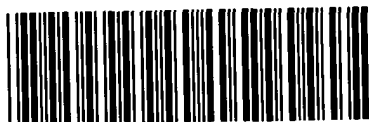


WoDS Transmission Holdco Limited

Annual Report and Group Financial Statements 2021/22

Registered in England and Wales. Company number: 09308464

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Group Strategic Report

For the year ended 31 March 2022

Introduction

This Group Strategic Report explains the operations of WoDS Transmission Holdco Limited ("the Company") and that of its sole subsidiary, WoDS Transmission plc ("WoDS"), together ("the Group"), and the main trends and factors underlying the development and performance of the Company and its subsidiary undertaking during the year ended 31 March 2022, as well as those matters which are likely to affect its future development and performance.

The ultimate parent company of the Company is WoDS Transmission TopCo Limited ("TopCo"), a company incorporated and registered in Jersey.

The principal activity of the Group, through its operating subsidiary, WoDS, is to provide an electricity transmission service to National Grid Electricity System Operator Limited ("NGESO"), being the electricity transmission system operator for Great Britain.

WoDS owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore electricity transmission system owned by National Grid Electricity Transmission plc ("NGET").

The Company's principal activity is to act as a holding company and receive dividends (where declared), interest and principal repayments of the loan investment it holds in WoDS and pay dividends (where declared) to TopCo in addition to servicing the Company's other borrowing liabilities due to TopCo. The contractual form of the loan investments in WoDS are exactly mirrored by the other borrowing liabilities owed to TopCo.

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 Group holds an Offshore Electricity Transmission Licence ("the Licence"), awarded by The Gas and Electricity Markets Authority ("the Authority") that became effective from 20 August 2015. This Licence, amongst other matters, permits and requires WoDS to maintain and operate the West of Duddon Sands offshore electricity transmission assets for the period the Licence is in force. WoDS offshore electricity transmission system exports the output of the West of Duddon Sands wind farm to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as WoDS to be certified as complying with the unbundling requirements concerning common rules for the internal market in electricity ("the third package"). WoDS has been issued a certificate pursuant to Section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. WoDS has ongoing obligations and is required to make certain ongoing declarations to the Authority pursuant to the Licence to ensure compliance with the terms of the certificate which it has met through to the date of this report.

Group Strategic Report continued

For the year ended 31 March 2022

The Group's offshore electricity transmission system

WoDS transmits the electrical power of the West of Duddon Sands wind farm from the offshore connection point of WoDS's electrical assets with the electrical assets owned by the windfarm to the onshore connection point of WoDS's assets with the electricity transmission system of NGET. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

The West of Duddon Sands offshore wind farm comprises 108 turbines, with a combined capacity of around 389 megawatts ("MW") and is located in the East Irish Sea approximately 14 km from the nearest coast on Walney Island, Cumbria. The power that is generated by the wind farm is transported to shore by WoDS and connects into the NGET system at Heysham in Lancashire. The wind farm turbines are interconnected in "strings" by medium voltage (33kV) submarine cables that act as a power collection and transport system. The medium voltage cables are owned by the windfarm and run to the offshore electricity substation that is owned by WoDS. At the offshore electricity substation, the voltage is "stepped up" to 132kV by electrical transformers and then transported to land by two high voltage submarine cables buried in the sea floor. At landfall, the submarine cables are joined to land cables that run to WoDS's onshore electricity substation at Heysham. At the Heysham substation the power factor of the electricity is corrected using reactive compensation equipment and the transported power is then connected into NGET's electricity transmission system.

The Group's long term business objectives

The Company is a holding company formed for the purpose of holding an investment in WoDS which itself is a special purpose vehicle formed to hold the Licence. Its non-financial objectives are, therefore, consistent with the objectives of the Licence. The Group will achieve these objectives by ensuring its compliance with the Licence; industry codes and legislation; and by operating and maintaining its transmission system in accordance with good industry practice.

The Group's financial objective is to provide financial returns to TopCo at least consistent with, or in excess of, the business plan that supported its tender offer for the West of Duddon Sands offshore transmission system. The Group will achieve this objective by:

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

Future Developments

The Company's primary purpose is to hold an investment in WoDS, generate returns from that investment and reward its shareholder accordingly. WoDS, as the Company's sole subsidiary, is expected to continue to operate its offshore electricity transmission system in compliance with the offshore electricity transmission licence which it has been awarded and generate returns based on this objective- no change to this objective is likely in the future.

Group Strategic Report continued

For the year ended 31 March 2022

The Group's operating model

The Group's operating model is to outsource all of its management and its operations and maintenance ("O&M") activities. O&M activities are outsourced to a third-party specialist O&M provider. Management services are outsourced to Frontier Power Limited ("FPL") through a Management Services Agreement ("MSA"). In addition, other accounting services, company secretarial services and administrative support are provided to the Group by Infrastructure Managers Limited ("IML"). 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 Licence obligations and complies with good industry practice. The Group mitigates the performance risk of its outsourced service providers through a contracting process.

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, through its operating subsidiary WoDS:

- 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.

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 Licence; the Transmission Owner Construction Agreement ("TOCA") with NGET and the System Operator – Transmission Owner Code ("STC") with NGESO. The Group's operations are also subject to a range of industry-specific legal requirements.

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

Licence obligations

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

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

Group Strategic Report continued

For the year ended 31 March 2022

Regulated revenue and incentives

The Licence awarded by the Authority to WoDS determines how much WoDS may charge for the OFTO services that it provides to NGENSO. In any relevant charging year which runs from 1 April through to the following 31 March all such charges are determined in accordance with the requirements of the Licence. The Licence also provides WoDS with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the WoDS's transmission system in any given calendar year versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of WoDS's electricity transmission system (as determined by WoDS's Services Capability Specification in any given calendar year, or part thereof).

Transmission charges are based on the target transmission system availability of 98% and increase on 1 April following any given calendar year end by reference to the rate of increase in the UK retail price index ("RPI") in the 12-month period through to the previous September. The revenue derived from charges based on this target availability represents the Group's "base revenue". For the avoidance of doubt, transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

As previously noted, the Licence contains mechanisms to incentivise WoDS to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The Licence includes incentives to maximise availability 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 WoDS 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.

If the achieved transmission system availability is different to the target availability, then there is a mechanism contained within the Licence that could potentially affect the Group's charges and hence its revenue in future periods. The Licence provides for adjustments to "base revenue" where the OFTO's system availability performance is different from 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"). WoDS is then permitted or required under the Licence, 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 WoDS can "earn" and then collect in charges in any one charging year is the financial equivalent of 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 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.

Notional availability penalties and credits as measured in MWhrs are recorded on a monthly basis during the calendar year. If at the end of any calendar year there is a cumulative net credit this net credit is eligible for conversion as a financial adjustment to charges during the following charging 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.

Group Strategic Report continued

For the year ended 31 March 2022

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 in respect of 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.

There are a number of risks that the Group faces that affect the level of transmission system availability and therefore affects potential incentive credits and penalties that otherwise might arise under the incentive arrangements. The principal factors governing transmission system availability include 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, thereby avoiding unnecessary equipment failure and where possible the Group seeks to carry out such maintenance with the minimum number and duration of planned outages whilst having regard to the safe operation of those assets; and
- 3) the management of necessary 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.

The Group mitigates the risk of system unavailability due to equipment failure through the maintenance regime described above, the holding of strategic spares and a robust contingency plan to respond to any unplanned system outages. All maintenance activities are carried out in accordance with good industry practice.

In certain circumstances and in respect of certain costs, such as non-domestic rates relating to the Group's onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the Group 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 earlier, WoDS is incentivised to provide the maximum transmission system availability as is possible having regard to the safe running of the system. The maximum availability of the system is defined in the Licence and is expressed in MWhrs.

The Group has reported 99.38% transmission capacity based on the operational maximum capacity of the transmission system during the performance year ended 31 December 2021 as compared with 99.50% for the prior performance year. These reported availability figures exclude the impact of any outages as permitted by the Licence or as otherwise approved by the Authority. In particular, during the performance year ended 31 December 2021, there were two instances of fault on third party equipment leading to a loss of availability of WoDS's transmission system – where the impact of these outages have been attributed to emergency de-energisations these outages have been excluded from reported availability as permitted by the Licence. In addition, there was a related outage on the WoDS's transmission system following one of the third party's faulty operations, this related outage is the subject of an Exceptional Event claim under the Licence to the Authority, to allow for the exclusion of this outage from reported availability. This Exceptional Event claim has yet to be determined by the Authority as the investigation into the cause of this outage has yet to be completed – in the event that this Exceptional Event claim is successful, in whole or in part, then this would lead to a restatement of the reported transmission capacity for the performance year ended 31 December 2021 from 99.38% to a maximum of 99.94%.

Group Strategic Report continued

For the year ended 31 March 2022

Subsequent to the year end, during June 2022, the WoDS Circuit 2 tripped following an offshore Grid Transformer pressure release device operation, resulting in an unplanned outage of WoDS circuit 2 for c3 days before service was restored. The WoDS circuit 2 has continued to provide uninterrupted service since this incident through to the date of this report. This unplanned outage will impact reported availability for the performance year ending 31 December 2022 – representing approximately 0.28% of transmission capacity as reported to Ofgem.

A summary of actual Transmission system availability (adjusted for outages as permitted by the Licence or as otherwise approved by the Authority) and incentive related availability credits in MWhrs for the performance years ended 31 December 2020 and 31 December 2021 are shown in a table later in this report – see “Transmission system availability” later in this Group Strategic Report.

Transmission system quality of supply

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

The Group has met its requirements to transmit electricity in accordance with the parameters agreed with NGESO during the year under review and through to the date of this report.

Group Strategic Report continued

For the year ended 31 March 2022

Key performance indicators ("KPIs")

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

	Definition	Objective
Financial KPIs		
Cash available for debt service	Net cash inflows from operating activities plus cash inflows from investing activities: £21,440k (2020/21: £19,168k)	To allow for the servicing of debt including the unsecured other borrowing to the Company's immediate and ultimate parent undertaking.
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year to 31 December 2021: 99.38% (31 December 2020: 99.61%)	To exceed the Licence target availability 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 control, reactive power and harmonic distortion.	To be compliant. This has been achieved for both 2021/22 and 2020/21.
HS&E	1) Zero lost time accidents ("LTIs") for employees and contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under the Marine Management Organisation ("MMO") Licence; and 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. All HS&E KPIs for 2021/22 and 2020/21 have been met.

The Group's operational performance

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

In support of these objectives WoDS has developed a comprehensive asset management policy and framework that is consistent with good industry practice. 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, WoDS continued the successful application of its asset management policy and framework and carried out its asset management activities in accordance with the resulting Asset Operating Plan. Maintenance activities have been successfully carried out in accordance with the maintenance plan, and WoDS submitted its network outage plan to NGE SO, the Great Britain electricity system operator.

Group Strategic Report continued

For the year ended 31 March 2022

A seabed bathymetric survey was conducted in August 2020 to examine seabed mobility and potential cable exposure areas as identified in a previous bathymetric survey undertaken in November 2018. The August 2020 survey indicated that, although further seabed mobility was observed, the overall cable protection and exposure levels were of a similar order to that observed in November 2018. Consequently, there were no indications of any material issues that would impact the integrity of the subsea cable or the offshore substation platform. The next sub-sea survey is expected to be carried out in 2023.

During 2021 the wind farm generator undertook a generator array cable inspection in the vicinity of the OFTO offshore platform using a remote operated vehicle and during that inspection they also surveyed the OFTO export cables and observed some signs of corrosion. The export cables and their protection system remain stable however, we have engaged a technical expert to assess any longer-term implications and to determine if any remediation is necessary. We are collaborating with the generator to manage the environment in the vicinity of the OFTO offshore platform as this also includes the generator array cables.

