each OFTO in the Group based on the information available to the Directors at the date of this annual report.

Group Strategic Report continued

For the year ended 31 March 2019

On-going funding requirements

The Group does not expect to have any significant investment requirements over the expected life of the OFTO projects that will require additional external funding. Loan servicing and other obligations of the Group are expected to be met by the cash inflows generated by the Group. Consequently, based on the current capacity of the Group's transmission systems, 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 Licences that would allow each OFTO in the Group to increase its charges in respect of such expenditure. The Directors expect that additional funding would be made available based on the increased cash inflows that would be expected to arise from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

Surplus funds

The Group 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 2019, the Group had £51,334k (2018: £54,301k) on deposit of which £38,076k (2018: £46,149k) was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Of the remaining cash and cash equivalents, £11,891k (2018: £6,800k) requires the consent of the Group's lenders prior to use but are held for general corporate purposes and the remaining £1,367k (2018: £1,352k) is unencumbered. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

The Group 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 3 months or less and earn variable rates of interest. However, in the context of the other cash flows generated by the Group these amounts are insignificant.

Group Strategic Report continued

For the year ended 31 March 2019

Hedging arrangements

General

It is the policy of the Board that the Company and its subsidiaries 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

Each OFTO has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 70% in the cases of BTW1 and BTW2, approximately 80% in the case of BTSS, and approximately 90% in the case of BTLA) of variable cash inflows arising from the electricity transmission service it provides to the Great Britain electricity system operator in exchange for a pre-determined stream of cash inflows. These arrangements meet the definition of a derivative financial instrument. The remaining periods covered by these arrangements closely match the remaining periods over which the Group enjoys exclusive rights to operate the four OFTO offshore transmission systems under the Licences, and closely reflect the periods over which the vast majority of cash flows from the projects are expected to be generated.

As previously described (see “Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives” earlier in this Group Strategic Report), under the terms of the Licences, regulatory and other contractual agreements, each OFTO in the Group is permitted to charge NGET (up to 31 March 2019) and NGESO (from 1 April 2019), 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 percentage change in the relevant RPI benchmark applicable to each OFTO. These derivative arrangements (“RPI swaps”) have the effect of exchanging the vast majority of variable cash inflows derived from the Group’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 vast majority of the Group’s cash outflows relate to borrowings that substantially carry a fixed coupon (after interest rate swaps – see “interest rate swaps” in this section of the Group Strategic Report below) so that both the resultant principal repayments and coupon payments are largely predetermined. The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the Group can meet its obligations under the terms of the Group’s borrowing arrangements and therefore reduce the risk of default. The Directors believe that the RPI swaps continue to 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 meet the definition of a cash flow hedge and have formally designated them as such.

The carrying value of the RPI swaps liabilities at 31 March 2019 was £16,187k (2018: £10,348k). The carrying value of the RPI swap assets at 31 March 2019 was £nil (2018: £2,207k). Further information relating to these derivative financial instruments is contained within notes 13 and 19 to these financial statements.

Group Strategic Report continued

For the year ended 31 March 2019

Interest rate swaps

Each OFTO has also entered into a series of interest rate swaps with fellow or subsidiary undertakings of the same commercial lenders as provided the loan financing.

The Directors believe that the use of these interest rate swaps is consistent with the Group's risk management objective and strategy for undertaking the hedge. The commercial effect of these arrangements is to convert the vast majority of the commercial lenders' variable rate borrowings into fixed rate borrowings.

The vast majority of the Group's cash inflows (after RPI swaps) can be predicted with a high degree of certainty (thereby reducing uncertainty) for the reasons explained above under RPI swaps. Consequently, the Group is able to service, with a high degree of confidence, all of the substantially fixed interest senior debt cash outflows (after interest rate swaps) from the highly certain cash inflows (after RPI swaps). Therefore, the risk that the senior debt cash outflows required to be serviced cannot be met from the cash inflows generated is significantly reduced.

The effect of using interest rate swaps in the manner utilised by the Group substantially eliminates the interest rate risk that the Group might otherwise have been subject to.

The Directors believe that the interest rate swap hedging relationship is highly effective and that the forecast cash inflows are highly probable and, as a consequence, have concluded that these interest rate derivatives meets the definition of a cash flow hedge and have formally designated them as such. As explained under "Current funding structure" above, the terms of the interest rate swaps remain substantially unchanged since the modification of the terms of the Group's commercial senior debt during the year.

The carrying value of interest rate swaps liabilities at 31 March 2019 was £41,631k (2018: £41,803k). Further information relating to these derivative financial instruments is contained within notes 13 and 19 to these financial statements.

Group Strategic Report continued

For the year ended 31 March 2019

Lending covenants and other restrictions

The Group is subject to certain covenants and conditions under lending agreements with the senior debt holders for each individual OFTO. Under these lending agreements, Global Agents have been appointed to represent the senior debt holders and to monitor compliance by each OFTO with the conditions of the lending agreements they have 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 Global Agents in the discharge of the Agent's duties. The covenants and conditions of the lending agreements include (but are not limited to) the following:

- 1) Each OFTO is required to operate on the basis of their financial plans while the lending agreements are in place (19 years) which the Global Agents have approved and subject to certain allowances; any deviation from that plan requires the approval of the respective Global Agent. The financial plans are refreshed on a quarterly basis and revised on an annual basis as required;
- 2) Each OFTO is required to deliver financial and other information at specified intervals (typically quarterly) to the respective Global Agent;
- 3) The lending agreements specify the bank accounts that each OFTO 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. *Most withdrawals from bank accounts require the consent of the respective Global Agent;*
- 4) Each OFTO is required to maintain, on an individual basis, certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments they cannot exceed a specified gearing ratio;
- 5) Each OFTO is restricted under the lending agreements as to their ability to invest their 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 each OFTO investing in term deposits with maturities not exceeding three months;
- 6) Each OFTO is required to maintain adequate insurances at all times; and
- 7) Each OFTO is required to meet all the conditions contained within their lending agreements before any servicing of other borrowings can take place or any distributions can be made to its shareholder.

If any OFTO materially fails to comply with the terms of the lending agreements or has failed to apply one of the specified remedies, then that OFTO would be in default of the relevant OFTO lending agreement. In these circumstances the amounts due under the lending agreements are immediately due and payable or are repayable on demand.

Since entering into the lending agreements, all OFTO's have materially complied with all of the lending covenants and conditions and have continued to do so through to the date of this report.

Group Strategic Report continued

For the year ended 31 March 2019

Accounting policies

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

Presentation of financial statements

The Group uses the nature of expense method for the presentation of its income statement and presents its Company balance sheet and consolidated balance sheet showing net assets and total equity.

In the income statement the Group presents a sub-total of operating profit, being the total of operating income, finance income and operating costs. Finance income represents the income derived from the operation of the Group's Transmission owner assets and is included within operating profit to reflect the fact that this is one of the principal revenue generating activities of the Group and relates to the Group's principal operating activity as a provider of electricity transmission availability services.

Financial Instruments

The Group has elected to apply hedge accounting to its standalone derivative financial instruments.

Critical accounting policies

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

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 35.

Approved on behalf of the Board



Matthew Pitts

Director

26 June 2019

Directors' Report

For the year ended 31 March 2019

In accordance with the requirements of the Companies (Jersey) Law 1991 the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Matthew Edwards

Graham Farley (Chief Executive Officer)

Matthew Pitts (appointed 28 November 2018)

Gary Thornton (Chief Operating Officer)

Tomoyuki Okuda (resigned 28 November 2018)

Qualifying third party indemnity provisions

The Company has made qualifying third-party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Principal activities and business review

A full description of the Group's principal activities, business, and principal risks and uncertainties is contained in the Group Strategic Report on pages 2 to 24, which are incorporated by reference into this report.

Material interests in shares

The Company holds the entire issued share capital of Blue Transmission Walney 1 (Holdings) Limited, Blue Transmission Walney 2 Investments Limited, Blue Transmission Sheringham Shoal Investments Limited, and Blue Transmission London Array (Holdings) Limited which in turn hold directly or indirectly the entire issued share capital of Blue Transmission Walney 1 Limited, Blue Transmission Walney 2 Limited, Blue Transmission Sheringham Shoal Limited, and Blue Transmission London Array Limited respectively.

No shares were issued during the year.

Returns from Subsidiary undertakings

During the year ended 31 March 2019 £21,478k (2018: £18,626k) was received from subsidiary undertakings comprising: £10,895k (2018: £7,945k) of dividends; £10,583k (2018: £9,681k) of interest; and £nil (2018: £1,000k) of the partial repayment of the principal outstanding. The aggregate principal amount outstanding on these loan notes due from subsidiaries amounted to £123,769k at 31 March 2019 (2018: £123,371k).

Dividends

Interim ordinary dividends of £10,895k (2018: £7,945k) were paid during the year. The Directors are not proposing a final dividend.

Donations and research and development

No charitable or political donations were made during the year (2018: £nil) and expenditure on research and development activities was £nil (2018: £nil).

Directors' Report continued

For the year ended 31 March 2019

Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging arrangements") are included on pages 21 to 22 in the Group Strategic Report.

Greenhouse gas emissions

The operation of the Group's facilities requires the consumption of electricity and may also result in the emission of greenhouse gases. The Directors have calculated that approximately 77 tonnes of CO₂ (equivalent) have been emitted during the year (2018: approximately 148 tonnes), this calculation being based upon an appropriate factor converting units of electricity consumed or greenhouse gas emitted into tonnes of CO₂ (equivalent).

Going concern

Having made enquiries, the Directors consider that the Company and all of its subsidiaries have 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 consolidated financial statements of the Group and the individual financial statements of the Company. More details of the Group's funding and liquidity position are provided in the Group Strategic Report 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 Group Strategic Report which also includes an explanation of how the Group will generate value over the longer term.

Future developments

Details of future developments are contained in the Group Strategic Report.

Employee involvement

At 31 March 2019, the Company and the Group had no employees (2018: none).