Transmission system availability

The performance of the Group's transmission system for the performance year ended 31 December 2021 and 31 December 2020 was as tabulated below:

MWhrs	Note	Performance Year ended 31 December 2021	Performance Year ended 31 December 2020
Maximum system availability (capability - MWhrs)	(a)	3,344,239	3,355,488
Actual system availability (MWhrs)	(b)	3,323,350	3,342,448
Actual system availability (%)	(b)	99.38%	99.61%
Regulatory target system availability (%)		98%	98%
Availability credits (MWhrs)			
Net availability credits at 1 April 2021 (1 April 2020)		54,069	66,885 ¹
Availability credits recovered in charges in financial year		(54,069)	-
Availability credits approved for collection in future charges		-	(66,885) ¹
Net availability credits for the performance year	(b)	45,996	54,069
Net availability credits at 31 March 2022 (31 March 2021)	(c)	45,996	54,069

¹ Banked availability credits at 1 April 2020 represented performance credits that arose during the performance year ended 31 December 2019 and were collected in charges made to NGESE during the financial year ended 31 March 2022. These performance credits and related charges that were subsequently collected from NGESE, arose from a successful Exceptional Event claim granted by the Authority to exclude certain outages from reported availability in respect of the performance year ended 31 December 2019.

- a) The maximum system availability of the Group's transmission system as declared to NGESE during the performance year.
- b) After taking into account any relief permitted by the Licence or otherwise approved by the Authority.
- c) Net availability credits at 31 March 2022 (31 March 2021) represent "banked" availability credits through to 31 December 2021 (31 December 2020). Consequently, this excludes any potential credits or penalties that have arisen between 1 January 2022 and 31 March 2022 (1 January 2021 and 31 March 2021) as these potential availability credits or penalties are not eligible to be "banked" until 31 December 2022 (31 December 2021).

Group Strategic Report continued

For the year ended 31 March 2022

Quality of supply

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

During the year ended 31 March 2022 and year ended 31 March 2021, WoDS has met its obligations to transmit electricity compliant with these operational obligations. WoDS has continued to comply with these obligations through to the date of this report.

Health, safety and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety and the environment. Safety is critical both to business performance and to the culture of the 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.

The Board is pleased to report that, during the year under review there were no health or safety incidents that required reporting under applicable legislation and that contractor “lost days” arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 were zero.

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.

The Board is also pleased to report that during the year under review there were no environmental incidents or matters that required reporting to any relevant competent authority and that it has continued to comply with the Marine licence obligations that were transferred to it by the vendors of the offshore electricity transmission assets since the transmission assets were acquired by the Group.

Group Strategic Report continued

For the year ended 31 March 2022

Commitment to ethical business practices

The Group is committed to ethical business practices in the way that the Group carries out its business and is committed to complying with all laws and regulations that apply to the Group at all times.

As a member of the WoDS group of companies ("the TopCo group") the Company is subject to the policies of the TopCo group and that of its own policies, which include:

- A code of conduct that governs the activities of those persons directly involved in the business, which applies in particular to the Directors and the employees and consultants engaged by FPL in the provision of service to the Company and the Group generally;
- A tax evasion policy, including a consideration of the implications of the Criminal Finances Act 2017;
- Compliance with General Data Protection Regulation; and
- An anti-bribery and anti-corruption policy.

The Group has identified no instances of non-compliance with any of the above policies for the year ended 31 March 2022 and through to the date of this report.

The Group respects the rights of those persons who work directly or indirectly in the business. While the Group does not have a formal modern slavery policy, as it is not obliged to have such a policy, it does not condone in any way modern slavery within its business or that of its supply chain.

The Group has made enquires of key suppliers during the year within its supply chain as to their policies in respect of business ethics generally and human rights and modern slavery policies in particular. Based on the responses received from key suppliers and a review of policies supplied by those key suppliers, it appears clear that those suppliers are also committed to highly ethical business practices.

Stakeholder relationships

The potentially hazardous nature of Group's operations and the environmentally sensitive nature of the locations where its assets are located require 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, WoDS, as the only operating company in the Group, has defined and implemented a stakeholder engagement and communications plan which it has continued to apply during the year and through to the date of this report.

The Directors consider that stakeholder relationships are satisfactory.

Principal and emergent risks and uncertainties

The principal and emerging risks and uncertainties faced by the Group have been discussed and referenced in this Group Strategic Report, alongside a discussion of the operational and financial performance of the Group.

Group Strategic Report continued

For the year ended 31 March 2022

Statement in respect of section 172 of the Companies Act 2006

The Directors have an obligation under section 172 of the Companies Act to promote the long-term success of the Group for the benefit of its sole shareholder but in doing so, they should have regard to other interested parties, including those businesses in its supply chain and its customers. As the Group does not have any employees, it is crucially important for the Group to have good relationships with businesses within its supply chain. In addition, the Directors should and do have due regard to the impact its operations have on the environment and the local community. The Directors take all of these responsibilities extremely seriously.

This Group Strategic Report outlines the actions and outcomes that the Board has taken in relation to its obligations under S172 of the Companies Act 2006, references to these are provided below:

- "The Group's operational performance Health, safety and environmental performance";
- "Commitment to ethical business practices"; and
- "Stakeholder relationships".

The Group has an effective governance process in place, and this is explained in detail in the Corporate governance report that commences on page 24.

The Group has been in compliance with its Licence obligations throughout the year.

Other

All the Directors of the Company are male.

The Group's financial performance

Summary

The financial performance of the Group for the year ended 31 March 2022 and its financial position as at 31 March 2022, 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 £'000.

The Group reports its results in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the applicable legal requirements of the Companies Act 2006; the currency used in reporting these financial statements is GBP.

	2022	2021
	£'000	£'000
Operating profit	12,099	11,760
Other finance income	20	35
Operating profit plus other finance income	12,119	11,795
Finance costs	(10,751)	(12,598)
Profit / (loss) before taxation	1,368	(803)
Taxation	(1,461)	(77)
Loss after taxation	(93)	(880)
Net cash inflow from operating activities and investing activities	21,440	19,168
Net cash flows used in financing activities	(21,743)	(19,237)

Group Strategic Report continued

For the year ended 31 March 2022

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 income was derived from NGESO for the year ended 31 March 2022 and the year ended 31 March 2021.

Finance income for the year amounted to £10,720k (2021: £11,072k), and represents the finance income that would have been generated from an efficient standalone "transmission owner". The finance income for the year has reduced as compared with the prior year reflecting the lower absolute return on the average lower value of the carrying value of the transmission owner asset which has been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 36.

Operating income for the year amounted to £5,264k (2021: £4,782k), and primarily represents the operating income that would be generated by an efficient provider of operating services to NGESO. Such operating 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 has been recorded in accordance with the principal accounting policies adopted by the Group and has increased as compared with the prior year- reflective of higher transmission availability payments being collected during the year. Transmission availability payments for the year ended 31 March 2022 are higher than for the prior year as these availability payments, in effect, reflect the collection of performance credits for the performance years ended 31 December 2019 and 31 December 2020 during the year ended 31 March 2022. During the year ended 31 March 2021 no performance credits were being collected in transmission availability charges.

In June 2020, the Authority notified the Group of a successful Exceptional Event claim which allowed for the exclusion of certain outages from the calculation of reported availability performance for the performance year ended 31 December 2019. Under normal circumstances, the financial impact of reported availability performance for the performance year ended 31 December 2019 would be reflected during the financial year ended 31 March 2021. However, because of the timing of the successful Exceptional Event notification, the Group could not collect additional availability payments until the year ended 31 March 2022.

Operating costs

Operating costs for the year amounted to £3,885k (2021: £4,094k). The most significant cost included within these costs relates to the operations, maintenance and management of the Group and amounted to £3,685k (2021: £3,908k). This cost covers operations and maintenance fees, insurance fees, management service fees, and non-domestic rates associated with the transmission network. The decrease in operating costs for the year primarily reflects the lower additional maintenance costs incurred in the year compared to the prior year.

Operating profit

Operating profit being the residual of operating income, finance income and operating costs amounted to £12,099k (2021: £11,760k). The decrease in operating profit for the year as compared with year ended 31 March 2021, reflects the changes discussed earlier, but is primarily explained by the reduction in finance and operating income as discussed under "Operating and finance income" earlier and a decrease in maintenance costs as explained under "Operating costs" above.

Group Strategic Report continued

For the year ended 31 March 2022

Other finance income

Other finance income of £20k (2021: £35k) relates solely to interest earned on bank deposits.

Finance costs

Finance costs amounted to £10,751k (2021: £12,598k). The vast majority of the finance costs relate to the interest cost of servicing the senior debt bondholders £6,982k (2021: £7,314k) and holders of the other borrowing £4,131k (2021: £3,954k). Interest expense and other financial costs principally arise from the cost of debt used to finance the initial acquisition of the transmission owner asset. The finance cost relating to senior debt bondholders reduced in the year as a result of the partial repayment of this debt and consequently the interest expense is lower than the previous year as the average senior debt balance for the year ended 31 March 2022 is lower than for the prior year.

Finance costs also include a £845k credit (2021: £845k charge) that arose as a result of certain hedge ineffectiveness for accounting purposes. This change in hedge ineffectiveness explains the decrease in finance costs for the year.

Taxation

The net taxation charge on loss (2021: loss) before taxation for the year is £1,461k (2021: £77k) and relates solely to deferred taxation. There was no current taxation arising in the year (2021: £nil) as the Group has no taxable profit (2021: no taxable profit).

The net taxation charge on profit before taxation for the year ended 31 March 2022 has been computed at 19% (2021: 19%). The net taxation charge on profit before taxation for this year also included a charge amounting to £938k (2021: £nil) following the remeasurement of certain deferred taxation balances during the year ended 31 March 2022 which were previously calculated at 19% but were remeasured to 25% during the year. The 25% rate of corporation taxation is the rate of corporation tax that was reflected in the Finance Act 2021 and applies to pre taxation profits arising in respect of all years commencing on or after 1 April 2023. This is the corporation taxation rate that would be expected to apply when the vast majority of the temporary differences as underlie these deferred taxation balances are anticipated to reverse.

A net taxation credit of £6,810k (2021: £364k) has been recognised in other comprehensive income relating to pre-taxation losses (2021: losses) arising on marking the Group's cash flow hedges to market at the balance sheet date.

The net taxation credit for the year ended 31 March 2022 (2021: net credit) on other comprehensive income relates solely to deferred taxation and has been computed at 19% (2021: 19%). The net taxation credit for the year ended 31 March 2022 includes a credit amounting to £1,662k (2021: £nil) relating to the remeasurement of certain deferred taxation balances during the year ended 31 March 2022 from 19% to 25%, for the same reasons as impacted the taxation charge included in the income statement for the same year as explained above.

Loss after taxation

Loss for the year after taxation amounted to £93k (2021: £880k). The decrease in loss after taxation for the year ended 31 March 2022 as compared with the prior year reflects the impact of the changes on operating profit, finance costs and taxation which are discussed earlier.

Group Strategic Report continued

For the year ended 31 March 2022

Cash flows

Net cash flows from operations amounted to £21,420k (2021: £19,133k) primarily reflecting the amounts invoiced and received from NGESO in relation to the provision of transmission services in the year net of cash outflows relating to operating activities incurred during the year. As explained earlier in this section of the Group Strategic Report – see “Operating and finance income”, performance credits relating to the performance years ended 31 December 2019 and 31 December 2020 – have, in effect, been collected through higher transmission availability payments from NGESO during the financial year ending 31 March 2022. Consequently, net cash flows from operations for the year ended 31 March 2022 and for the year ended 31 March 2021 are c£1.1m higher and lower respectively than would otherwise have been expected.

Net cash flows generated from investing activities for the year ended 31 March 2022 amounted to £20k (2021: £35k), reflecting the receipt of interest income.

Cash available for debt servicing, defined as net cash flows from operating activities plus net cash flows generated from investing activities being interest income received of £20k (2021: £35k) amounted to £21,440k (2021: £19,168k). Net cash outflows used in financing activities amounted to £21,743k (2021: £19,237k) and include £142k (2021: £140k) of payments in respect of an infrastructure financial liability.

Payments to service the senior bondholders during the year amounted to £17,736k (2021: £17,143k) and payments to service the other borrowing during the year amounted to £3,051k (2021: £1,953k).

No income taxation or dividends were paid in the year (2021: £nil).

Balance sheet and consideration of financial management

Balance sheet

The Group's balance sheet at 31 March 2022 is summarised as follows:

	Assets	Liabilities	Net assets/(liabilities)
	£'000	£'000	£'000
Non-current transmission owner asset	229,320	-	229,320
Non-current deferred taxation	3,505	-	3,505
Current assets and liabilities*	10,059	(1,330)	8,729
Non-current decommissioning provision	-	(3,295)	(3,295)
Total before net debt	242,884	(4,625)	238,259
Net debt	21,729	(277,587)	(255,858)
Totals at 31 March 2022	264,613	(282,212)	(17,599)
Totals at 31 March 2021	271,147	(268,368)	2,779

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

Transmission owner asset and decommissioning provision

The transmission owner asset is classified as a contract asset and a financial asset and is carried at the cost directly attributable to the acquisition of the WoDS offshore transmission system at the date of acquisition, plus finance income and adjusted for any amounts that have been invoiced which are deemed to be attributable to the carrying value of that asset. The net result being that the carrying value of the transmission owner asset reflects the application of the effective interest rate method and is determined in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 36.

Group Strategic Report continued

For the year ended 31 March 2022

The transmission owner asset at the date of acquisition included an estimate of the cost of decommissioning the transmission owner asset at the end of its useful economic life in 2035 and also includes an amount equivalent to the amount recognised as an infrastructure liability at that date. At 31 March 2022, the carrying value of the transmission owner asset was £239,184k (2021: £248,949k) and the decommissioning provision amounted to £3,295k (2021: £3,152k).

Non-current deferred taxation

The Group has recognised a net deferred taxation asset of £3,505k (2021: liability £1,844k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences existing at the balance sheet date, including the fair valuing of all derivative financial instruments.

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 (UK Retail Price Index (RPI) related swaps) plus an infrastructure financial liability, less cash and deposits.

At March 2022 net debt stood at £255,858k (2021: £239,702k) and is recorded net of £27,696k (2021: £1,446k) of derivative liabilities (relating to the carrying value of financial derivatives that were marked to market at that date) and a further £2,611k (2021: £2,753k) relating to an infrastructure financial liability. A discussion of the capital structure and the use of financial derivatives is provided below and later in this Group Strategic Report.

Current funding structure

The Group is funded by a combination of senior debt, other borrowing, an infrastructure financial liability and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000. The senior debt is supported by the European Investment Bank ("EIB") who have issued a Project Bonds Credit Enhancement ("PBCE") letter of credit in support of the senior debt. The PBCE letter of credit allows the Group to make certain payments in respect of the senior debt and hedging agreements in certain specified circumstances.

All senior debt is serviced on a six-monthly basis and is expected to amortise through to 24 August 2034. The total principal carrying value of the senior debt outstanding at 31 March 2022 net of unamortised issue costs amounted to £195,497k (2021: £205,929k).

The senior debt carries a fixed rate coupon of 3.446% and requires servicing semi-annually on 30 June and 31 December in each year in accordance with the conditions specified in the Bond Trust Deed dated 20 August 2015 and the Prospectus issued in respect of the senior debt.

The other borrowing is unsecured and is held by the Company's and the Group's immediate and ultimate parent undertaking, TopCo. The other borrowing was issued by TopCo on a commercially priced basis and carries a fixed rate coupon. At 31 March 2022, the total principal carrying value of the other borrowing outstanding amounted to £49,099k (2021: £48,858k).

An infrastructure financial liability amounting to £2,611k (2021: £2,753k) at 31 March 2022 has been recognised.

Ordinary equity share capital and share premium amounted to £469k at 31 March 2022 (2021: £469k).

Group Strategic Report continued

For the year ended 31 March 2022

Going concern, liquidity and treasury management

The Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Group and the Company is a going concern and has adequate resources in the foreseeable future to meet its on-going obligations, including the servicing of debt holders, as those obligations fall due.

The Directors note that total shareholders' equity at 31 March 2022 is negative (2021: positive) 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 reserve. The existence of a negative cash flow 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 Group Strategic Report. Consequently, they have formed the opinion that it is reasonable to adopt the going concern basis in preparing the financial statements. The other evidence considered to arrive at these conclusions is based on a number of factors which are summarised below and on the following page.

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 earlier under "Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives". All of the cash inflows generated by the Group in respect of its electricity transmission services were derived from NGEN in its capacity as the Great Britain electricity system operator and it continues to settle all invoices to the date of this report in accordance with its obligations under the STC. Similar to WoDS, NGEN is also regulated by the Authority.

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

In the event that WoDS suffers a loss of transmission system availability due to an exceptional event, then WoDS can apply to the Authority to have the loss of availability ignored for the purposes of determining WoDS's reported system incentive performance. In the event of a successful claim, then WoDS's performance credits determined in accordance with the incentive arrangements would be unaffected by any outage that was caused by an exceptional event – as evidenced by the most recent successful exceptional event claim – see earlier in this Group Strategic Report – "Principal regulatory, industry contracts and industry code matters -Transmission system capability (capacity)" for further information.

The Group has also put in place prudent insurance arrangements primarily in relation to property damage and third-party liability, 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.

Group Strategic Report continued

For the year ended 31 March 2022

The Group has also entered into certain hedging arrangements, through the use of RPI swaps, which are explained in more detail under “Hedging arrangements” later in this Group Strategic Report, but these arrangements have the effect of converting a high proportion of the variable cash flows which are subject to RPI arising from the Group’s transmission services activities into a known and rising series of cash flows over substantially all of the expected life of the transmission business or project. This reduces the uncertainty as to the predictability of the likely cash in-flows that are expected to occur over the life of the project.

The highly predictable cash inflows (after RPI swaps), as described earlier, are then available to service the contractual net cash outflows associated with the senior debt that can be forecast with certainty, as the interest and principal repayments are known at the outset of the project.

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

At 31 March 2022, the Group through WoDS had access to a working capital reserve of £5,712k (2021: £5,648k) that it could access in the event that it is required to pay for any insurance deductible or to satisfy any reactive maintenance expenditure attributable to outages or repairs that could not be met in the ordinary course of business. In addition, in the event that WoDS had insufficient funds to meet the contractual senior debt service and hedging payments, WoDS can draw down under the PBCE letter of credit, with a view to meeting these obligations. The maximum amount that can be accessed under this facility amounts to 15% of the outstanding nominal principal amount of the senior debt outstanding.

Finally, under the terms of the other borrowing agreement, absent certain matters of default, the loan notes do not have to be redeemed until 2035. Therefore, there is no requirement for the Group to service this debt earlier than this date, although it is expected that it will do so.

Credit rating

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

During the rating agency’s assessment of WoDS’s credit rating, amongst other matters, the rating agency will and has considered: the cash flows expected to arise over the term of the project; the regulatory environment within which WoDS operates; the nature of the principal contractual arrangements in place; the insurance arrangements; unusual and/or material maintenance expenditure; 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 there are reasonable grounds to believe that the rating agency will continue to confirm that the investment grade status of WoDS and therefore the Group’s in the foreseeable future 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 2022

On-going funding requirements

The Group does not expect to have any significant funding requirements over the expected life of the project 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 existing transmission system operated by the Group, 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 transmission licence issued to WoDS that allows WoDS 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 is restricted under the lending agreements as to the nature of the investments it may hold. Typically, such investments are held in term deposits with UK banks which have a rating for its long-term unsecured and non-credit enhanced debt obligations of A- or higher by S&P or Fitch or A3 or higher by Moody's or an equivalent long-term rating from another Rating Agency.

At 31 March 2022, the Group had £21,729k (2021: £22,032k) of cash balances of which £14,751k (2021: £15,766k) were held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. The remaining cash and cash equivalents are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to later under "Lending covenants and other restrictions".

Interest that the Group has earned on surplus funds is insignificant in the context of the other cash flows generated by the Group.

Hedging arrangements

General

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

RPI swaps

The Group has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 75%) of variable cash inflows arising from the electricity transmission service it provides to NGESO in exchange for a pre-determined stream of cash inflows with the final payment date expected on 24 August 2034. The period through to 24 August 2034 closely matches the remaining period over which the Group enjoys exclusive rights to operate the offshore transmission system under the Licence and the period over which the vast majority of future cash flows from the project are expected to be generated.

As previously described (see "Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives"), under the terms of the Licence, regulatory and other contractual agreements, the Group is permitted to charge its principal customer, NGESO, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the increase in RPI over the previous 12-month period measured from September to September.

The use of derivative arrangements ("RPI swaps") has 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.

Group Strategic Report continued

For the year ended 31 March 2022

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 carry a fixed coupon so that both the resultant principal repayments and coupon payments are predetermined. The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the 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 RPI swap liabilities at 31 March 2022 was £27,696k (2021: £1,446k). Further information relating to these derivative financial instruments is contained within notes 12 and 18 to the financial statements.

Lending covenants and other restrictions

The Group is subject to certain covenants and conditions under lending agreements with the senior debt holders. The Group entered into the lending agreements to allow it to fund the acquisition of the transmission owner asset. Under these lending agreements, a Security Trustee and Bond Trustee have been appointed to represent the interests of the senior debt holders and to exercise certain rights under the lending documents. In addition, a Technical Adviser and an Insurance Adviser have also been appointed under the terms of the lending agreements. The covenants and conditions of the lending agreements include (but are not limited to) the following:

- 1) the Group is required to operate on the basis of forecasts included within a computer model prepared for the purpose of monitoring the performance of the project and to ensure compliance with certain financial ratios and certain covenants that the Group has made under the lending agreements. The forecast is refreshed on an annual basis or on a more frequent basis under certain specified conditions;
- 2) the Group is required to produce and publish a report for senior debt investors semi-annually, describing the performance of the project to date, which should provide a business and regulatory update and set out the Group's compliance with certain lending ratios required under the lending agreements. In addition, the Group should provide and where appropriate publish semi-annual management accounts, yearly audited financial statements and yearly regulatory accounts on a designated website;
- 3) the lending agreements specify the bank accounts that the Group is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose;
- 4) the Group is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover and loan life cover;
- 5) the Group is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically, this results in the Group investing in term deposits with maturities not exceeding six months;
- 6) the Group is required to maintain adequate insurances at all times; and
- 7) the Group is required to meet all the conditions contained within the lending agreements before any servicing of the other borrowing can take place or any distributions can be made to shareholders.

Group Strategic Report continued

For the year ended 31 March 2022

If the Group materially fails to comply with the terms of the lending agreements or has failed to apply one of the specified remedies, then the Group is in default of the lending agreements.

In these circumstances, the amounts due under the lending agreements are immediately due and payable or are repayable on demand.

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

Accounting policies

The financial statements present the results of the Group using the accounting policies outlined in the financial statements and are prepared in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 ("UK adopted IAS"). This is explained in more detail in the accounting policies section of the financial statements under "Basis of preparation of these financial statements" on page 36.

IAS in conformity with the requirements of the Companies Act 2006 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 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 asset 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 Group to make estimates, judgments and assumptions that are likely to affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the financial statements. Better information, or the impact of an actual outcome, may give rise to a change as compared with any estimates used and consequently the actual results may differ significantly from those estimates. The impact of revised estimates, or the impact of actual outcomes, will be reflected in the period when the better information or actual outcome is known.

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 36.

Approved on behalf of the Board



Graham Farley (Jul 26, 2022 10:13 GMT+1)

Graham Farley Director
26 July 2022

Directors' Report

For the year ended 31 March 2022

In accordance with the requirements of the Companies Act 2006 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 those Directors that were in office at the date of signing the financial statements are identified below:

Daniel Pires¹
Graham Farley
Chris Field²
Nick Axa³

¹Appointed 28 June 2022

²Appointed 18 May 2021 and resigned on 28 June 2022

³Resigned 18 May 2021

Qualifying Third-Party Indemnity Provisions

Qualifying third-party indemnity provisions for the benefit of the Company's Directors have been in place throughout the year and were in force at the reporting date. These indemnity provisions were provided for the benefit of its Directors by Dalmore Capital Limited, who manage the activities of the Company on behalf of investors, for which no fee was charged to the Company.

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 21, which is incorporated by reference into this report.

Company status

WoDS Transmission Holdco Limited is a company limited by shares. The Company is domiciled in the United Kingdom and registered in England and Wales.

Material interests in shares

WoDS Transmission Holdco Limited ("HoldCo") is a wholly owned subsidiary undertaking of WoDS Transmission TopCo Limited ("TopCo" -incorporated and registered in Jersey) its immediate parent undertaking and the ultimate parent undertaking of the WoDS Transmission TopCo Limited group of companies. HoldCo holds 100% of the ordinary share capital of WoDS Transmission plc.