Directors' Report continued

For the year ended 31 March 2019

Directors' fees

During the year ended 31 March 2019, one Director (2018: one) was in receipt of fees in respect of consultancy services provided to the Company and Group. Amounts paid or payable to the Director for services to the Company and the Group amounted to £35k (2018: £35k).

Approved on behalf of the Board



Matthew Pitts

Director

26 June 2019

Blue Transmission Investments Limited
47 Esplanade
St Helier
Jersey
JE1 0BD

Corporate Governance Statement

The Company operates within the corporate governance framework of the Group. Consequently, this statement reflects how that governance framework impacts on the Company and that of its principal operating subsidiaries ("OFTOs") BTW1, BTW2, BTSS and BTLA.

Appointments to the Board of Directors of the Company and its subsidiary undertakings are governed by a shareholders' agreement ("the Agreement") between the two shareholders of the Company that jointly control the Company and the Group through a common class of ordinary shares held in the Company by Diamond Transmission Corporation Limited (a subsidiary of Mitsubishi Corporation) and BIF Offshore Windkraft Holdings Limited (a company ultimately controlled by 3i Group plc). The Agreement requires that all boards within the Group comprise four directors, with two directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Company in the Group has a nomination committee and the performance of the boards is not evaluated.

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

Meetings of the Board of the Company

The Company is governed by a Board of four Directors, none of whom are independent. The Company Board does not have a separately appointed chairman. Meetings are chaired by a member of the Company Board and are convened as required, but usually not less than four times per annum. The Company Board is accountable to the shareholders of the Company for the good conduct of the Group's affairs.

Graham Farley and Gary Thornton are the Chief Executive and Chief Operating Officer of the Company respectively and take the lead on operational matters arising on behalf of this board.

Directors

The Directors of the Company are as shown in the Directors' Report.

Audit committee

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

Corporate Governance Statement continued

Board and management meetings

The OFTOs are governed by boards comprising four directors, none of whom are independent. The boards do 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 OFTO boards are responsible for monitoring the effectiveness of the day to day operation and management of the OFTOs' regulated transmission businesses.

The OFTO operating model is to outsource all O&M and management activities to third parties. FPL provides the asset management capability, and other services, through an MSA with each OFTO and the Company and additional technical support and other resources are provided to the OFTOs by FPL via the Company by way of a shared resources agreement. FPL holds regular management meetings which review the operational and financial performance of the OFTOs and risk issues. FPL submits a monthly management report to the directors of the OFTOs and the Company.

Compliance committee

Each OFTO has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role, without executive functions, with powers of information, assessment, and presentations to the board. Robert Tivey serves as Compliance Officer for all of the OFTOs. Mr Tivey is not engaged in the management or operation of any of the OFTO's licensed transmission business, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee, Audit Committee, and the boards of the Company and the OFTOs at least once annually.

The principal role of the Compliance Officer is to provide relevant advice and information to the directors of all of the OFTO's, the compliance committees and consultants and other third parties providing services to the Group. The Compliance Officer is required to facilitate compliance by the OFTOs with their Licences 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 each OFTO in the Group in accordance with the compliance statement required by amended standard condition E12 - C2 of the Licences (Separation and Independence of the Transmission Business).

Compliance statements

Each OFTO in the Group has published a compliance statement and a code of conduct, "Separation and Independence of the Transmission Business Compliance Statement" (copies available from www.bluetransmission.com) that explains and describes how each OFTO in the Group has addressed its Licence obligations.

Corporate Governance Statement continued

Health, safety and environment advisory committee

The Board recognises that the nature of the Group's business requires an exceptional focus on health, safety and the environment. Accordingly, the Board has established a Health, Safety and Environmental Advisory Committee that is responsible for:

- ensuring that the Group's health and safety policy statement, and environmental policy statement, are being adhered to;
- setting of health, safety and environmental targets for the Group;
- monitoring health, safety and environmental performance of the Group against planned targets;
- encouraging greater awareness throughout the Group of the importance of health, safety and the environment, and higher achievement in health, safety, and environmental performance; and
- providing a link between the Board, the OFTOs, and the Group's O&M service providers that have the day to day responsibility for the management of health, safety and environment.

All of the Directors are members of the Health, Safety and Environment Supervisory Committee.

Approved on behalf of the Board



Matthew Pitts
Director
26 June 2019

Statement of Directors' Responsibilities

For the year ended 31 March 2019

The Directors are responsible for preparing the Annual Report and Group Financial Statements for each financial year in accordance with applicable Jersey law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The Directors are responsible for preparing Group financial statements for each financial year that give a true and fair view of the state of affairs of the Group, and of the profit or loss of the Group for that period. In preparing these Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the Group financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Group financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Group financial statements comply with The Companies (Jersey) Law, 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved, each Director in office at the date the Director's report is approved makes the following statement, that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



Approved on behalf of the Board

Matthew Pitts
Director
26 June 2019

Independent auditors' report to the members of Blue Transmission Investments Limited

For the year ended 31 March 2019

Report on the audit of the Group and Company financial statements

Opinion

In our opinion, Blue Transmission Investments Limited's group and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2019 and of the group's and company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report and Group Financial Statements (the "Annual Report"), which comprise: the company and consolidated balance sheets as at 31 March 2019; the consolidated income statement, the consolidated statement of comprehensive income, the company and consolidated cash flow statements, the company and consolidated statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group and the company's trade, customers, suppliers, investments and the wider economy.

Independent auditors' report to the members of Blue Transmission Investments Limited continued

For the year ended 31 March 2019

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Independent auditors' report to the members of Blue Transmission Investments Limited continued

For the year ended 31 March 2019

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Company; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.



PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
26 June 2019

Accounting Policies

For the year ended 31 March 2019

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

These consolidated financial statements include the financial statements of the Company (together “the financial statements”) and its subsidiary undertakings made up to 31 March 2019 and have been prepared on a going concern basis in accordance with EU endorsed International Financial Reporting Standards (IFRS), interpretations issued by the IFRS Interpretations Committee (IFRS IC) and in accordance with Jersey Law. The financial statements have been prepared using consistent accounting policies updated, where necessary, to ensure that the accounting policies adopted reflect all IFRS accounting standards that have been endorsed by the EU and any related interpretations issued by the IFRS IC that are mandatory for the year ended 31 March 2019. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The financial statements are presented in pounds sterling, which is the functional currency of the Company and Group and are rounded to the nearest £1,000.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill, where applicable.

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

B. Transmission availability arrangements

The Group owns and operates electricity transmission networks that are principally offshore based. These networks electrically connect wind farm generators to the onshore electricity transmission operator (NGET). The ownership of the transmission networks is subject to regulatory and contractual arrangements that permit the OFTOs to charge for making their 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 each OFTO in the Group for transmission availability services; and
- the regulator has granted a licence to each OFTO in the Group to operate an offshore electricity transmission system, the licence allows each OFTO to charge for the provision of transmission services for an exclusive period of around 20 years and retains the rights to grant a transmission licence to a future operator

Accounting Policies continued

For the year ended 31 March 2019

B. Transmission availability arrangements continued

A Transmission owner asset is recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15. A Transmission owner asset includes: the cost of acquiring a transmission network asset from the constructor of the network; those costs incurred that are directly attributable to the acquisition of a transmission network; and the estimated cost of decommissioning a transmission network at the end of its estimated useful life. Each Transmission owner asset has been classified as a contract asset and as a financial asset and is accounted for as described below – see C – Financial Instruments.

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

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

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

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

C. Financial instruments

Applicable from 1 April 2018

Financial assets are measured at amortised cost or at fair value through profit and loss.

Trade receivables are classified at amortised cost as they are held within a business model to collect contracted cash flows. Such receivables are initially recognised at their transaction price, being the expected amount of any consideration receivable. Trade receivables continue to be measured at their transaction price less any lifetime expected credit losses using the simplified approach for determine such losses as permitted by IFRS 9 “Financial Instruments”.

Loan receivables, including time deposits and demand deposits, are initially recognised at fair value, which would normally be the transaction price and subsequently measured at amortised cost, less any lifetime expected credit losses.

Transmission owner assets are classified as contract assets and financial instruments and are carried at amortised cost using the effective interest rate method less any lifetime expected credit losses and reflecting adjustments to its carrying value as referenced above – see B. Transmission availability arrangements. Finance income relating to the Transmission owner assets is recognised in the income statement as a separate line item – “Finance income”, see G. Operating and finance income below.

Lifetime expected credit losses are considered at each reporting date. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Accounting Policies continued

For the year ended 31 March 2019

C. Financial instruments continued

Applicable from 1 April 2018 - continued

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings, which include interest-bearing loans and UK Retail Prices Index (RPI) linked loan notes, are recorded at their initial fair value which reflects the proceeds received, net of direct issue costs. Subsequently all borrowings are stated at amortised cost, using the effective interest rate method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest rate method.

Derivative financial instruments are measured at fair value through profit and loss 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 the income statement in the period they arise unless there is a hedge relationship in place – see D. Hedge accounting below.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts. In particular, interest payments on the 7.88% RPI Linked Loan Notes 2031 are linked to movements in UK RPI. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument, based on the view that there is a strong relationship between interest rates and inflation in the UK economy. Consequently, these embedded derivatives are not accounted for separately from the debt instrument.

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

Applicable up to 31 March 2018

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

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

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

Transmission owner assets are classified as financial instruments and are carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as referenced above – see B. Transmission availability arrangements. Finance income relating to Transmission owner assets are recognised in the income statement as a separate line item – “Finance income”, see G. Operating and finance income below.

Accounting Policies continued

For the year ended 31 March 2019

C. Financial instruments continued

Applicable up to 31 March 2018

Borrowings, which include interest-bearing loans and UK Retail Prices Index (RPI) linked loan notes, are recorded at their initial fair value which reflects the proceeds received, net of direct issue costs. Subsequently all borrowings are stated at amortised cost, using the effective interest rate method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest rate method.