Returns to parent undertaking

During the year ended 31 March 2022, the Company paid £3,051k (2021: £1,953k) of interest and £812k (2021: £nil) of principal to TopCo in relation to the unsecured 8.31% Loan Notes 2035 that were issued by the Company to TopCo. The principal outstanding on these unsecured loans amounted to £49,099k at 31 March 2022 (2021: £48,858k).

No dividends were paid during the year (2021: £nil). The Directors are not proposing a final ordinary dividend (2021: £nil).

Donations and research and development

No charitable or political donations were made during the year (2021: £nil) and expenditure on research and development activities was £nil (2021: £nil).

Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on pages 19 to 20 in the Group Strategic Report.

Future developments

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

Directors' Report continued

For the year ended 31 March 2022

Going concern

Having made enquiries, the Directors consider that the Company and Group 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 (Group) and the individual financial statements of the Company. More details of the Group's funding and liquidity position is 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 and include an explanation of how the Group will generate value over the longer term.

External Auditor

The Audit Committee has recommended to the Board the reappointment of PricewaterhouseCoopers LLP. The reappointment and a resolution to that effect is expected to be included on the agenda for the next AGM. PricewaterhouseCoopers LLP has indicated its willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Employee involvement

The Group does not have any employees and does not expect to engage any employees in the foreseeable future – see "The Company's Operating Model" in the Group Strategic Report on page 3.

Directors' remuneration report

The Directors receive no direct emoluments from the Company. The Group has an agreement with a related party for the supply of Graham Farley's consultancy services. Graham Farley is a related party as he is a Director of the Company, and the company supplying the services of Graham Farley is also a related party of the Group. The value of services supplied to the Group in respect of Graham Farley's consultancy services for the year ended 31 March 2022 amounted to £36k (2021: £36k).

There is no linkage between service standards of the Group and any direct or indirect emoluments, fees or benefits paid to Directors or related parties of Directors.

Disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this Directors' Report confirms that:

So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

Each Director has 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved on behalf of the Board

Graham Farley

Graham Farley (Jul 26, 2022 10:13 GMT+1)

Graham Farley, Director
26 July 2022
WoDS Transmission plc
Cannon Place
78 Cannon Street
London, EC4N 6AF.

Corporate governance statement

Introduction

The Company is a wholly owned indirect subsidiary undertaking of WoDS Transmission TopCo Limited ("TopCo") and consequently operates within the corporate governance framework of TopCo and its subsidiary undertakings. The companies that comprise the TopCo group of companies are: TopCo, (being the ultimate parent undertaking); the Company; and WoDS Transmission plc – together the "TopCo group". An understanding of the TopCo group's governance framework is required to understand the Company's position within that framework.

None of the members of the Group have a premium listing of equity shares in the UK and therefore they are not subject to the UK Corporate Governance code.

The Company is a private company limited by shares and is registered in England. The TopCo group and the Group does have listed debt in the form of £254,849,000 worth of 3.446 per cent Fixed Rate Secured Bonds due August 2034 – which are listed on the Official List of the Irish Stock Exchange.

As at 31 March 2022 and 31 March 2021 - the ordinary shares in TopCo were held by entities where the equitable interest is vested in funds ultimately managed by Dalmore Capital Limited – an FCA authorised entity ("Dalmore Funds"). The Dalmore funds that hold 100% of the equitable interest in the ordinary share capital of TopCo at 31 March 2022 and 31 March 2021 are Dalmore Infrastructure Investments 31 LP, Dalmore Infrastructure Investments 32 LP, Dalmore Infrastructure Investments 33 LP and PPP Equity PIP Limited Partnership.

The Directors representing the shareholders' interests are appointed to the boards of all companies in the TopCo group by Dalmore Capital Limited. Consequent upon these arrangements between the shareholders, no companies in the TopCo group has a nomination committee and the performance of the boards within the TopCo group is not evaluated.

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 TopCo group and Company so as to meet their respective objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the TopCo group's risk management and internal control framework and are satisfied that they are effective.

None of the Directors has declared a conflict of interest, as would be required by Section 175 of the Companies Act 2006 and the Company's Articles of Association.

While the Group does not have a specific policy on the diversity of appointed board members, Diversity and Inclusion is one of the key focus areas within Dalmore Capital's Environmental, Social and Governance (ESG) being one of nine pillars in the Dalmore Capital ESG Framework. Refer to pages 8, 10, 11, 13 and 21 of the Dalmore Capital 2020/21 ESG Highlights Report for further details (www.dalmorecapital.com/spotlight/responsible-investment).

The Company

Board and management meetings

The Company is governed by a Board of two Directors, none of whom are independent. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board and are convened as required, but usually not less than four times per annum.

Corporate governance statement continued

Directors and their attendance at Company board meetings

The Directors of the Company are as shown below. Board meetings were held on 6 occasions during the year under review. Attendance by the Directors at Board meetings expressed as a number of meetings attended out of a number eligible to attend are shown below.

Graham Farley	6 of 6
Chris Field ¹	6 of 6
Nick Axa ²	1 of 1

¹ Appointed on 18 May 2021 and resigned on 28 June 2022.

² Resigned on 18 May 2021.

On 28 June 2022 Daniel Pires was appointed as a Director.

Board activity

The Board is responsible for leadership and the setting of objectives and targets to ensure that its business objectives are met and monitors performance against those targets, which it has continued to do so during the year under review. Amongst other matters, the Directors have monitored the operational and financial performance of the TopCo group during Board meetings. In doing so, the Directors have due regard to the objectives of the TopCo group and the business plan that is being executed. In addition, the Directors have attended regular operational review meetings during the financial year together with representatives from FPL, the management services provider, where the operations and financial performance of the TopCo group have been scrutinised in detail and the performance of third-party suppliers in managing the assets of the TopCo group were assessed accordingly.

The Board is satisfied with operational and financial performance of the Group during the year ended 31 March 2022 and a discussion of the operational and financial performance of the business is included in the Group Strategic Report – which commences on page 8.

The Board is responsible for setting policies or applying group-wide policies set by the TopCo board. Responsibility for monitoring compliance with those policies rests with the Board. The Board has satisfied itself that there has been compliance with all of its policies during the year – further details can be seen from the “Group Strategic Report – Commitment to ethical business practices” on page 11.

The Board recognises its responsibility for the TopCo group's system of internal control and for reviewing its effectiveness. They are assisted in discharging that responsibility through the establishment of an audit committee by TopCo – see “Audit committee” later in this statement. The Board confirm that they have reviewed the effectiveness of the system of internal control during the year ended 31 March 2022 and are satisfied that the internal control system that is in place is considered adequate and appropriate to the TopCo group's circumstances.

Corporate governance statement continued

The Board recognises that the TopCo group, in carrying out its activities, has to do so in the context of an environment that is subject to risk. The Board is responsible for managing those risks and maintains a risk register which is updated regularly and actively monitored. The principal and emergent risks faced by the Group are discussed throughout the Group Strategic Report that commences on page 2 and is satisfied that all key risks to the business have been adequately managed and mitigated.

The Board recognises its obligations under S172 of the Companies Act 2006 and a statement to that effect is provided within the Group Strategic Report on page 12.

Certain licence related compliance activities are delegated for detailed consideration by the compliance committee set up by the WoDS board. Health and safety matters are considered by a TopCo committee and in addition an audit committee has been set up by TopCo to consider financial reporting activities amongst other matters across the TopCo group. These TopCo committees exist as it is efficient and effective for certain activities and policies to be considered on a group-wide basis. Matters discussed at these committee meetings are then considered by the Board on a regular basis and endorsed accordingly. The activities of the audit committee in particular are discussed below.

Audit committee

The TopCo 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 derived from such a function. TopCo has established an audit committee, which typically convenes twice per year. The members of the committee are the same as the members of all boards in the TopCo group including that of the Company. The purpose of the audit committee is to assist the board of TopCo and that of the Company in the effective discharge of their responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency.

The audit committee acts to safeguard the interests of its shareholders by:

- monitoring the integrity of statutory and regulatory reports issued by TopCo all of its subsidiaries including the Company, with the objective of ensuring that these reports present a fair, clear and balanced assessment of the position and prospects of the reporting entity;
- reviewing the economy, efficiency and effectiveness of the TopCo group's operations and internal controls, the reliability and integrity of information and accounting systems and the implementation of established policies and procedures for all companies within the TopCo group;
- considering any significant issues and the extent to which they have been disclosed in the relevant annual report and financial statements of all companies in the TopCo group, including a consideration of the critical accounting policies adopted by the Group (a discussion of which is included on pages 41 to 46);
- reviewing and approving the internal control and risk management policies applicable to the TopCo group;
- maintaining an appropriate relationship with the external auditors to the Group; and
- assessing the objectivity and independence of the external auditors by considering: the nature and extent of non-audit services; a consideration of the effectiveness of the audit process including a recommendation to the Boards of the Company and that of WoDS as to the reappointment of the auditors to the Company and the Group (who were appointed at or prior to the commencement of operations in 2015).

Corporate governance statement continued

In carrying out its activities, the audit committee have noted in particular the following:

- The audit committee has considered the disclosures included within the financial statements. In particular, the audit committee note that the impact of new accounting standards, interpretations and other pronouncements that apply for the first time to these financial statements has had a minimal impact on the measurement of assets and liabilities and related disclosures;
- The audit committee has considered carefully the disclosures contained within the Group's annual report and financial statements generally and in particular disclosures relating to "going concern" and has concluded that the information provided is proportionate and appropriate to the activities and experiences of the Group; and
- The audit committee has also considered the key internal controls and risk management procedures as they applied to the Group and judge them to have operated appropriately during the year. It has also considered all of the related internal control and risk related disclosures contained within the Group annual report and financial statements to be relevant and appropriate to the operations of the Group.

Representatives of the auditors are invited to attend meetings of the audit committee to attend as they see fit. The auditors also have unrestricted access to those charged with the governance of the Group. There have been no issues raised by the auditors' representatives that were of concern to the members of the audit committee.

The audit committee is satisfied as to the auditors' objectivity and independence following enquiry and discussion with the auditors and with management and have recommended to the Board the reappointment of PricewaterhouseCoopers LLP.

Approved on behalf of the Board



Graham Farley (Jul 26, 2022 10:13 GMT+1)

Graham Farley

Director

26 July 2022

Statement of Directors' responsibilities

For the year ended 31 March 2022

The Directors are responsible for preparing the Group Annual Report and the Group 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 Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law. Under Company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that year. In preparing these Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Group financial statements on the going concern basis, unless it is inappropriate to presume that the Group or Company will continue in business.

The Directors 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.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

The Directors consider that the Annual Report and Group Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names are listed in the Directors Report and are in office as at the date of this report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Group and Company; and
- the Group Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Approved on behalf of the Board

Graham Farley

Graham Farley (Jul 26, 2022 10:13 GMT+1)

Graham Farley

Director

26 July 2022

Independent auditors' report to the members of WoDS Transmission Holdco Limited

For the year ended 31 March 2022

Report on the audit of the financial statements

Opinion

In our opinion, WoDS Transmission Holdco Limited's Group financial statements 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 2022 and of the Group's loss and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 Group Financial Statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 March 2022; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and Company 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 Group 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.

Our audit approach

Overview

Audit scope

- We tailored the scope of our audit taking into account the significant balances within the Group, the accounting processes and controls, and the industry in which the Group operates.
- We obtained an understanding of the internal controls in place and then performed substantive testing where required of the significant balances.

Key audit matters

- Valuation of derivatives (Group)
- Risk of impairment of investments in subsidiary (Parent)

Independent auditors' report to the members of WoDS Transmission Holdco Limited continued

For the year ended 31 March 2022

Overview (continued)

Materiality

- Overall Group materiality: £546,620 (2021: £473,000) based on 2.5% of Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA).
- Overall Company materiality: £546,620 (2021: £473,000) based on 2.5% of EBITDA.
- Performance materiality: £409,965 (2021: £354,750) (Group) and £409,965 (2021: £354,750) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Risk of impairment of investment in subsidiary (Parent) is a new key audit matter this year. Impact of Covid 19 (Group), which was a key audit matter last year, is no longer included because of the immaterial impact of Covid 19 on the financial statements or operations of the entity. Otherwise, the key audit matter below is consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of derivatives (Group)</i></p> <p><i>(see note 12 of the financial statements).</i></p> <p><i>The Group has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Group has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Group's net cash flows. We focused on this area as valuation, specifically in respect of derivatives, is an area which requires the use of judgement by the Directors and the involvement of valuation experts. Derivatives require judgement because, for some instruments, quoted prices are not readily available. As such, management use models to estimate their fair value. The key judgements for derivative valuations is whether appropriate valuation methodology and judgements around input assumptions have been made and whether there are any changes required to the methodology of these models as a result of market practice, accounting or regulatory updates.</i></p>	<p><i>Our audit work in respect of the valuation of derivative assets and liabilities included understanding and assessing the models and methodology used for the derivative investments, using our valuation specialists. We also recalculated the valuations using independent models and sourcing our own input data from recognised independent market data and investigating any differences found that were greater than predefined thresholds. We determined that the assumptions used, and the resultant valuations of the derivatives, were within ranges that we consider to be acceptable.</i></p>

Independent auditors' report to the members of WoDS Transmission Holdco Limited continued

For the year ended 31 March 2022

Key audit matter

How our audit addressed the key audit matter

Risk of impairment of investments in subsidiary (Parent)

The company has investments in a subsidiary amounting to £49.5m (2021: £49.3m). Investments are reviewed annually for impairment indicators. We focused on this balance given the size, the performance of the company's investments in the year and the judgements and estimates required to forecast future financial performance. No impairment charge has been recorded by management in the year (2021: nil). See the Critical accounting estimates and judgements policies section within the company financial statements for disclosure of the related accounting policies, judgements and estimates and Note 19 within the company financial statements for details of the investments in subsidiary company.

We evaluated management's process for assessing impairment triggers for the investments in the subsidiary. We have examined the financial model of the underlying subsidiary, compared the total forecasted cash inflows to the carrying value of investments and noted that it exceeds the value of the investments. Based on the procedures performed we did not identify any issues with regards to the carrying value of the Company's investments in subsidiary.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's principal activity is to provide an electricity transmission service to National Grid Electricity System Operator Limited ("NGESO"), being the electricity transmission system operator for Great Britain. It operates in one geographic location. As a result we were able to perform a full scope audit over the key line items.

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditors' report to the members of WoDS Transmission Holdco Limited continued

For the year ended 31 March 2022

Our audit approach (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Company
<i>Overall materiality</i>	£546,620 (2021: £473,000).	£546,620 (2021: £473,000).
<i>How we determined it</i>	2.5% of Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)	See below
<i>Rationale for benchmark applied</i>	We believe that EBITDA better reflects the key measure for shareholders in assessing the performance of the Group, being a reasonable approximation to free cash flow generated by the OFTO. Shareholders are invested in the asset for the long term with an objective of generating a cash return on that investment, and as a result, EBITDA is more closely aligned to this objective than profit/loss before tax. We also believe that this is a generally accepted auditing benchmark.	We believe the materiality applied is appropriate as all other measures would result in a materiality higher than the Group, therefore we have limited the Company materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £409,965 (2021: £354,750) for the Group financial statements and £409,965 (2021: £354,750) for the Company financial statements.

In determining the performance materiality, we considered a number of factors- the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls- and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £27,275 (Group audit) (2021: £23,650) and £27,275 (Company audit) (2021: £23,650) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of WoDS Transmission Holdco Limited continued

For the year ended 31 March 2022

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 Group Strategic Report and Director's Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Group Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Group Strategic Report and Directors' Report for the year ended 31 March 2022 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 Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Group Strategic Report and Directors' Report.

Independent auditors' report to the members of WoDS Transmission Holdco Limited continued

For the year ended 31 March 2022

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, Health and Safety, and a range of industry specific legal requirements pertaining to the OFTO subsidiary undertaking's license to operate, including the Electricity Act 1989, and we considered the extent to which non compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and the risk of management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding of management's controls designed to prevent and deter irregularities;
- Challenging management on assumptions and judgements made in their significant accounting estimates, in particular in relation to the fair value of derivative financial instruments;
- Identifying and testing journal entries, in particular any unusual account combinations impacting operating income, finance income and distributable reserves;
- Review of Board minutes

Independent auditors' report to the members of WoDS Transmission Holdco Limited continued

For the year ended 31 March 2022

Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements continued

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

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 obtained 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 Company financial statements are not in agreement with the accounting records and returns; or
- a corporate governance statement has not been prepared by the Company.

We have no exceptions to report arising from this responsibility.



Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
26 July 2022

Accounting policies

For the year ended 31 March 2022

A. Basis of preparation of these financial statements

These consolidated financial statements include the results, assets and liabilities of the Company and its subsidiary undertaking made up to 31 March 2022 and have been prepared on a going concern basis (see “Group Strategic Report -Going concern, liquidity and treasury management” on page 17 which sets out the Company’s basis for applying the going concern basis to the preparation of these financial statements) and in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006. IAS in conformity with the requirements of the Companies Act 2006 (“UK adopted IAS”) comprises: European Union adopted international accounting standards at 31 December 2020; international accounting standards adopted by the Secretary of State for the Department of Business, Energy and Industrial Strategy (BEIS) between 1 January 2021 and 21 May 2021; and international accounting standards adopted by the UK Endorsement Board after delegation of adoption powers with effect from 22 May 2021.

These financial statements have been prepared for the first time in accordance with UK-adopted IAS which constitutes a change in the accounting framework adopted by the Group and Company as compared with previous years. However, there has been no impact on these financial statements arising from this change in accounting framework in the recognition, measurement or disclosure of any amounts included in these financial statements. As a consequence, the Group and Company continues to apply consistent accounting policies updated, where necessary, to ensure that the accounting policies adopted reflect UK-adopted IAS as is mandatory for the year ended 31 March 2022.

The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments and transmission owner asset. The financial statements are presented in pounds sterling, which is the functional currency of the Group and Company and are rounded to the nearest £1,000.

The preparation of financial statements in accordance with UK-adopted IAS 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 an electricity transmission network that is principally offshore based. This network electrically connects a wind farm generator to the onshore electricity transmission owner (NGET). The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available (“transmission availability charges”) to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12 “Service Concession Arrangements”. Consequently, the accounting for charges made by the Group for transmission network availability is consistent with that interpretation.

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

- the regulatory arrangements determine the price charged by the Group for its transmission availability services; and
- the regulator has granted a licence to operate the transmission system which provides the Group with the right 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 2022

B. Transmission availability arrangements continued

A transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15. The transmission owner asset includes: the cost of acquiring the transmission network asset from the constructor of the network; those costs incurred that are directly attributable to the acquisition of the transmission network including an infrastructure financial liability; and the estimated cost of decommissioning the transmission network at the end of its estimated useful life. The transmission owner asset has been classified as a contract asset and financial asset and is accounted for as described later – 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” later;
- as finance income -see “F. Operating and finance income” later; and
- operating income see “F. Operating and finance income” later.

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 such time as prices are changed to reflect these adjustments and consequently there is no impact on the income statement until such time as prices are changed.

C. Financial instruments

Financial assets 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 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 expected credit losses.

The transmission owner asset is classified as a contract asset and a financial instrument and is carried at amortised cost using the effective interest rate method less any expected credit losses and reflecting adjustments to its carrying value as referenced earlier – see “B. Transmission availability arrangements”. Finance income relating to the transmission owner asset is recognised in the income statement as a separate line item – “Finance income”, see “F. Operating and finance income” later.

Accounting policies continued

For the year ended 31 March 2022

C. Financial instruments continued

Expected credit losses are considered at each reporting date. Where the credit risk has not significantly changed since the initial recognition of an asset or class of assets, then lifetime expected credit losses are calculated at an amount equal to the 12-month expected credit losses on that asset or class of assets. For assets where the lifetime credit risk has significantly changed since initial recognition, a credit loss allowance is calculated by assessing the lifetime credit risk. Any loss allowance calculated in relation to lifetime expected credit losses is recognised in the income statement.

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

Borrowings 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.

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 Group continues to apply the hedge accounting requirements of International Accounting Standard 39.

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

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

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (“cash flow hedges”) 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 a hedging reserve in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated, and the underlying position being hedged has been extinguished.

Accounting policies continued

For the year ended 31 March 2022

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.

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 it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

F. Operating and finance income

General

As indicated earlier, 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 later. 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.

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

Operating income represents the income derived from the provision of operating services, principally to NGEN, the Great Britain electricity system operator. 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.

Accounting policies continued

For the year ended 31 March 2022

F. Operating and finance income continued

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.

G. Cash and cash equivalents

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

H. Decommissioning costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission network associated with the safe decommissioning of that 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.

I. Infrastructure financial liabilities

Infrastructure financial liabilities are initially recognised at the present value of the payments expected to be made over the term of the lease arrangements to which these liabilities relate and are discounted using an estimate of the Group's incremental borrowing rate at the date the lease arrangements were entered into. Thereafter, these liabilities are reassessed at each balance sheet date to reflect: a) any future increases in variable lease payments based on an index, which are not reflected in the initial lease liability as such liabilities are only recognised when the change in index takes effect; b) the finance costs on these liabilities; and c) reduced by any payments made in respect of these liabilities. Finance costs relating to these liabilities are recognised in the income statement within net interest expense over the period of the lease using the effective interest rate method.

Accounting policies continued

For the year ended 31 March 2022

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 – including a consideration of the judgements applied to recognise income and a transmission owner asset**

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 the application of this judgement, the following outcomes follow:

- a. A transmission owner asset has 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 giving rise to an alternative judgement 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 also determined that the transmission owner asset is expected to be recovered over a period of 20 years from the date the Licence came into force (20 August 2015) – being the principal period over which the Group is permitted to levy charges for transmission availability and therefore the expected useful-life of the transmission owner asset. This judgement has the effect of determining the amount of finance income and carrying value of the transmission owner asset that is recognised in any one year over the life of the project.

ii) **Operating and finance income**

Operating income – including identification of key estimates

Operating income represents the income derived from the provision of operating services, principally to NGEN, the Great Britain electricity system operator, and following the application of the judgements referenced above – see “i) Transmission availability arrangements – including a consideration of the judgements applied to recognise income and a transmission owner asset”.

Such operating services include those activities that result in the efficient and safe operation of those assets and the value attributable to these services are reflective of an estimate of costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner.

Accounting policies continued

For the year ended 31 March 2022

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

ii) Operating and finance income continued

Operating income – including identification of key estimates continued

Estimates were made by management with effect from the date that the Licence came into force (20 August 2015), to determine 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. The principles attributable to these estimates determined with effect from the date that the Licence came into force continue to apply to the charges made by the Group for transmission network availability in each financial year over the expected useful life of the transmission owner asset. To the extent that an alternative estimate could have been made at the date that the Licence came into force as to a reasonable level of revenue attributable to this income classification then the estimate of income attributable to finance income (see below) may have been amended.

Finance income - including identification of key estimates

Following the application of the judgements referenced earlier – see “i) Transmission availability arrangements – including a consideration of the judgements applied to recognise income and a transmission owner asset” 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. An estimate of an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements was carried out by the Group from the date the Licence came into force (20 August 2015) and applies over the expected useful life of the transmission owner asset accordingly. 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 estimate could have been made as to a reasonable level of return attributable to such a transmission asset owner from the date the Licence came into force, then the estimate of income attributed to operating income (see earlier) would have been amended accordingly.

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

General

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

Accounting policies continued

For the year ended 31 March 2022

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

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

Application of judgements to hedge accounting and deriving fair values

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 UK-adopted IAS including the creation of compliant documentation and meeting the effectiveness testing requirements. In principle, while the application of the requirements of IFRS hedge accounting rules do not require the exercise of judgement – consideration and judgements need to be made from time to time to determine if a hedge continues to 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. Similarly, when the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. Otherwise, in respect of the Group's derivative financial instruments, these changes in fair value are recognised in other comprehensive income.

Application of estimates to hedge accounting and deriving fair values

As referred to earlier, 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 a financial model from a third party based on counterparty information that is independent of the Group but also use observable market data in respect of RPI 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 for the purpose of disclosure only, unobservable market data is used.

iv) Income taxation

Current taxation including a consideration of the judgements and estimates used in determining current taxation liabilities

Current taxation is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items that are never taxable or tax deductible. The Group is required to estimate the current tax liability based on its understanding of taxation law and the anticipated decisions of HM Revenue and Customs. However, actual tax liabilities could differ from any recorded current taxation liability and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the reported profit for subsequent reporting periods.