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 the income statement in the period they arise unless there is a hedge relationship in place – see D. Hedge accounting below.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts. In particular, interest payments on the RPI-Linked Loan Notes are linked to movements in UK RPI. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument, based on the view that there is a strong relationship between interest rates and inflation in the UK economy. Consequently, these embedded derivatives are not accounted for separately from the debt instrument.

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

D. Hedge accounting

As permitted by IFRS 9, the Company continues to apply the hedge accounting requirements of International Accounting Standard 39.

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

The Group has also entered arrangements with third parties that are designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for streams of fixed interest cash flows ("interest rate swaps").

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") including any change in the fair value of those hedges that result from a change in the credit risk of these hedges are recognised directly in equity in a hedging reserve 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 or the hedging relationship is terminated, and the underlying position being hedged has been extinguished.

Accounting Policies continued

For the year ended 31 March 2019

E. Insurance receivables

Insurance receivables are recognised when the terms and conditions of the relevant insurance policy are met, and amounts are due under that policy. Where costs have been incurred in relation to an insurable event; those costs are reimbursable under the terms of the insurance policy in place; and the recovery of those costs is virtually certain at the balance sheet date; then a separately identifiable asset is recognised.

F. Income taxation

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

Current taxation

Current taxation assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of taxation are those that are enacted, or substantively enacted, by the balance sheet date.

Deferred taxation

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

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

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

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

Accounting Policies continued

For the year ended 31 March 2019

G. Operating and finance income

General

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

Operating income

An estimate has been made as to the appropriate revenue that should be attributable to a standalone operator with responsibility for operations, maintenance, and insurance.

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 standalone transmission owner.

Finance income

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

H. Cash and cash equivalents

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

I. Decommissioning costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission networks associated with the safe decommissioning of those network. Provision for these costs is based on future estimated expenditures, discounted to present values. Changes in the provision arising from revised estimates or discount rates, or changes in the expected timing of expenditures, are recognised in the income statement. The unwinding of the discount and changes arising from revisions to the discount rate are included within the income statement as a component of the net interest charge. Changes in estimates arising from revised cost assessments are included within operating costs.

Accounting Policies continued

For the year ended 31 March 2019

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

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

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

i) Transmission availability arrangements – income and related asset recognition

The Directors after due enquiry have identified that the characteristics of the regulatory, legal and contractual arrangements that give rise to transmission availability charges are consistent with the principles contained within IFRIC 12 and IFRS 15 where appropriate. Consequently, the accounting for charges made by the Group for transmission network availability is consistent with IFRIC 12 and IFRS 15.

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

- a. Transmission owner assets have been recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15; 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 balance sheet and alter the income recognition and presentation of amounts included within the income statement.

The Group has determined that the Transmission owner assets will be recovered over a period of 20 years from the date of the respective Licence grant – being the principal period over which each OFTO in 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 assets that is recognised in any one year over the life of the projects.

Accounting Policies continued

For the year ended 31 March 2019

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

ii) Operating and finance income

Operating income

Operating income represents the income derived from the provision of operating services, principally to the Great Britain electricity system operator. 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 standalone 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 standalone 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 standalone 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. The return that is generated on this asset is allocated to each period using the effective interest rate method. 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.

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

The Group uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates and 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 balance sheet.

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 as adopted by the EU including the creation of compliant documentation and meeting the effectiveness testing requirements. If a hedge does not meet the criteria for hedge accounting, which may include a consideration of whether there has been a substantial modification to the terms of the hedge, or where there is some degree of ineffectiveness identified in respect of the hedging relationship, then the change in fair value in relation to these items will be recorded in the income statement. If a hedging relationship is judged to be discontinued for hedge accounting, then any amounts previously deferred in other comprehensive income must immediately be recognised 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.

Accounting Policies continued

For the year ended 31 March 2019

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

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

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

iv) Insurance receivable

Judgements need to be exercised to determine what costs are eligible for reimbursement under the terms of the relevant insurance policy and then a judgement formed as to whether those reimbursable costs are virtually certain of recovery at the balance sheet date.

v) Income taxation

Current taxation

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

Deferred taxation

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

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

Accounting Policies continued

For the year ended 31 March 2019

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

vi) Lifetime expected credit losses

The carrying value of those financial assets recorded in the Group's balance sheet at amortised cost, including Transmission owner assets could be materially reduced if the value of those financial assets were assessed to have been impaired. Lifetime expected credit losses arise as a result of all possible default events over the expected life of a financial instrument. At each reporting date, the Group performs an assessment as to whether the credit risk on a financial instrument has increased and depending upon the outcome of that assessment then the Group will make an appropriate allowance for expected credit losses in accordance with the requirements of IFRS 9. This assessment involves considering reasonable and supportable information that is available to allow appropriate judgements to be formed but still involves the significant use of assumptions.

Any reduction in value arising from such a review would be recorded in the income statement.

vii) Decommissioning Provision

Provisions are made for certain liabilities where the timing and amount of the liability is uncertain. The Group's only provision relates to the estimated costs of decommissioning the Group's offshore transmission systems at the end of their expected economic lives – being 20 years. These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The plans for decommissioning these assets have been approved by Department of Energy and Climate Change and published on the Group's web site (www.bluetransmission.com) and includes many assumptions.

The estimates and judgements used in determining the carrying value of this provision include, but are not limited to, the following:

- the estimated useful economic life of the Group's transmission systems is assumed to be 20 years being the period each individual OFTO within the Group has exclusive rights to operate under the Licences and the period which is expected to generate the vast majority of cash flows relating to the ownership of the systems;
- estimates of costs relating to the appropriate and safe removal, disposal, recycling and making safe of the transmission systems having regard to market prices and access to the appropriate level of technology; and
- discount rate appropriate to the 20-year life of the assets being decommissioned. The Group has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to the decommissioning provision every five years, reflective of the long-term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

Accounting Policies continued

For the year ended 31 March 2019

K. Accounting developments

i) Accounting standards as applied to these financial statements

In preparing these financial statements the Group and Company has complied with IFRS, International Accounting Standards (IAS) and Interpretations applicable either for accounting periods starting by 1 April 2018 or ending by 31 March 2019 and have been endorsed by the EU. Note 1 to these financial statements summarises the impact on these financial statements of implementing IFRS 9. The implementation of any new accounting standards, amendments to standards or interpretations that have been issued and endorsed by the EU and are applicable to these financial statements for the first time, including IFRS 15, have not had any significant effect on the measurement of assets and/or liabilities or any of the disclosures included herein.

ii) New accounting standards, amendments to standards and interpretations issued that may be relevant to the Company or Group's activities but are not effective in these financial statements

The Group has identified IFRS 16 'Leases' as an accounting standard that is not effective in these financial statements, but which could impact the financial statements in the future and further information regarding this standard is given below.

IFRS 16 'Leases'

IFRS 16 is applicable to the Group and Company's financial statements commencing 1 April 2019. The Group is evaluating the impact of this new accounting standard and it is expected to have an impact on the measurement and disclosure of lease liabilities and related right-of-use assets within the balance sheet presented by the Group. In addition, there is likely to be an impact on the Group's income statement geography and the timing and recognition of lease related expenses. There is expected to be no impact on the Company's individual financial statements of adopting this accounting standard. The evaluation of the impact of IFRS 16 on the Group financial statements is not yet complete and so quantification of the impact is not available.

Other standards, amendments to standards and interpretations

There are no other new accounting standards, amendments to standards or interpretations that have been issued but that are not effective in these Group and Company financial statements that are likely to have any significant impact on the measurement of assets and/or liabilities or any of the disclosures included herein.

Consolidated income statement

For the year ended 31 March 2019

		2019	2018
	Notes	£'000	£'000
Operating income	3	24,276	22,275
Finance income	3	45,323	46,439
Total income		69,599	68,714
Operating costs	4	(10,151)	(11,571)
Operating profit		59,448	57,143
Other finance income	5	324	138
Finance costs	5	(42,211)	(42,395)
Net interest expense	5	(41,887)	(42,257)
Profit before taxation		17,561	14,886
Income taxation charge	6	(3,132)	(2,645)
Profit attributable to equity shareholders		14,429	12,241

The results reported above relate to continuing operations.

The notes on pages 54 to 80 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2019

		2019	2018
	Notes	£'000	£'000
Profit attributable to equity shareholders		14,429	12,241
Other comprehensive income / (loss)			
<u>Items that may be subsequently reclassified to Profit and Loss:</u>			
Net (losses) / gains taken to equity in respect of cash flow hedges	16	(7,261)	23,106
Deferred taxation on cash flow hedges	6	1,233	(3,928)
Total other comprehensive (loss) / income		(6,028)	19,178
Total comprehensive income for the year attributable to equity shareholders		8,401	31,419

Company balance sheet

As at 31 March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investments in subsidiary undertakings	20	<u>125,201</u>	<u>124,803</u>
Total non-current assets		<u>125,201</u>	<u>124,803</u>
Current assets			
Accrued income		3,978	3,016
Cash and cash equivalents	10	<u>490</u>	<u>475</u>
Total current assets		<u>4,468</u>	<u>3,491</u>
Total assets		<u>129,669</u>	<u>128,294</u>
Current liabilities			
Trade and other payables	12	<u>(4,468)</u>	<u>(3,491)</u>
Total current liabilities		<u>(4,468)</u>	<u>(3,491)</u>
Non-current liabilities			
Borrowings	11	<u>(123,769)</u>	<u>(123,371)</u>
Total non-current liabilities		<u>(123,769)</u>	<u>(123,371)</u>
Total liabilities		<u>(128,237)</u>	<u>(126,862)</u>
Net assets		<u>1,432</u>	<u>1,432</u>
Equity			
Called up share capital	15	1,432	1,432
Retained earnings	16	-	-
Total shareholders' equity		<u>1,432</u>	<u>1,432</u>

Company number: 106705

The financial statements set out on pages 35 to 80 were approved by the Board of Directors on 26 June 2019 and were signed on its behalf by:



Matthew Pitts
Director

Consolidated balance sheet

As at 31 March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Transmission owner assets	8	792,010	818,612
Deferred taxation assets	9	1,303	1,376
Derivative financial assets	13	-	2,207
Total non-current assets		793,313	822,195
Current assets			
Prepayments		972	940
Insurance receivable		36	853
Transmission owner assets	8	26,605	24,422
Cash and cash equivalents	10	51,334	54,301
Total current assets		78,947	80,516
Total assets		872,260	902,711
Current liabilities			
Borrowings	11	(33,539)	(29,211)
Trade and other payables	12	(7,257)	(15,458)
Total current liabilities		(40,796)	(44,669)
Non-current liabilities			
Borrowings	11	(759,143)	(791,661)
Derivative financial liabilities	13	(57,818)	(52,151)
Deferred taxation liabilities	9	(6,054)	(4,229)
Decommissioning provisions	14	(12,906)	(11,964)
Total non-current liabilities		(835,921)	(860,005)
Total liabilities		(876,717)	(904,674)
Net liabilities		(4,457)	(1,963)
Equity			
Called up share capital	15	1,432	1,432
Retained earnings	16	39,021	35,487
Cash flow hedge reserve	16	(44,910)	(38,882)
Total shareholders' equity		(4,457)	(1,963)

Company number: 106705

The consolidated financial statements set out on pages 35 to 80 were approved by the Board of Directors on 26 June 2019 and were signed on its behalf by:



Matthew Pitts
Director

Company statement of changes in equity

For the year ended 31 March 2019

	Note	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017		1,432	-	1,432
Total comprehensive income for the year		-	7,945	7,945
Ordinary dividends	7	-	(7,945)	(7,945)
At 31 March 2018		1,432	-	1,432
Total comprehensive income for the year		-	10,895	10,895
Ordinary dividends	7	-	(10,895)	(10,895)
At 31 March 2019		<u>1,432</u>	<u>-</u>	<u>1,432</u>

On 29 May 2019, the Board approved the payment of an interim dividend amounting to £2,709k. This dividend is not recognised in the financial statements for the year ended 31 March 2019 in accordance with IFRS.

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Note	Called up share capital £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017		1,432	(58,478)	31,609	(25,437)
Total comprehensive income for the year		-	19,178	12,241	31,419
Transfer between reserves		-	418	(418)	-
Ordinary dividends	7	-	-	(7,945)	(7,945)
At 31 March 2018		1,432	(38,882)	35,487	(1,963)
Total comprehensive income for the year		-	(6,028)	14,429	8,401
Transfer between reserves		-	-	-	-
Ordinary dividends	7	-	-	(10,895)	(10,895)
At 31 March 2019		<u>1,432</u>	<u>(44,910)</u>	<u>39,021</u>	<u>(4,457)</u>

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

On 29 May 2019, the Board approved the payment of an interim dividend amounting to £2,709,000. This dividend is not recognised in the financial statements for the year ended 31 March 2019 in accordance with IFRS.

Company cash flow statement

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
<u>Cash flows from operating activities</u>			
Profit attributable to equity shareholders for the year		10,895	7,945
Adjustments for:			
Non-cash ordinary dividends paid		(10,895)	(7,945)
Changes in working capital		15	(50)
		<u>(10,880)</u>	<u>(7,995)</u>
Net increase/(decrease) in cash and cash equivalents		15	(50)
Cash and cash equivalents at the start of the year		475	525
Cash and cash equivalents at the end of the year	17	<u>490</u>	<u>475</u>

Consolidated cash flow statement

For the year ended 31 March 2019

		2019	2018
	Notes	£'000	£'000
<u>Cash flows from operating activities</u>			
Profit attributable to equity shareholders for the year		14,429	12,241
Adjustments for:			
Net interest charges		41,887	42,257
Taxation charge		3,132	2,645
Non-cash movement relating to finance income		24,419	18,316
Changes in working capital		(7,196)	9,369
		<u>62,242</u>	<u>72,587</u>
Net cash flows from operating activities		76,671	84,828
<u>Cash flows from investing activities</u>			
Interest received		324	138
Cash flows from investing activities		324	138
<u>Cash flows used in financing activities</u>			
Partial repayment of senior loans	17	(29,958)	(27,184)
Partial repayment of other borrowings	17	-	(1,000)
Interest paid		(39,006)	(39,054)
Ordinary dividends paid	7	(10,895)	(7,945)
Other finance charges		(103)	(99)
Net cash flows used in financing activities		(79,962)	(75,282)
Net (decrease) / increase in cash and cash equivalents		(2,967)	9,684
Cash and cash equivalents at the start of the year		54,301	44,617
Cash and cash equivalents at the end of the year	17	51,334	54,301

Notes to the financial statements

For the year ended 31 March 2019

1. Impact of adoption of new accounting standard IFRS 9 - Financial instruments

IFRS 9 has replaced the provisions of International Accounting Standard 39 (IAS 39) that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 April 2018 has resulted in certain changes in accounting policies and the classification of certain financial assets and financial liabilities; however, no adjustments were required to the amounts recognised in the financial statements in previous periods.

Classification and measurement

On 1 April 2018, the Group and Company classified its financial instruments into the appropriate IFRS 9 categories. As a consequence, all of the Group's derivative financial instruments are now classified at fair value through profit and loss under IFRS 9. All of these derivative financial instruments were previously designated as cash flow hedges under IAS 39 at 31 March 2018 and continue to qualify for hedge accounting under IFRS 9 at 1 April 2018 and are therefore treated as continuing hedges. In addition, the Group continues to apply the hedge accounting requirements of IAS 39 as permitted by IFRS 9. The Company does not have any derivative financial instruments.

The Group's Transmission owner assets continue to be accounted at amortised cost under IFRIC 12 – see "Accounting policies - B. Transmission availability arrangements" and "Note 8. Transmission owner assets" below.

To the extent that the Group or Company recognises any trade receivables – these financial assets are classified and measured at amortised cost, as they are held within a business model to collect contracted cash flows, which is the same treatment as adopted prior to 1 April 2018. Similarly, cash and cash equivalents continue to be classified as amortised cost financial assets as they were under IAS 39 as the contractual cash flows only reflect payments of principal and interest on the principal amount outstanding.

There are no changes to the measurement and classification of any other financial liabilities under IFRS 9 as compared with IAS 39 for the Group or the Company.

Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model being the Transmission owner asset which is also classified as a contract asset under IFRS 15 and any trade receivables that may be outstanding. To the extent the Company has any trade receivables, this too would be subject to IFRS 9's new expected credit loss model.

The Group has assessed the credit risk in relation to the Transmission owner assets and believes it to be extremely low as the probability of default is insignificant; therefore, the provision for expected credit losses is £nil.

Typically, the value of any trade receivables outstanding at any one time is immaterial to the activities of the Group and typically the Company does not have any trade receivables outstanding.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, but no impairment loss has been identified for the Group or Company.

Consequently, the IFRS 9 impact on the retained earnings of the Group and the Company at 1 April 2018 was £nil and therefore no restatement was required.

Notes to the financial statements continued

For the year ended 31 March 2019

2. Operating segment

The Board of Directors is the Group's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities plus cash flows from investing activities). The Group and segmental results, balance sheet and relevant cash flows can be seen in the consolidated income statement, the consolidated balance sheet and consolidated cash flow statement on pages 46, 49 and 53 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 54 to 80.

The electricity transmission operations of the Group comprise the transmission of electricity by four OFTOs to the UK onshore electricity system operated by NGET.

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

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

3. Operating and finance income

Operating income of £24,276k (2018: £22,275k) and finance income of £45,323k (2018: £46,439k) primarily relates to the Group's activity as a provider of electricity transmission services. The vast majority of the Group's income is derived from NGET. Finance income is calculated using the effective interest rate method – consistent with the Group's accounting policy – see "Accounting policies - G. Operating and finance income".

With effect from 1 April 2019, the Group provides its electricity transmission services to NGESO.

4. Operating costs

Operating costs are analysed below:

	2019	2018
	£'000	£'000
Operations, maintenance and management ¹	8,979	10,538
Auditors' remuneration	102	102
Other	1,070	931
Total	10,151	11,571
<u>Auditors' remuneration comprises:</u>		
Audit services	48	48
Tax services	22	22
Other services supplied pursuant to legislation ²	32	32
Total	102	102

¹This represents costs associated with the provision of operating, maintenance and management to the OFTO, which covers operation and maintenance costs, insurance premiums, management service fees, and non-domestic rates related to the transmission network. Included within operations, maintenance and management costs is a net credit amounting to £1,321k (2018: £242k) relating to an offshore export cable repair.

²These represent fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular, this includes fees for audit reports on regulatory returns.

Other operating costs include fees of £35k (2018: £35k) for one Director and £35k (2018: £35k) for Diamond Transmission Corporation Limited (a related party) in respect of consultancy services. No other Director received any remuneration (2018: £nil). See note 18 for further details.

Notes to the financial statements continued

For the year ended 31 March 2019

5. Net interest expense

Net interest expense is as tabulated below:

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	<u>324</u>	<u>138</u>
Interest expense and other financial costs		
Interest on bank loans	(28,579)	(29,373)
Interest on other borrowings	(10,989)	(10,903)
Other financial costs ¹	<u>(2,643)</u>	<u>(2,119)</u>
	<u>(42,211)</u>	<u>(42,395)</u>
Net interest expense	<u>(41,887)</u>	<u>(42,257)</u>

¹ Includes £613k net charge (2018: net charge of £128k) as a result of hedge ineffectiveness.

6. Income taxation charge

a) Taxation on items included in the income statement

The net taxation charge for the year is £3,132k (2018: £2,645k), and the composition of that charge is described below.

The taxation charge on current year profits arising in the year represents deferred taxation and has been computed at 19% (2018: 19%). There is no current taxation included in income statement (2018: £nil).