Deferred taxation including a consideration of the judgements and estimates used in determining deferred taxation liabilities and assets

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.

Accounting policies continued

For the year ended 31 March 2022

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

iv) Income taxation continued

Deferred taxation including a consideration of the judgements and estimates used in determining deferred taxation liabilities and assets continued

The recognition of deferred taxation reflects the expected manner of recovery of deferred taxation assets or the settlement of a deferred taxation liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred taxation assets are not recognised where it is more likely than not that the assets will not be realised in the future.

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

v) Expected credit losses

General

The carrying value of those financial assets recorded in the Company's and the consolidated balance sheets at amortised cost, including the transmission owner asset, could be materially reduced if the value of those financial assets were assessed to have been impaired.

Expected credit losses arise as a result of all possible default events over the expected life of a financial instrument. Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Application of judgements to the recognition of expected credit losses

At each reporting date, the Group and Company performs an assessment as to whether the credit risk on a financial instrument has increased. Depending upon the outcome of that assessment, which requires the application of judgement, the Group and Company will determine if there is any requirement for any expected credit losses to be applied and that assessment will also determine whether credit losses are determined by reference to a 12-month period or by reference to expected credit losses over the lifetime of the financial instrument.

Application of estimates to the recognition of expected credit losses

Having applied judgement as to whether there should be any adjustment to the carrying value of financial assets the Group and Company estimates an appropriate allowance for expected credit losses in accordance with the requirements of IFRS 9, recognising any material allowance for credit losses using the 12-month expected credit losses where there has been no significant change in credit risk or on the basis of lifetime credit losses where there has been a significant change in the credit risk. This assessment involves considering reasonable and supportable information involving the significant use of assumptions.

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

Accounting policies continued

For the year ended 31 March 2022

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

vi) Decommissioning provision

General

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 system at the end of its expected economic life – being 20 years. These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The plan for decommissioning these assets has not yet been approved by the Department for Business, Energy and Industrial Strategy but the preliminary assessment of the decommissioning plan includes many assumptions.

Application of judgement to determine the carrying value of the decommissioning provision

Significant 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 transmission system is assumed to be 20 years being the period the Group has exclusive rights to charge for the provision of transmission services under the Licence and the period which is expected to generate the vast majority of cash flows relating to the ownership of the system. To the extent that the expected useful life is reduced or increased – this could materially change the carrying value of the decommissioning provision with a corresponding impact on the income statement; and
- the carrying value of the decommissioning reflects the decommissioning assumptions contained in any approved decommissioning plan. These assumptions reflect the application of judgements and if those judgements change over time or the execution of the decommissioning plan in accordance with those judgements is not possible – then this could change the carrying value of the decommissioning provision with a corresponding impact on the income statement.

Application of estimates to determine the carrying value of the decommissioning provision

The carrying value of the decommissioning provision has required the extensive use of estimates, which include but are not limited to, the following:

- the estimate of costs relating to the appropriate and safe removal, disposal, recycling and making safe of the transmission system 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.

The estimates are based on management estimates with the use of technical consultants and are subject to periodic revision. The initial estimated discounted cost of decommissioning the offshore transmission system is included within the carrying value of the transmission owner asset. All subsequent changes to estimates in relation to estimated gross cost of decommissioning or the appropriate discount rate are reflected in the income statement.

Accounting policies continued

For the year ended 31 March 2022

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

vii) Infrastructure financial liabilities

General

Infrastructure financial liabilities are initially recognised in the consolidated balance sheet at the present value of the future lease payments to which these liabilities relate. A corresponding amount was recognised as an addition to the cost of the transmission owner asset at the date of acquisition.

Application of estimates to determine infrastructure financial liabilities

Management were required to estimate the incremental borrowing cost to the Group at the date the lease arrangements giving rise to infrastructure financial liabilities were entered into as a proxy for the interest rate implicit in those lease arrangements. This interest rate was then used to discount the expected future cash flows to derive the present value of the future lease payments.

Application of judgements to determine infrastructure financial liabilities

Management were required to exercise judgement as to the period over which payments would be made that are the subject of discounting to arrive at a present value and also to determine the incremental borrowing cost to apply to the discounting of those cash flows.

Any future change to the period over which payments are expected to be made would result in the reassessment of the infrastructure financial liabilities with the impact of any such reassessment being reflected in the income statement.

K. Accounting developments

i) Accounting standards, amendments to accounting standards and interpretations as applied to these financial statements

In preparing these financial statements the Group and Company has complied with UK-adopted IAS applicable either for accounting periods starting by 1 April 2021 or ending by 31 March 2022.

There are no new accounting standards, amendments to standards, interpretations or other pronouncements that have been issued and are effective in respect of these financial statements, that have had any significant impact 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 Group or the Company's activities but are not effective in these financial statements

No other new accounting standards, amendments to standards, interpretations or other pronouncements that have been issued, which are not effective in these financial statements 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 2022

		2022	2021
	Notes	£'000	£'000
Operating income	2	5,264	4,782
Finance income	2	10,720	11,072
Total income		15,984	15,854
Operating costs	3	(3,885)	(4,094)
Operating profit		12,099	11,760
Other finance income	4	20	35
Finance costs	4	(10,751)	(12,598)
Net interest expense	4	(10,731)	(12,563)
Profit/(loss) before taxation		1,368	(803)
Income taxation charge	5	(1,461)	(77)
Loss attributable to equity shareholders		(93)	(880)

The notes on pages 54 to 73 form part of these financial statements.

The results reported above relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Loss attributable to equity shareholders		(93)	(880)
Other comprehensive loss			
<u>Items that may be subsequently reclassified to Profit and Loss:</u>			
Net losses taken to equity in respect of cash flow hedges	15	(27,095)	(1,918)
Deferred taxation on cash flow hedges	5	6,810	364
Total other comprehensive loss		(20,285)	(1,554)
Total comprehensive loss for the year attributable to equity shareholders		<u>(20,378)</u>	<u>(2,434)</u>

Company balance sheet

For the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Investments in subsidiary undertaking	19	<u>49,568</u>	<u>49,327</u>
Total non-current assets		49,568	49,327
Current assets			
Amounts receivable from subsidiary undertaking		<u>1,006</u>	<u>980</u>
Total current assets		1,006	980
Total assets		<u>50,574</u>	<u>50,307</u>
Current liabilities			
Trade and other payables	11	<u>(1,006)</u>	<u>(980)</u>
Total current liabilities		(1,006)	(980)
Non-current liabilities			
Borrowings	9	<u>(49,099)</u>	<u>(48,858)</u>
Total non-current liabilities		(49,099)	(48,858)
Total liabilities		<u>(50,105)</u>	<u>(49,838)</u>
Net assets		<u>469</u>	<u>469</u>
Equity			
Called up share capital	14	100	100
Share premium	14	369	369
Result attributable to equity shareholders for the year and retained earnings	15	-	-
Total shareholders' equity		<u>469</u>	<u>469</u>

Company number: 09308464

The financial statements set out on pages 36 to 73 were approved by the Board of Directors on 26 July 2022 and were signed on its behalf by:

Graham Farley

Graham Farley (Jul 26, 2022 10:13 GMT+1)

Graham Farley
Director

Consolidated balance sheet

As at 31 March 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Transmission owner asset	6	229,320	239,318
Deferred taxation asset	7	3,505	-
Total non-current assets		232,825	239,318
Current assets			
Prepayments		195	166
Transmission owner asset	6	9,864	9,631
Cash and cash equivalents	8	21,729	22,032
Total current assets		31,788	31,829
Total assets		264,613	271,147
Current liabilities			
Borrowings	9	(10,100)	(10,432)
Infrastructure financial liability	10	(149)	(145)
Trade and other payables	11	(4,013)	(4,386)
Total current liabilities		(14,262)	(14,963)
Non-current liabilities			
Borrowings	9	(234,497)	(244,355)
Infrastructure financial liability	10	(2,462)	(2,608)
Derivative financial liabilities	12	(27,696)	(1,446)
Deferred taxation liability	7	-	(1,844)
Decommissioning provision	13	(3,295)	(3,152)
Total non-current liabilities		(267,950)	(253,405)
Total liabilities		(282,212)	(268,368)
Net (liabilities) / assets		(17,599)	2,779
Equity			
Called up share capital and share premium	14	469	469
Retained earnings	15	2,704	2,797
Cash flow hedge reserve	15	(20,772)	(487)
Total shareholders' (deficit) / equity		(17,599)	2,779

Company number: 09308464

The financial statements set out on pages 36 to 73 were approved by the Board of Directors on 26 July 2022 and were signed on its behalf by:

Graham Farley

Graham Farley (Jul 26, 2022 10:13 GMT+1)

Graham Farley
Director

Consolidated statement of changes in equity

For the year ended 31 March 2022

	Called up share capital and share premium £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	469	1,067	3,677	5,213
Total comprehensive loss for the year	-	(1,554)	(880)	(2,434)
At 31 March 2021	469	(487)	2,797	2,779
Total comprehensive loss for the year	-	(20,285)	(93)	(20,378)
At 31 March 2022	469	(20,772)	2,704	(17,599)

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

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

Company statement of changes in equity

For the year ended 31 March 2022

	Called up share capital and share premium £'000	Total equity £'000
At 1 April 2020, 31 March 2021 and 31 March 2022	<u>469</u>	<u>469</u>

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain borrowing obligations.

Consolidated cash flow statement

For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
<u>Cash flows from operating activities</u>			
Loss attributable to equity shareholders for the year		(93)	(880)
Adjustments for:			
Net interest charges		10,731	12,563
Taxation charge		1,461	77
Non-cash movement relating to finance income		9,765	7,416
Changes in working capital		(444)	(43)
		21,513	20,013
Net cash flows generated from operating activities		21,420	19,133
<u>Cash flows from investing activities</u>			
Interest received		20	35
Cash flows generated from investing activities		20	35
<u>Cash flows used in financing activities</u>			
Partial repayment of bonds (senior debt)	16	(10,664)	(9,726)
Partial repayment of subordinated loans	16	(812)	-
Interest paid		(10,125)	(9,371)
Other finance charges		(142)	(140)
Net cash flows used in financing activities		(21,743)	(19,237)
Net decrease in cash and cash equivalents		(303)	(69)
Cash and cash equivalents at the start of the year		22,032	22,101
Cash and cash equivalents at the end of the year	16	21,729	22,032

The Company has not presented a cash flow statement as it has had no cash flows in either the current year or previous year.

Notes to the financial statements

For the year ended 31 March 2022

1. Operating segment

The Board of Directors is the Group's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation and cash available for debt service (net cash inflows from operating activities 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 page 47, 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 73.

The electricity transmission operation of the Group comprises the transmission of electricity from a wind farm located off coast of Walney Island in the East Irish Sea, and then connecting directly into the NGET onshore transmission system at an electricity substation in Heysham, Lancashire.

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.

2. Operating and finance income

Operating income of £5,264k (2021: £4,782k) and finance income of £10,720k (2021: £11,072k) primarily relates to the Group's activity as a provider of electricity transmission services to the Group's principal customer – National Grid Electricity System Operator Limited (NGESO). The Group's income is derived from NGESO. Finance income is calculated using the effective interest rate method – consistent with the Group's accounting policy – see "Accounting policies - F. Operating and finance income".

3. Operating costs

Operating costs are analysed below:

	2022	2021
	£'000	£'000
Operations, maintenance and management ¹	3,685	3,908
Auditors' remuneration	42	40
Other	158	146
Total	3,885	4,094

The Company and Group does not employ any staff.

Auditors' remuneration comprises:

Audit services	27	25
Other services supplied pursuant to legislation ²	15	15
Total	42	40

¹ This represents costs associated with the provision of operating, maintenance and management provided to the Group by independent third parties together with other operational costs including insurance costs and non-domestic rates related to the transmission network.

² These 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.

No Director receives any direct remuneration from the Company or Group. Consultancy services are provided to the Group by a related party that has engaged the services of Graham Farley, a Director of the Company, to provide these services. Amounts paid or accrued in respect of these services for the year ended 31 March 2022 amounted to £36k (2021: £36k) and are included in operating costs.