The taxation charge for the year differs from (2018: differs from) the standard rate of corporation tax in the UK of 19% (2018: 19%) for the reasons outlined below:

	2019 £'000	2018 £'000
Profit before taxation	<u>17,561</u>	<u>14,886</u>
Taxation at 19% (2018: 19%) on profit before taxation	3,337	2,829
Effects of:		
- expenses not deductible for tax purposes	164	127
- change in tax rates on deferred tax ¹	<u>(369)</u>	<u>(311)</u>
Taxation charge for the year	<u>3,132</u>	<u>2,645</u>

¹ Reflecting a corporation tax rate of 17% (2018: 17%) being the rate of corporation tax expected to apply when all temporary differences are expected to reverse.

Notes to the financial statements continued

For the year ended 31 March 2019

6. Income taxation charge continued

b) Taxation on items included in other comprehensive income

The net taxation credit on items included in other comprehensive income for the year is £1,233k (2018: charge of £3,928k) and comprises a credit on items arising in the current year computed at 19% (2018: 19%) of £1,379k (2018: charge £4,391k) and a charge of £146k (2018: credit of £463k) arising from a change in corporation taxation rates. The net taxation credit (2018: net charge) on items arising in the current year represents deferred taxation. There is no current taxation included in other comprehensive income (2018: £nil).

c) Taxation - future years

Future tax charges, and therefore the Group's future effective tax rate, could be impacted by changes in legislation or the interpretation of existing legislation by the Group and or the relevant tax authorities.

7. Ordinary dividends

Interim ordinary dividends were approved by the Board and paid during the year as follows:

	2019 £'000	2018 £'000
Interim ordinary dividends	<u>10,895</u>	<u>7,945</u>

Ordinary dividends of 760.82p per ordinary share was paid during the year to the Company's shareholders – each of whom hold 50% of the ordinary shares of the Company (BIF Offshore Windkraft Holdings Limited and Diamond Transmission Corporation Limited) and received 50% of the dividends paid accordingly (2018: ordinary dividends of 554.04p per ordinary share).

On 29 May 2019, the Board approved the payment of an interim dividend of 189.13p per ordinary share amounting to £2,709k. This dividend is not recognised in the financial statements for the year ended 31 March 2019 in accordance with IFRS.

8. Transmission owner assets

The movement in the carrying value of the Group's transmission owner assets is shown in the table below:

	2019 £'000	2018 £'000
At 1 April	843,034	861,350
Adjustment to the carrying value*	<u>(24,419)</u>	<u>(18,316)</u>
At 31 March	<u>818,615</u>	<u>843,034</u>
Comprising:		
Amounts falling due within one year	26,605	24,422
Amounts falling due after more than one year	<u>792,010</u>	<u>818,612</u>
	<u>818,615</u>	<u>843,034</u>

* Arising from the application of the effective interest rate method.

Notes to the financial statements continued

For the year ended 31 March 2019

8. Transmission owner assets continued

The Group Transmission owner assets are contract assets and are carried at amortised cost. The estimated fair value of the Transmission owner assets at 31 March 2019 was £956,392k (2018: £987,194k). The basis for estimating the fair value of the Transmission owner assets was to estimate the net cash flows arising over the estimated economic life of the projects, and to discount those expected net cash flows at a discount rate within the range of 4.99% (2018: 4.99%) to 6.31% (2018: 6.31%) per annum depending on the asset.

The Company has no Transmission owner assets (2018: none).

9. Deferred taxation assets and liabilities

Deferred taxation assets and liabilities are recognised in the Group balance sheet as follows:

	Fair value net losses on derivatives £'000	Accelerated Capital allowances £'000	Other £'000	Total £'000
At 1 April 2017	12,397	(28,852)	20,175	3,720
Movements	(3,907)	(2,666)	-	(6,573)
At 31 March 2018	8,490	(31,518)	20,175	(2,853)
Current year movements	1,338	(3,236)	-	(1,898)
At 31 March 2019	<u>9,828</u>	<u>(34,754)</u>	<u>20,175</u>	<u>(4,751)</u>

Comprising:

	Total 2019 £'000	Total 2018 £'000
Deferred tax assets	1,303	1,376
Deferred tax liabilities	<u>(6,054)</u>	<u>(4,229)</u>
	<u>(4,751)</u>	<u>(2,853)</u>

Other deferred taxation assets relate primarily to temporary differences arising from current taxation losses.

The Company had no deferred taxation assets or liabilities at 31 March 2019 (2018: £nil).

Notes to the financial statements continued

For the year ended 31 March 2019

10. Cash and cash equivalents

Group cash and cash equivalents comprise short-term deposits of £51,334k (2018: £54,301k). Short-term deposits are made for various periods of between one day and 3 months, depending on immediate cash requirements, and earn interest at the respective short-term deposit rates. All cash and equivalents are carried at amortised cost.

Group cash and cash equivalents include amounts of £38,076k (2018: £46,149k) that the Group can only use for specific purposes. Of the remaining cash and cash equivalents £11,891k (2018: £6,800k) require the consent of the Group's lenders prior to use, but are held for general corporate purposes, and the remaining £1,367k (2018: £1,352k) is unencumbered.

The Company holds cash and cash equivalents of £490k (2018: £475k).

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

11. Borrowings

The following table analyses Company and Group borrowings:

	Company		Group	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Current				
Bank loans – fixed rate	-	-	16,449	14,313
Bank loans – variable rate	-	-	17,090	14,898
	-	-	33,539	29,211
Non-current				
Bank loans – fixed rate	-	-	313,316	329,389
Bank loans – variable rate	-	-	322,058	338,901
Other borrowings	123,769	123,371	123,769	123,371
	123,769	123,371	759,143	791,661
Total borrowings	123,769	123,371	792,682	820,872

Total borrowings are repayable as follows:

In one year or less	-	-	33,539	29,211
In more than one year, but not more than two years	-	-	37,134	33,349
In more than two years, but not more than three years	-	-	40,422	36,970
In more than three years, but not more than four years	-	-	43,906	40,293
In more than four years, but not more than five years	-	-	44,712	43,799
In more than five years other than by instalments	123,769	123,371	592,969	637,250
	123,769	123,371	792,682	820,872

Notes to the financial statements continued

For the year ended 31 March 2019

11. Borrowings continued

There are four fixed rate bank loans all with the European Investment Bank ("EIB"). One EIB loan with a principal outstanding at 31 March 2019 of £38,965k (2018: £41,017k) carries an interest rate of 3.992% per annum and is due to be repaid in full by 30 September 2030. The second EIB loan with a principal outstanding at 31 March 2019 of £40,462k (2018: £42,594k) carries an interest rate of 3.715% per annum and is due to be repaid in full by 30 September 2031. The third EIB loan with a principal outstanding at 31 March 2019 of £76,698k (2018: £79,981k) carries an interest rate of 3.903% per annum and is due to be repaid in full by 30 June 2032. The fourth EIB loan with a principal outstanding at 31 March 2019 of £173,640k (2018: £180,110k) carries an interest rate of 4.14% per annum and is due to be repaid in full by 30 September 2032.

All the variable rate bank loans are with consortia of banks under commercial facility agreements and carry an interest rate linked to the three-month LIBOR rate. These loans all amortise over the same periods as the four fixed rate bank loans above.

The fixed rate loans and the bank loans under the commercial facilities taken together comprise the "senior debt" and are secured over all of the assets of the Group as required under the terms of the relevant debenture for each OFTO.

The other borrowings are unsecured and comprise four separate borrowings which are held by the Company's shareholders. The first has a principal amount outstanding at 31 March 2019 of £11,958k (2018: £11,583k), a fixed coupon of 7.88% per annum plus an interest component which is linked to positive movements in RPI and is contractually repayable on 31 October 2031. The second has a principal amount outstanding at 31 March 2019 of £17,948k (2018: £17,925k), a fixed coupon of 9.9% per annum and is contractually repayable on 31 October 2032. The third has a principal amount outstanding at 31 March 2019 of £19,451k (2018: £19,451k), a fixed coupon of 9.5% per annum and is contractually repayable on 30 June 2033. The fourth has a principal amount outstanding at 31 March 2019 of £74,412k (2018: £74,412k), a fixed coupon of 8.21% per annum and is contractually repayable on 30 September 2033.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 19.

As at 31 March 2019, the Group though its OFTOs had committed credit facilities of £23,000k (2018: £23,000k) all of which was undrawn at 31 March 2019 (2018: undrawn).

There have been no instances of default or other breaches of the terms of the loan agreements during the year in respect of all loans outstanding at 31 March 2019.

Notes to the financial statements continued

For the year ended 31 March 2019

12. Trade and other payables

Trade and other payables are as tabulated below.

	Company		Group	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade payables	-	-	53	565
Other taxes	-	-	2,239	2,087
Accrued expenses	4,468	3,491	4,965	12,806
	<u>4,468</u>	<u>3,491</u>	<u>7,257</u>	<u>15,458</u>

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value. All trade and other payables are recorded at amortised cost and are all expected to be settled within 12 months of the balance sheet date. Included in accrued expenses are amounts owed to shareholders in respect of interest on other borrowings – see note 18.

13. Derivative financial (liabilities) / assets

Derivative financial instruments are recorded in the balance sheet at market value and the carrying value of these derivative financial instruments may result in assets and/or liabilities being recognised at the balance sheet date. Derivative financial instruments derive their market value from the price of an underlying item, such as interest rates or other indices and have been entered into for the sole purpose of hedging the underlying economic activity of the Group. All such derivative financial instruments are classified under IFRS 9 at fair value through profit and loss.

All hedge accounting continues to be carried out in accordance with the hedge accounting requirements of IAS 39 as permitted by IFRS 9, and as a consequence, most of the change in the fair value of the Group's derivative financial instruments continues to be reflected through other comprehensive income in the cash flow hedge reserve. The Company has no derivative financial instruments and the Group's use of derivative financial instruments is described below.

RPI swaps

Each OFTO has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 70% in the cases of BTW1 and BTW2, approximately 80% in the case of BTSS, and approximately 90% in the case of BTLA) 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 commensurate with the senior debt borrowing arrangements and they end commensurate with those arrangements.