Notes to the financial statements continued

For the year ended 31 March 2022

4. Net interest expense

Net interest expense is as tabulated below:

	2022 £'000	2021 £'000
Other finance income - interest income		
Interest on bank deposits	20	35
	<u>20</u>	<u>35</u>
Finance costs - interest expense and other financial costs		
Interest on secured bonds (senior debt)	(6,982)	(7,314)
Interest on other borrowing	(4,131)	(3,954)
Other financial income/(costs) ¹	362	(1,330)
	<u>(10,751)</u>	<u>(12,598)</u>
Net interest expense	<u>(10,731)</u>	<u>(12,563)</u>

¹ Includes a £845k credit (2021: £845k charge) as a result of certain hedge ineffectiveness and £109k (2021: £108k) finance costs relating to an infrastructure financial liability.

5. Income taxation charge

a) Taxation on items included in the income statement

The net taxation charge for the year is £1,461k (2021: £77k) and has been computed at 19% (2021: 19%). The net taxation charge for the year represents deferred taxation and includes a charge amounting to £938k (2021: £nil) resulting from the remeasurement of deferred taxation balances during the year ended 31 March 2022. There is no current taxation included in the income statement (2021: £nil). Further details as to the composition of the net taxation charge for the year is shown below.

The taxation charge for the year differs from (2021: differs from) the standard rate of corporation tax in the UK of 19% (2021: 19%) for the reasons outlined below:

	2022 £'000	2021 £'000
Profit/(loss) before taxation	<u>1,368</u>	<u>(803)</u>
Taxation at 19% (2021: 19%) on profit/(loss) before taxation	260	(153)
Effects of:		
- expenses not deductible for tax purposes	263	230
- change in tax rates on deferred tax ¹	938	-
Taxation charge for the year	<u>1,461</u>	<u>77</u>

¹ The deferred taxation charge arising in the year includes the impact of remeasuring the vast majority of the deferred taxation balances during the year ended 31 March 2022 from 19% to 25%.

b) Taxation on items included in other comprehensive loss

The net taxation credit on items included in other comprehensive loss for the year is £6,810k (2021: £364k) and comprises a credit on items arising in the current year computed at 19% (2021: 19%) of £5,148k (2021: £364k) and includes a credit of £1,662k (2021: £nil) arising from a change in corporation taxation rates. The net taxation credit (2021: net taxation credit) on other comprehensive loss arising in the year represents deferred taxation. There is no current taxation included in other comprehensive loss (2021: £nil).

Notes to the financial statements continued

For the year ended 31 March 2022

5. Income taxation charge continued

c) Taxation – future years

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

6. Transmission owner asset

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

	2022 £'000	2021 £'000
At 1 April	248,949	256,365
Adjustment to the carrying value*	(9,765)	(7,416)
At 31 March	<u>239,184</u>	<u>248,949</u>
Comprising:		
Amounts falling due within one year	9,864	9,631
Amounts falling due after more than one	<u>229,320</u>	<u>239,318</u>
	<u>239,184</u>	<u>248,949</u>

* Arising from the application of the effective interest rate method and reflected through finance income in the income statement.

The transmission owner asset is a contract asset and is carried at amortised cost. The estimated fair value of the transmission owner asset at 31 March 2022 was £247,550k (2021: £257,786k). The basis for estimating the fair value of the transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project and to discount those expected net cash flows at a discount rate of 4.54% (2021: 4.54%) per annum.

The Directors have considered expected credit losses in relation to the carrying value of the transmission owner asset and have concluded that these are expected to be immaterial and as a result no provision for expected credit losses has been recognised at 31 March 2022 (2021: £nil).

The Company does not have any transmission owner assets (2021: none).

Notes to the financial statements continued

For the year ended 31 March 2022

7. Deferred taxation asset/(liability)

The net deferred taxation asset/(liability) recognised in the consolidated balance sheet arises as follows:

	Fair value losses/(gains) on derivatives £'000	Accelerated capital allowances £'000	Total £'000
At 1 April 2020	(250)	(1,881)	(2,131)
Movements	525	(238)	287
At 31 March 2021	275	(2,119)	(1,844)
Movements - current year	6,649	(1,300)	5,349
At 31 March 2022	6,924	(3,419)	3,505

The carrying value of the vast majority of deferred taxation balances have been computed at 25% (2021: 19%) -being the rate of corporation tax that is expected to apply when the vast majority of the temporary differences reverse and reflects the latest enacted legislation in force at the balance sheet date.

The Company does not have any deferred taxation assets or liabilities (2021: none).

8. Cash and cash equivalents

Group cash and cash equivalents comprise short term deposits of £21,729k (2021: £22,032k). Short-term deposits are made for various periods of between one day and 6 months, depending on the timing of cash requirements and earn interest at the respective short-term deposit rates. All cash and equivalents are carried at amortised cost.

Cash and cash equivalents include amounts of £14,751k (2021: £15,766k) that the Group can only use for specific purposes and in compliance with the lending agreements. The remaining cash and cash equivalents are held for general corporate purposes provided that use is compliant with the lending arrangements.

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

The Company does not have cash or cash equivalents (2021: none).

Notes to the financial statements continued

For the year ended 31 March 2022

9. Borrowings

The following table analyses borrowings:

	Company		Group	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current				
Secured bonds – fixed rate	-	-	10,100	10,432
Non-current				
Secured bonds – fixed rate	-	-	185,398	195,497
Other borrowing – fixed rate	49,099	48,858	49,099	48,858
	<u>49,099</u>	<u>48,858</u>	<u>234,497</u>	<u>244,355</u>
Total borrowings	<u>49,099</u>	<u>48,858</u>	<u>244,597</u>	<u>254,787</u>

Total borrowings are repayable as follows:

In one year or less	-	-	10,100	10,432
In more than one year, but not more than two years	-	-	11,174	10,100
In more than two years, but not more than three years	-	-	11,643	11,174
In more than three years, but not more than four years	-	-	13,313	11,643
In more than four years, but not more than five years	-	-	13,620	13,313
In more than five years other than by instalments	49,099	48,858	184,747	198,125
	<u>49,099</u>	<u>48,858</u>	<u>244,597</u>	<u>254,787</u>

The secured bonds carry an interest rate of 3.446% per annum. The secured bonds amortise over the period through to 24 August 2034.

The secured bonds, being the senior debt, are secured over all of the assets of the Company and of WoDS Transmission plc (the Company's subsidiary undertaking) via fixed and floating charges.

The other borrowing relates to amounts owed to WoDS Transmission TopCo Limited ("TopCo"). This other borrowing is unsecured and carries a fixed coupon of 8.31% per annum and is contractually repayable on 25 August 2035.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 18.

As at 31 March 2022, the Group had access to a PBCE letter of credit issued by the European Investment Bank amounting to £29,595k (2021: £31,194k) which guarantees certain payments to be made in respect of the secured bonds and the Group's hedging arrangements all of which was undrawn (2021: 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 2022 (2021: no defaults or breaches).

Notes to the financial statements continued

For the year ended 31 March 2022

10. Infrastructure financial liability

	Group	
	2022	2021
	£'000	£'000
At 1 April	2,753	2,893
Payments to lessor	(251)	(248)
Finance costs	109	108
At 31 March	<u>2,611</u>	<u>2,753</u>
Comprising:		
Current	149	145
Non-current	<u>2,462</u>	<u>2,608</u>
	<u>2,611</u>	<u>2,753</u>

The Company does not have any infrastructure financial liabilities (2021: none)

11. Trade and other payables

Trade and other payables are as tabulated below.

	Company		Group	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade payables	-	-	13	-
Other taxes	-	-	610	541
Accrued expenses	<u>1,006</u>	<u>980</u>	<u>3,390</u>	<u>3,845</u>
	<u>1,006</u>	<u>980</u>	<u>4,013</u>	<u>4,386</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 for the Group and Company are amounts owed to the immediate parent undertaking in respect of interest on the other borrowing – see note 17.

12. Derivative financial liabilities

Derivative financial instruments are recorded in the consolidated 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 the RPI index 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, that part of the movement in the fair value of derivative financial instruments that is deemed to be hedge effective under IAS 39 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 on the following page.

Notes to the financial statements continued

For the year ended 31 March 2022

12. Derivative financial liabilities continued

RPI swaps

The Group has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 75%) 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'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.

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments comprising RPI swaps are carried at market value. The carrying value of the RPI swaps at 31 March 2022 amounted to liabilities of £27,696k (2021: £1,446k). Of the total movements during the year in the fair value of these derivative financial instruments a hedge ineffectiveness credit of £845k (2021: charge of £845k) has been recorded in the income statement within "other financial costs" and a charge of £27,095k (2021: £1,918k) has been reflected through other comprehensive loss and recorded in the cash flow hedge reserve.

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

13. Decommissioning provision

The movement in the Group's decommissioning provision is analysed below.

	2022 £'000	2021 £'000
At 1 April	3,152	3,070
Reassessment for the year	-	(58)
Unwinding of discount	143	140
At 31 March	3,295	3,152

The Company does not have any decommissioning provisions (2021: none)

The Group decommissioning provision is all non-current (2021: all non-current).

The Group decommissioning provision of £3,295k at 31 March 2022 (2021: £3,152k) represents the net present value of the estimated expenditure expected to be incurred at the end of the economic life of the project to decommission the West of Duddon Sands transmission assets. The decommissioning expenditure relates to the removal and scrapping of all 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 £6,166k (2021: £5,999k), and is expected to be incurred in 2035.

The discount rate used to discount the gross expenditure 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.

Notes to the financial statements continued

For the year ended 31 March 2022

13. Decommissioning provision continued

If the expected nominal cost of decommissioning in 2035 was 10% higher or lower than that reflected in the decommissioning provision at 31 March 2022, this would have the effect of increasing or decreasing the carrying value of the Group decommissioning provision at 31 March 2022 by £330k (2021: £315k) and £330k (2021: £316k) respectively.

The decommissioning provision arises from the Group's obligations under S105 of the Energy Act 2004 and the contractual obligations relating to the lease of the West of Duddon Sands seabed granted by the Crown Estate Commissioners on 20 August 2015. The draft decommissioning plan has yet to be approved by the Secretary of State for Business, Energy and Industrial Strategy, as required under S106 of the Energy Act 2004, as the Group is considering responses to a consultation on a draft version of the decommissioning plan. When the consultation is complete, this may result in a change to that plan and a change to the value of the decommissioning costs.

The Group decommissioning provision is a financial instrument under UK-adopted IAS, and the fair value of the obligation equates to its carrying value, as the carrying value represents the net present value of the future expenditure expected to be incurred as described on the previous page.

14. Called up share capital and share premium

Company and Group share capital is as analysed below.

	No. (thousands)	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 April 2020, 31 March 2021 and 31 March 2022	100	100	369

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.

15. Reserves

The Company has no reserves and consequently there is no movement in reserves during the year ended 31 March 2022 (2021: none).

The Group's reserves are analysed below.

	Retained Earnings £'000	Cash flow Hedge £'000	Total £'000
At 1 April 2020	3,677	1,067	4,744
Loss attributable to equity shareholders	(880)	-	(880)
Losses on cash flow hedges taken to equity	-	(1,918)	(1,918)
Deferred taxation on cash flow hedges	-	364	364
At 31 March 2021	2,797	(487)	2,310
Loss attributable to equity shareholders	(93)	-	(93)
Losses on cash flow hedges taken to equity	-	(27,095)	(27,095)
Deferred taxation on cash flow hedges	-	6,810	6,810
At 31 March 2022	2,704	(20,772)	18,068

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 2022

16. Cash flow statement

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

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

	2022 £'000	2021 £'000
Movement in cash and cash equivalents	(303)	(69)
Payments in respect of an infrastructure financial liability	251	248
Net decrease in borrowings	11,475	9,726
Change in net debt resulting from cash flows	11,423	9,905
Non-cash finance costs included in net debt	(1,329)	(2,244)
Change in fair values of derivatives	(26,250)	(2,763)
Movement in net debt in the year	(16,156)	4,898
Net debt at start of year	(239,702)	(244,600)
Net debt at end of year	(255,858)	(239,702)

b) Analysis of changes in Group net debt

	Cash and cash equivalents £'000	Infrastructure financial liability £'000	Borrowings £'000	Derivatives £'000	Interest accruals £'000	Total £'000
At 1 April 2020	22,101	(2,893)	(262,284)	1,317	(2,841)	(244,600)
Cash flow	(69)	248	9,726	-	-	9,905
Non-cash finance costs	-	(108)	(2,229)	-	93	(2,244)
Changes in fair values	-	-	-	(2,763)	-	(2,763)
At 31 March 2021	22,032	(2,753)	(254,787)	(1,446)	(2,748)	(239,702)
Cash flow	(303)	251	11,475	-	-	11,423
Non-cash finance costs	-	(109)	(1,285)	-	65	(1,329)
Changes in fair values	-	-	-	(26,250)	-	(26,250)
At 31 March 2022	21,729	(2,611)	(244,597)	(27,696)	(2,683)	(255,858)

Notes to the financial statements continued

For the year ended 31 March 2022

17. Related party transactions

The following information relates to material transactions with related parties during the year. These transactions were carried out in the normal course of business and at terms equivalent to those that prevail in arm's length transactions. There were no other transactions carried out directly with other companies within the WoDS Transmission TopCo Limited ("TopCo") group of companies, except as disclosed below.