The Group's use and strategy relating to RPI swaps is described in more detail in the "Group Strategic Report – Hedging Arrangements".

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

Notes to the financial statements continued

For the year ended 31 March 2019

13. Derivative financial (liabilities) / assets continued

Interest rate swaps

The Group's operating subsidiaries (the OFTOs) have entered into a series of interest rate swaps with third parties which has the commercial effect of swapping the variable rate interest coupon for a fixed rate coupon in respect of approximately 98% of the nominal value of the Group's commercial loans. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements.

The Group's use of and strategy relating to interest rate swaps is described in more detail in the "Group Strategic Report – Hedging Arrangements".

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments are carried at market value. The net carrying value of all derivative financial instruments at 31 March 2019 amounted to net liabilities of £57,818k (2018: £49,944k) comprising liabilities of £16,187k for RPI swaps (2018: £10,348k); liabilities of £41,631k for interest rate swaps (2018: £41,803k); and RPI swap assets of £nil (2018: £2,207k).

Of the total movement in the fair value of these derivative financial instruments during the year amounting to a net charge of £7,874k (2018: net credit of £22,977k), a £613k net hedge ineffectiveness charge (2018: £128k) has been recorded in the income statement within "finance costs" and a net charge of £7,261k (2018: net credit of £23,106k) has been recorded in the cash flow hedge reserve.

Further details regarding financial instruments and their related risks are given in note 19.

Notes to the financial statements continued

For the year ended 31 March 2019

14. Decommissioning provisions

The Company does not have any provisions (2018: £nil).

The movement in the Group decommissioning provisions is analysed below.

Group	£'000
At 1 April 2017	11,500
Charge for the year	-
Unwinding of discount	464
At 31 March 2018	11,964
Charge for the year	388
Unwinding of discount	554
At 31 March 2019	12,906

The decommissioning provisions are all non-current.

The decommissioning provisions of £12,906k at 31 March 2019 (2018: £11,964k) represent the net present value of the estimated expenditures expected to be incurred at the end of the economic life of each of the projects to decommission the OFTO transmission assets. The decommissioning expenditure relates to the removal and scrapping of all onshore and offshore transmission assets above the level of the seabed, and the burial of all cable ends. The gross expenditure expected to be incurred on decommissioning amounts to £22,049k (2018: £21,924k), and is expected to be incurred in 2031, 2032 and 2033.

The discount rate used to discount the gross expenditure expected to be incurred on decommissioning is a pre-taxation 'risk free' rate with a maturity similar to that of the decommissioning liability. This reflects the best estimate of the time value of money risks specific to the liability, as the estimated gross decommissioning costs appropriately reflect the risks associated with that liability.

The decommissioning provisions arise from the Group's obligations under S105 of the Energy Act 2004 and the contractual obligations relating to the lease of the seabed granted by the Crown Estate Commissioners to each OFTO. The decommissioning plans for each OFTO have been submitted for approval under S105 of the Energy Act 2004 and were subsequently approved by the Secretary for State for Energy and Climate Change under S106 of the Energy Act 2004.

The decommissioning provisions are financial instruments under IFRS, and the fair value of the obligations equate to their carrying values as the carrying values represent the net present value of the future expenditure expected to be incurred as described above.

15. Called up share capital

Company and Group Share capital is as analysed below.

Group and Company	No. (thousands)	£'000
Allotted, called up and fully paid:		
At 1 April 2017 and at 31 March 2018	1,432	1,432
At 31 March 2019	1,432	1,432

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

Notes to the financial statements continued

For the year ended 31 March 2019

16. Reserves

The movement and analysis of the Company's reserves is shown below.

Company	Retained earnings £'000	Total £'000
At 1 April 2017	-	-
Profit attributable to equity shareholders for the year	7,945	7,945
Ordinary dividends	(7,945)	(7,945)
At 31 March 2018	-	-
Profit attributable to equity shareholders for the year	10,895	10,895
Ordinary dividends	(10,895)	(10,895)
At 31 March 2019	-	-

The movement and analysis of the Group's reserves is shown below.

Group	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
At 1 April 2017	31,609	(58,478)	(26,869)
Transfer between reserves	(418)	418	-
Profit attributable to equity shareholders for the year	12,241	-	12,241
Ordinary dividends	(7,945)	-	(7,945)
Gains on cash flow hedges taken to equity	-	23,106	23,106
Deferred taxation on cash flow hedges	-	(3,928)	(3,928)
At 31 March 2018	35,487	(38,882)	(3,395)
Profit attributable to equity shareholders for the year	14,429	-	14,429
Ordinary dividends	(10,895)	-	(10,895)
Losses on cash flow hedges taken to equity	-	(7,261)	(7,261)
Deferred taxation on cash flow hedges	-	1,233	1,233
At 31 March 2019	39,021	(44,910)	(5,889)

All reserves with the exception of the cash flow hedge reserve are distributable.

Notes to the financial statements continued

For the year ended 31 March 2019

17. Cash flow statement

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

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

Group	2019 £'000	2018 £'000
Movement in cash and cash equivalents	(2,967)	9,684
Net decrease in borrowings	29,958	28,184
Change in net debt resulting from cash flows	26,991	37,868
Non-cash finance costs included in net debt	(1,935)	(2,645)
Change in fair values of derivatives	(7,874)	22,977
Movement in net debt in the year	17,182	58,200
Net debt at start of year	(819,511)	(877,711)
Net debt at end of year	(802,329)	(819,511)

At 31 March 2019 the Company had net cash of £490k (2018: £475k).

(b) Analysis of changes in Group net debt

Group	Cash and cash equivalents £'000	Borrowings £'000	Derivatives £'000	Interest accruals £'000	Total £'000
At 1 April 2017	44,617	(846,848)	(72,921)	(2,559)	(877,711)
Cash flow	9,684	28,184	-	-	37,868
Change in fair values	-	-	22,977	-	22,977
Non-cash finance costs	-	(2,208)	-	(437)	(2,645)
At 31 March 2018	54,301	(820,872)	(49,944)	(2,996)	(819,511)
Cash flow	(2,967)	29,958	-	-	26,991
Change in fair values	-	-	(7,874)	-	(7,874)
Non-cash finance costs	-	(1,768)	-	(167)	(1,935)
At 31 March 2019	51,334	(792,682)	(57,818)	(3,163)	(802,329)

Notes to the financial statements continued

For the year ended 31 March 2019

18. Related party transactions

The following information relates to material transactions with related parties during the year and comparative year. Dividends paid to shareholders are shown in note 7. The following transactions were carried out in the normal course of business and at terms equivalent to those that prevail in arm's length transactions.

	Group	
	2019	2018
	£'000	£'000
Expenditure:		
Interest ¹ (including indexation):		
BIF Offshore Windkraft Holdings Limited (BIF)	5,494	5,451
Diamond Transmission Corporation Limited (DTC)	5,495	5,451
Services received:		
DTC ²	35	35
Directors' fees ³	35	35
Infrastructure Managers Limited	124	120
	11,183	11,092
Outstanding balances at 31 March:		
Borrowings payable ¹ (principal)	123,769	123,371
Interest accrual ¹	3,499	2,996
Other accruals ⁴	9	9
	127,277	126,376

¹ Relates to funding related transactions and balances with BIF and DTC who are paid, accrued and owed equal amounts of principal and interest.

² Consultancy fees for services received from DTC.

³ Consultancy fees for services received from to Graham Farley.

⁴ Being accrued expenses payable to DTC £9k (2018: £9k).

Notes to the financial statements continued

For the year ended 31 March 2019

18. Related party transactions continued

	Company	
	2019	2018
	£'000	£'000
Income:		
Management and related services provided:		
Blue Transmission Walney 1 Limited	168	157
Blue Transmission Walney 2 Limited	168	157
Blue Transmission Sheringham Shoal Limited	168	157
Blue Transmission London Array Limited	168	157
Interest and dividends ¹ :		
Blue Transmission Walney 1 (Holdings) Limited	3,242	2,522
Blue Transmission Walney 2 Investments Limited	4,996	4,868
Blue Transmission Sheringham Shoal Investments Limited	5,428	4,901
Blue Transmission London Array (Holdings) Limited	9,150	6,557
	23,488	19,476
Expenditure:		
Interest ² (including indexation):		
BIF	5,961	5,451
DTC	5,961	5,451
Services received		
DTC	35	35
Infrastructure Managers Limited	124	120
Directors' fees ³	35	35
	12,116	11,092
Assets		
Borrowings receivable:		
Blue Transmission Walney 1 (Holdings) Limited ¹	11,958	11,583
Blue Transmission Walney 2 Investments Limited ¹	17,948	17,925
Blue Transmission Sheringham Shoal Investments Limited ¹	19,451	19,451
Blue Transmission London Array (Holdings) Limited ¹	74,412	74,412
Interest receivable:		
Blue Transmission Walney 1 (Holdings) Limited ¹	224	223
Blue Transmission Walney 2 Investments Limited ¹	1,014	813
Blue Transmission Sheringham Shoal Investments Limited ¹	452	456
Blue Transmission London Array (Holdings) Limited ¹	2,251	1,506
Other assets ⁴	9	18
	127,719	126,387
Liabilities		
Borrowings payable ² (principal)	123,769	123,371
Interest accrual ²	4,441	2,996
Other liabilities ⁵	9	9
	128,219	126,376

¹ Relates to funding related and dividend transactions with subsidiary undertakings

² Relates to funding related transactions and balances with BIF and DTC/DUTC who are paid, accrued and owed equal amounts of principal and interest.

³ Fees amounting for consultancy services were paid and/or payable to Graham Farley.

⁴ Amounts due from subsidiaries of £9k (2018: £18k).

⁵ Relates to amounts payable to DTC £9k (2018: £9k).

Notes to the financial statements continued

For the year ended 31 March 2019

18. Related party transactions continued

At 31 March 2019 and 31 March 2018, BIF and DTC hold all of the related party borrowings payable by the Company and Group in equal proportions and on identical terms. These borrowings were negotiated on normal commercial terms and are repayable in accordance with the terms of the relevant borrowing agreement. Interest and principal repayments were made during the year amounting to £10,583k (2018: £9,681k) for interest and £nil (2018: £1,000k) of principal repayments. Absent any non-compulsory repayment of the related party borrowings, these related party borrowings are contractually repayable over the period 2031 to 2033.

Fees amounting to £70k (2018: £70k) for the Group and £70k (2018: £70k) for the Company were expensed in respect of services provided by a Director (Graham Farley) and DTC. Each party received or were otherwise entitled to 50% of the total fees paid or payable by the Group or Company as appropriate.

Infrastructure Managers Limited (IML) is a related party of the Group and Company by virtue of it being controlled by the same ultimate parent entity as BIF. The services provided to the Group and the Company by IML are under normal commercial terms and relate to financial management services. Amounts due to IML at 31 March 2019 were £nil (2018: £nil).

The Company provides management services to the OFTO's under normal commercial terms which relate to management costs. The total amount charged during the year amounted to £672k (2018: £628k).

The Company has loans due from its subsidiaries, Blue Transmission Walney 1 (Holdings) Limited, Blue Transmission Walney 2 Investments Limited, Blue Transmission Sheringham Shoal Investments Limited and Blue Transmission London Array (Holdings) Limited on terms identical to those which the Company has agreed to with its shareholders, BIF and DTC. The interest charge for the year ended 31 March 2019 including indexation amounted to £11,922k (2018: £10,903k).

No amounts have been provided at 31 March 2019 (2018: £nil), and no expense was recognised during the year (2018: £nil) in respect of bad or doubtful debts for any related party transactions.

Notes to the financial statements continued

For the year ended 31 March 2019

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

a) Fair value disclosures

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

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner assets – based on the net present value of discounted cash flows;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the carrying amount in respect of variable rate loans, and in respect of all EIB fixed rate loans and all fixed rate other unsecured other borrowings, it is based on the net present value of discounted cash flows;
- Derivative financial instruments – based on the net present value of discounted cash flows;
- Financial instrument receivables and payables – approximates to the carrying value because of the short maturity of these instruments; and
- Decommissioning provision – approximates to carrying value.

The table on the following page compares the carrying value of the Group's financial instruments with the fair value of those instruments at the balance sheet date of 31 March 2019 (plus prior year comparatives), using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value because of its short maturity. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

a) Fair value disclosures continued

2019					
	Group		Company		Valuation method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets					
Non-current					
Transmission owner assets	792,010	929,787	-	-	Level 3
Derivative financial assets	-	-	-	-	Level 2
Investments in subsidiaries	-	-	125,201	132,286	Level 3
	<u>792,010</u>	<u>929,787</u>	<u>125,201</u>	<u>132,286</u>	
Liabilities					
Non-current					
Fixed rate bank loans	313,316	312,249	-	-	Level 2
Floating rate bank loans	322,058	322,058	-	-	Level 2
Other borrowings	123,769	128,877	123,769	128,877	Level 2
Derivative financial liabilities	57,818	57,818	-	-	Level 2
Provisions	12,906	12,906	-	-	Level 3
	<u>829,867</u>	<u>833,908</u>	<u>123,769</u>	<u>128,877</u>	
2018					
	Group		Company		Valuation method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets					
Non-current					
Transmission owner assets	818,612	962,772	-	-	Level 3
Derivative financial assets	2,207	2,207	-	-	Level 2
Investments in subsidiaries	-	-	124,805	135,129	Level 3
	<u>820,819</u>	<u>964,979</u>	<u>124,805</u>	<u>135,129</u>	
Liabilities					
Non-current					
Fixed rate bank loans	329,389	335,854	-	-	Level 2
Floating rate bank loans	338,901	338,901	-	-	Level 2
Other borrowings	123,371	130,237	123,371	130,237	Level 2
Derivative financial liabilities	52,151	52,151	-	-	Level 2
Provisions	11,964	11,964	-	-	Level 3
	<u>855,776</u>	<u>869,107</u>	<u>123,371</u>	<u>130,237</u>	

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

a) Fair value disclosures continued

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 level 1 valuation techniques apply. With the exception of the Transmission owner assets, investments in subsidiaries and decommissioning provisions, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Group's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data.

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

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the year (2018: throughout the year) and there have been no reclassifications or transfers between the various valuation categories during the year. The implementation of IFRS 9 with effect from 1 April 2018 has not impacted on any of the valuation categories shown in the table above.

b) Management of risk

The Board has overall responsibility for the Group's risk management framework. This risk framework is discussed further in the Group Strategic Report.

The Group's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Group by using financial instruments, including the use of derivative financial instruments – being the RPI swaps and interest rate swaps described in note 13 that are appropriate to the circumstances and economic environment within which the Group operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

i) Market risk

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

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

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

i) Market risk continued

Transmission owner assets are classified as contract assets and are 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 assets. The fair value of the Transmission owner assets is subject to price risk caused by changes in RPI and/or changes in interest rates.

Substantially all of the Group's borrowings, net of the impact of the Group's interest rate swap arrangements (see note 13), have been issued at fixed rates which exposes the Group to fair value interest rate risk and, as a result, the fair value of borrowings (net of the interest rate swap arrangements) fluctuate with changes in interest 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 balance sheet.

The interest rate swaps used to hedge the Group's variable rate borrowings (see note 13) are considered highly effective hedges of those borrowings and are carried at fair value in the balance sheet. For the reasons outlined above, the Group is exposed to fair value interest rate risk in respect of the net fixed interest hedged position that has been achieved by the use of these derivatives. In the opinion of the Directors, these arrangements have reduced cash flow interest rate risk, and further details of these arrangements are outlined in note 13.

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.

The cash flows arising from the Transmission owner assets fluctuate with positive changes in RPI. The Group has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in the "Group Strategic Report – Hedging Arrangements".

For the reasons outlined in the Group Strategic Report, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the balance sheet. The RPI swaps are considered to be effective cash flow hedges.

ii) Credit risk

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

Credit risk primarily arises from the Group's normal commercial operations that actually, or potentially, arises from the Group's exposure to: a) NGET (NGESO from 1 April 2019) in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI and interest rate swaps described in the "Group Strategic Report – Hedging Arrangements"; and c) short-term deposits. There are no other significant credit risks to which the Group is exposed. The maximum exposure to credit risk at 31 March 2019 and 31 March 2018 is the fair value of all financial assets held by the Group.

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

ii) Credit risk continued

Information relating to the fair value of all financial assets is given above – note 19 (a). None of the Group's financial assets are past due or impaired.

Through to 31 March 2019 NGET was the Group's principal customer, and revenue derived from NGET represents the vast majority of the Group's revenue. With effect from 1 April 2019, some of the functions previously carried out by NGET have been transferred to a fellow subsidiary undertaking (NGESO) within the National Grid group of companies, in particular, NGESO is now responsible for settling all of the transmission services invoices submitted by OFTOs in the Group. Both NGET and NGESO operates low risk regulated businesses within the UK, and the regulatory framework 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. Both NGET and NGESO are subject to a regulatory financial 'ring fencing' that restricts their 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 an NGET or NGESO insolvency, it is probable that any amounts outstanding would still be recovered. This arises because both NGET and NGESO are both 'protected energy companies 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 or NGESO as a going concern.

Having considered the credit risks arising in respect of the exposures to NGET and NGESO, the Directors consider that those risks are extremely low, given the evidence available to them.

In respect of the counterparties to the cash flow derivative hedges (RPI and interest rate swaps) these arrangements have been entered into with subsidiaries of the banks that have provided all of the variable rate borrowings to the Group. At 31 March 2019, the fair values attributable to these positions were liabilities amounting to £57,818k (2018: £52,151k) and assets amounting to £nil (2018: £2,207). The Directors have considered the credit risk associated with the derivative asset positions at 31 March 2019 of £nil (2018: £2,207) and have concluded that the risk of non-performance is low and as a consequence there is minimal 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 a requirement under the Group's lending agreements, that such investments can only be placed with banks and other financial institutions with 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. All of these deposits are subject to insignificant risk of change in value or credit risk.

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern

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

As a result of: the regulatory environment under which the Group operates; the creditworthiness of the Group's primary customer (NGET through to 31 March 2019 and NGESO from 1 April 2019); and the RPI swaps that have been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, net of the impact of the interest swap arrangements, substantially all of the Group's senior debt carries a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole period of the project. During the year ended 31 March 2019, senior debt-service costs amounted to £58,381k (2018: £56,557k). There is no obligation on the Group to service the other borrowings until the contractual redemption date (2031, 2032 or 2033 depending on the particular other borrowing agreement), although it is the Group's intention to service these borrowings when cash flows are sufficient, and it is prudent to do so. Cash outflows during the year ended 31 March 2019 in respect of the other borrowings amounted to £10,583k (2018: £10,681k).

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 3 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 2019, cash and cash equivalents included £38,076k (2018: £46,149k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £11,891k (2018: £6,800k) which requires the consent of the Group's lenders but are available for general corporate purposes. All remaining cash and cash equivalents are unencumbered.

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.

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

In addition to the existing borrowings of the Group, the Group has secured committed credit facilities with a consortium of banks amounting to £23,000k at 31 March 2019 (2018: £23,000k). Of these facilities £3,000k (2018: £3,000k) expire in 2030, £5,000k (2018: £5,000k) expire in 2031, and £15,000k (2018: £15,000k) expire in 2032. These credit facilities are available to be drawn down by OFTO subsidiaries within the Group under certain conditions and for certain purposes as laid down within the individual lending agreements as they apply to specific OFTOs. No individual OFTO within the Group has access to the credit facility of another OFTO within the Group.

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. 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 Group Strategic Report.

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

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

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

	2019 Contractual cash flows £'000	2019 0-1 years £'000	2019 1-2 years £'000	2019 2-5 years £'000	2019 >5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner assets	1,621,895	95,222	97,638	311,434	1,117,601
Cash and cash equivalents	51,334	51,334	-	-	-
	1,673,229	146,556	97,638	311,434	1,117,601
Borrowings *	(868,806)	(55,312)	(61,348)	(193,899)	(558,247)
Trade and other non-interest-bearing liabilities	(7,257)	(7,257)	-	-	-
Provisions	(22,049)	-	-	-	(22,049)
	(898,112)	(62,569)	(61,348)	(193,899)	(580,296)
RPI and interest rate swaps	(95,516)	(4,808)	(5,130)	(17,546)	(68,032)
Net total	679,601	79,179	31,160	99,989	469,273
	2018 Contractual cash flows £'000	2018 0-1 years £'000	2018 1-2 years £'000	2018 2-5 years £'000	2018 >5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner assets	1,713,737	93,939	94,966	301,763	1,223,069
Cash and cash equivalents	54,301	54,301	-	-	-
	1,768,038	148,240	94,966	301,763	1,223,069
Borrowings *	(927,271)	(54,864)	(58,809)	(190,483)	(623,115)
Trade and other non-interest-bearing liabilities	(15,456)	(15,456)	-	-	-
Provisions	(21,924)	-	-	-	(21,924)
	(964,651)	(70,320)	(58,809)	(190,483)	(645,039)
RPI and interest rate swaps	(90,808)	(4,052)	(4,336)	(14,916)	(67,504)
Net total	712,579	73,868	31,821	96,364	510,526

* Including interest payments.

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iv) Sensitivities

Changes in interest rates and/or RPI affect the carrying value of those financial instruments that are recorded in the balance sheet at fair value. The only financial instruments that are carried in the balance sheet at fair value are the standalone derivative financial instruments - RPI and interest rate swaps as described in note 13 above. As previously explained, 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. The vast majority of the 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 interest rate swaps and RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner assets, and in the case of the interest rate swaps the vast majority of the senior debt variable rate borrowings - 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 cashflows they are hedging.

Any changes in future cash flows in relation to the derivative financial instruments held by the Group, arising from future changes in RPI and/or interest rates, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the underlying position being hedged.

v) Capital management

The Group is funded by a combination of senior debt, other borrowings 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 its Licences and the Utilities Act 2000.

Senior debt comprises fixed rate loans from the EIB and commercial loan facilities from syndicates of commercial lenders which carry a coupon linked to 3-month LIBOR. As referenced in the "Group Strategic Report – Hedging Arrangements", the OFTO subsidiaries of the Group have entered into interest rate swap agreements with fellow or subsidiary undertakings of the commercial lenders which has had the commercial effect of swapping the variable rate interest coupon for a fixed rate coupon in respect of c98% of the nominal value of those loans.

Notes to the financial statements continued

For the year ended 31 March 2019

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

v) Capital management continued

All of the senior debt and related interest rate derivatives are serviced on a quarterly basis and are expected to amortise through to 2030, 2031 or 2032 (depending on the facility). At 31 March 2019, the total carrying value of senior debt amounted to £668,913k (2018: £697,501k).

Other debt has been issued by the Company to its shareholders and either carries a fixed rate coupon or a fixed rate coupon plus an interest rate component linked to the movement in the UK retail price index as published by the Office for National Statistics. At 31 March 2019 the total principal value of the other borrowings outstanding amounted to £123,769k (2018: £123,371k).

Ordinary equity share capital at 31 March 2019 amounted to £1,432k (2018: £1,432k).

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

Notes to the financial statements continued

For the year ended 31 March 2019

20. Investments in subsidiary undertakings

Company	Equity £'000	Loans £'000	Total £'000
At 1 April 2017	1,432	123,590	125,022
Repayments	-	(1,000)	(1,000)
Capitalised interest	-	440	440
Re-measurement	-	341	341
At 31 March 2018	1,432	123,371	124,803
Capitalised interest	-	23	23
Re-measurement	-	375	375
At 31 March 2019	1,432	123,769	125,201

The Company holds the issued share capital of:

- i) Blue Transmission Walney 1 (Holdings) Limited, a company registered in England and Wales, which recorded profit attributable to equity shareholders for the year ended 31 March 2019 of £1,949k (2018: £1,287k) and has capital and reserves of £161k (2018: £161k). The Company has advanced unsecured loan notes to Blue Transmission Walney 1 (Holdings) Limited which carries a fixed coupon of 7.88% per annum, plus an interest component that is linked to positive movements in RPI loans. The loan investment is contractually repayable on 31 October 2031.
- ii) Blue Transmission Walney 2 Investments Limited, a company incorporated in Jersey, which recorded profit attributable to equity shareholders for the year ended 31 March 2019 of £3,067k (2018: £3,142k) and has capital and reserves of £175k (2018: £175k). The Company has advanced unsecured loan notes to Blue Transmission Walney 2 Investments Limited which carries a fixed coupon of 9.9% per annum. The loan investment is contractually repayable on 31 October 2032.
- iii) Blue Transmission Sheringham Shoal Investments Limited, a company incorporated in Jersey, which recorded profit attributable to equity shareholders for the year ended 31 March 2019 of £3,583k (2018: £3,052k) and has capital and reserves of £262k (2018: £262k). The Company has advanced unsecured loan notes to Blue Transmission Sheringham Shoal Investments Limited that carries a fixed coupon of 9.5% per annum. The loan investment is contractually repayable on 30 June 2033.
- iv) Blue Transmission London Array (Holdings) Limited, a company registered in England and Wales, which recorded profit attributable to equity shareholders for the year ended 31 March 2019 of £2,296k (2018: £464k) and has capital and reserves of £835k (2018: £835k). The Company has advanced unsecured loan notes to Blue Transmission London Array (Holdings) Limited which carries a fixed coupon of 8.21% per annum. The loan investment is contractually repayable on 30 September 2033.

Notes to the financial statements continued

For the year ended 31 March 2019

20. Investments in subsidiary undertakings continued

Group

The principal subsidiaries in the Group are all OFTOs and comprise: Blue Transmission Walney 1 Limited; Blue Transmission Walney 2 Limited; Blue Transmission Sheringham Shoal Limited; and Blue Transmission London Array Limited. All four of these entities are wholly owned indirect subsidiaries of the Company and are registered in England and Wales; their principal business activity is the transmission of electricity.

21. Company income statement

No income statement is presented by the Company as permitted by Section 105 of the Companies (Jersey) Law 1991. The profit attributable to equity shareholders for the year ended 31 March 2019 was £10,895k (2018: £7,945k).

Glossary

A

The Agreement

The Shareholders Agreement

The Authority

The Gas and Electricity Markets Authority

B

Board

The Board of Directors of the Company

BIF

BIF Offshore Windkraft Holdings Limited, a company ultimately controlled by 3i Group plc

BTW1

Blue Transmission Walney 1 Limited

BTW2

Blue Transmission Walney 2 Limited

BTSS

Blue Transmission Sheringham Shoal Limited

BTLA

Blue Transmission London Array Limited

C

Called up share capital

Shares (ordinary) that have been issued and have been fully paid for.

Carrying value

The amount at which an asset or liability is recorded in the balance sheet.

Charging year

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

Cash Flow Hedges

a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

the Company, Blue Transmission Investments, we, our, or us

The terms 'the Company', 'Blue Transmission Investments Limited', 'we', 'our', or 'us' are used to refer to Blue Transmission Investments Limited, depending on context

Contingent liabilities

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

D

Deferred taxation or deferred tax

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

Derogation

A temporary delay in the implementation of a licence requirement.

Derivative

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

DTC

Diamond Transmission Corporation Limited (wholly owned subsidiary of Mitsubishi Corporation)

Glossary

E

EIB

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

Equity

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

EU

The European Union, consisting of 28 member European national states.

F

Financial year

For Blue Transmission Investments Limited this is the accounting year ending on 31 March.

FPL

Frontier Power Limited – supplier of management services to the Group.

G

Great Britain

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

The Group, we, our, or us

Blue Transmission Investments Limited and its subsidiary undertakings

The terms 'the Group', 'we', 'our', or 'us' are used to refer to the activities of Blue Transmission Investments Limited and its subsidiary undertakings, depending on context

H

HS&E

Health, Safety, and the Environment

I

IAS or IFRS

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

IASB

International Accounting Standards Board.

IFRIC 12

IFRIC 12 Service Concession Arrangements

IFRS

See IAS

IML

Infrastructure Managers Limited – supplier of administrative and company secretarial services to the Group.

Interest Rate Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange periodic interest payments on a predetermined principal amount. The Group pays fixed interest amounts in exchange for receipt of variable interest amounts linked to LIBOR.

K

KPIs

Key performance indicators

kV

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

Glossary

L

LIBOR

London Interbank Offered Rate.

The Licence or Licences

The Offshore Electricity Licence held by the OFTO's.

LTIs

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

M

MMO

Marine Management Organisation

MSA

Management Services Agreement

MWhrs

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

N

NGET

National Grid Electricity Transmission plc

NGESO

National Grid Electricity System Operator Limited

The Notes (see also other borrowings)

Unsecured 7.88% RPI Linked Loan Notes 2031, unsecured 9.9% Loan Notes 2032, unsecured 9.5% Loan Notes 2033, and unsecured 8.21% Loan Notes 2033.

O

Ofgem

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

OFTO(s)

Offshore Transmission Owner(s)

O&M

Operations and Maintenance

Other borrowings (see also the Notes)

Amounts borrowed by the Company and Group from its shareholders.

P

Performance year

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

R

RPI

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

RPI Swaps

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

Glossary

S

Scira

Scira Offshore Energy Limited

Senior Debt

All borrowings except the other borrowings.

STC

System Operator Transmission Owner Code

SQSS

Security and Quality of Supply Standard

T

TOCA

Transmission Owner Construction Agreement

U

UK

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

W

WOWL

Walney (UK) Offshore Windfarms Limited