The following table relates to transactions with Group undertakings.

	Group	
	2022	2021
	£'000	£'000
Expenditure:		
Interest expense ¹	4,131	3,954
	<u>4,131</u>	<u>3,954</u>
Balances outstanding at 31 March:		
Borrowing payable ¹ (principal)	49,099	48,858
Interest accrual ¹	1,006	980
	<u>50,105</u>	<u>49,838</u>
	Company	
	2022	2021
	£'000	£'000
Finance income		
Interest ²	4,131	3,954
	<u>4,131</u>	<u>3,954</u>
Expenditure:		
Interest expense ¹	4,131	3,954
	<u>4,131</u>	<u>3,954</u>
Balances outstanding at 31 March:		
Assets		
Investment in subsidiary undertaking – ordinary shares	469	469
Investment in subsidiary undertaking – loan	49,099	48,858
Interest receivable from subsidiary undertaking	1,006	980
	<u>50,574</u>	<u>50,307</u>
Liabilities		
Borrowing payable ¹ (principal)	49,099	48,858
Interest accrual ¹	1,006	980
	<u>50,105</u>	<u>49,838</u>

¹ Relates to funding related transactions and balances with the ultimate and immediate parent undertaking (TopCo). The borrowings payable and the interest accrual outstanding are included within "Borrowings" and "Trade and other payables" in the balance sheet – see notes 9 and 11 respectively.

² Relates to interest received and receivable on the debt investment in the Company's wholly owned subsidiary undertaking (WoDS).

Notes to the financial statements continued

For the year ended 31 March 2022

17. Related party transactions continued

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

	2022 £'000	2021 £'000
Borrowing from immediate parent undertaking (principal)		
At 1 April	48,858	46,868
Capitalised interest	1,053	1,990
Repayments	(812)	-
At 31 March	<u>49,099</u>	<u>48,858</u>

Borrowing from the immediate parent undertaking (TopCo) were negotiated on normal commercial terms and are repayable in accordance with the terms of the unsecured 8.31% loan notes 2035 ("the notes"). Interest payments were made during the year amounting to £3,051k (2021: £1,953k). Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 25 August 2035.

In addition to transactions entered into with parent undertakings, the Group has an agreement with a related party for the supply of Graham Farley's consultancy services. Graham Farley is a related party as he is a Director of the Company, and the company supplying the services of Graham Farley is also a related party of the Group. The value of services supplied to the Group in respect of Graham Farley's consultancy services for the year ended 31 March 2022 amounted to £36k (2021: £36k).

Related party bad and doubtful debts

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

Notes to the financial statements continued

For the year ended 31 March 2022

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

a) Fair value disclosures

The table on the following page provides an analysis of the Group and Company'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 Company's or Group's financial instruments have quoted prices. Consequently, the following techniques have been used to determine fair values as follows:

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset – based on the net present value of discounted cash flows;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the net present value of discounted cash flows in respect of the 3.446% fixed rate secured bonds loans due August 2034 and in respect of the unsecured 8.31% loan notes due August 2035;
- 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 and Company's financial instruments with the fair value of those instruments at 31 March 2022 (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 as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table:

Notes to the financial statements continued

For the year ended 31 March 2022

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

a) Fair value disclosures continued

2022					
	Group		Company		Valuation Method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets					
<u>Non-current</u>					
Transmission owner asset	229,320	237,686	-	-	Level 3
Investments in subsidiary	-	-	49,568	50,574	Level 3
	<u>229,320</u>	<u>237,686</u>	<u>49,568</u>	<u>50,574</u>	
Liabilities					
<u>Non-current</u>					
Fixed rate secured bonds due 2034	185,398	185,895	-	-	Level 2
Fixed rate unsecured loan notes due 2035	49,099	49,629	49,099	49,629	Level 2
Infrastructure financial liability	2,462	2,462	-	-	Level 2
Derivative financial liabilities	27,696	27,696	-	-	Level 2
Decommissioning provision	3,295	3,295	-	-	Level 3
	<u>267,950</u>	<u>268,977</u>	<u>49,099</u>	<u>49,629</u>	
2021					
	Group		Company		Valuation Method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets					
<u>Non-current</u>					
Transmission owner asset	239,318	255,981	-	-	Level 3
Investments in subsidiary	-	-	49,327	50,207	Level 3
	<u>239,318</u>	<u>255,981</u>	<u>49,327</u>	<u>50,207</u>	
Liabilities					
<u>Non-current</u>					
Fixed rate secured bonds due 2034	195,497	208,014	-	-	Level 2
Fixed rate unsecured loan notes due 2035	48,858	51,038	48,858	51,038	Level 2
Infrastructure financial liability	2,608	2,608	-	-	Level 2
Derivative financial liabilities	1,446	1,446	-	-	
Decommissioning provision	3,152	3,152	-	-	Level 3
	<u>251,561</u>	<u>266,258</u>	<u>48,858</u>	<u>51,038</u>	

Notes to the financial statements continued

For the year ended 31 March 2022

18. 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 it is eligible to apply a level 1 valuation technique.

With the exception of the transmission owner asset and decommissioning provision, 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 and Company's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data.

In the case of the transmission owner asset and decommissioning provision, 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 (2021: applied throughout the year) and there have been no reclassifications or transfers between the various valuation categories during the year (2021: no reclassifications or transfers).

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 described in note 12 that are appropriate to the circumstances and economic environment within which the Group operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the year are explained below and later in this note.

i) Market risk

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

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

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

The fair value of the transmission owner asset is subject to price risk caused by changes in RPI and/or changes in interest rates.

Notes to the financial statements continued

For the year ended 31 March 2022

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

b) Management of risk continued

i) Market risk continued

The Group is not exposed to changes in the market value of the infrastructure financial liability as the liability is determined by discounting the future cash flows relating to the lease arrangements giving rise to infrastructure financial liabilities by the incremental borrowing cost to the Group at the date the lease arrangements were entered into as a proxy for the interest rate implicit in those lease arrangements. Infrastructure financial liabilities do expose the Group to potential future increases in variable lease payments based on an index, which are not included in the initial lease liability and are only recognised when the change in index takes effect. When adjustments to lease payments are made based on an index taking effect, the lease liability is reassessed and adjusted through the income statement.

All of the Group's borrowings 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 fluctuates 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.

Cash and cash equivalents, where placed on interest bearing deposits, 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 asset fluctuate with positive changes in RPI. The Group has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in 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) NGESO in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps; and c) short term deposits. There are no other significant credit exposures to which the Group is exposed. The maximum exposure to credit risk at the 31 March 2022 (and 31 March 2021) is the fair value of all financial assets held by the Group. Information relating to the fair value of all financial assets is given earlier – note 18 (a). None of the Group's financial assets are past due or impaired.

NGESO operates a low risk regulated business within the UK and the regulatory regime under which they operate results in a highly predictable and stable, revenue stream. The regulatory regime is managed by the Authority and is considered by the Directors to have a well-defined regulatory framework which is classified as a predictable and a supportive regime by the major rating agencies. NGESO is subject to a regulatory financial 'ring fence' that restricts their ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges.

Notes to the financial statements continued

For the year ended 31 March 2022

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

b) Management of risk continued

ii) Credit risk continued

Even in the very unlikely circumstance of an NGESO insolvency, it is probable that any amounts outstanding would still be recovered. This arises because NGESO is one of the '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 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 swaps) these arrangements have been entered into with banks that the Directors consider to be of good standing and having carried out an appropriate risk assessment, consider that where a derivative asset position might exist the event of default is considered extremely low. At 31 March 2022, the fair values attributable to these positions were liabilities amounting to £27,696k (2021: £1,446k) and consequently there was no credit risk at 31 March 2022.

Included in the balance sheet at 31 March 2022 and 31 March 2021 are cash and cash equivalents that comprised short term deposits which were immediately accessible at that date. It is the Group's policy, and a requirement under the Group's lending agreements, that surplus cash and/or restricted cash deposits can only be invested in a limited set of high-quality investments with a view to ensuring that the risk of default is extremely low and that the investments are readily accessible.

iii) Liquidity risk and Going Concern

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

As a result of: the regulatory environment under which the Group operates; the credit worthiness of the Group's principal customer (NGESO); and the RPI swaps that have been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, all of the Group's senior debt carries a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole remaining period of the project. During the year ended 31 March 2022, senior debt service costs amounted to £17,736k (2021: £17,143k). There is no contractual obligation on the Group to service the unsecured borrowing until 25 August 2035, although it is the Group's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the other borrowing amounted to £3,863k (2021: £1,953k).

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 at the next scheduled senior debt service date and to meet forecast maintenance costs. 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.

Notes to the financial statements continued

For the year ended 31 March 2022

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

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

At 31 March 2022, the Group had access to a working capital reserve of £5,712k (2021: £5,648k) that it could access in the event that it is required to pay for any insurance deductible or to satisfy any reactive maintenance expenditure attributable to outages or repairs that could not be met in the ordinary course of business. In addition, in the event that the Group had insufficient funds to meet the contractual senior debt service or hedging payments, the Group can draw down under the PBCE letter of credit, with a view to meeting these obligations, the maximum amount that can be accessed under this facility amounts to 15% of the outstanding nominal principal amount of the senior debt outstanding.

At 31 March 2022, cash and cash equivalents included £14,751k (2021: £15,766k) that are held for specific purposes in the manner described in this section (including the working capital reserve) and additional amounts of cash and cash deposits amounting to £6,978k (2021: £6,266k) the disbursement of which has to comply with the terms of the lending agreements generally, but otherwise are available for general corporate purposes.

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

During the year, the Group has continued to meet its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Group will continue to do so for the foreseeable future. The Group has exceeded its targets in relation to the obligations that it has to senior debt bondholders and the forecasts continue to support that these will continue to be exceeded. 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 tables on the following page are prepared on the assumption the holder redeems at the earliest opportunity.

Notes to the financial statements continued

For the year ended 31 March 2022

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

	2022 Contractual cash flows £'000	2022 0-1 years £'000	2022 1-2 years £'000	2022 2-5 years £'000	2022 > 5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	404,546	25,026	25,428	80,223	273,869
Cash and cash equivalents	21,729	21,729	-	-	-
	426,275	46,755	25,428	80,223	273,869
Non-derivative financial liabilities					
Borrowings +	(364,347)	(19,181)	(20,251)	(63,987)	(260,928)
Trade and other non-interest-bearing liabilities	(4,013)	(4,013)	-	-	-
Infrastructure financial liability	(3,399)	(252)	(252)	(756)	(2,139)
Decommissioning provision	(6,166)	-	-	-	(6,166)
	(377,925)	(23,446)	(20,503)	(64,743)	(269,233)
Derivative financial instruments					
RPI swaps	(44,252)	(2,301)	(2,466)	(8,517)	(30,968)
Net total	4,098	21,008	2,459	6,963	(26,332)

	2021 Contractual cash flows £'000	2021 0-1 years £'000	2021 1-2 years £'000	2021 2-5 years £'000	2021 > 5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	428,495	25,033	24,594	78,150	300,718
Cash and cash equivalents	22,032	22,032	-	-	-
	450,527	47,065	24,594	78,150	300,718
Non-derivative financial liabilities					
Borrowings +	(383,524)	(21,599)	(19,189)	(62,717)	(280,019)
Trade and other non-interest-bearing liabilities	(4,386)	(4,386)	-	-	-
Infrastructure financial liability	(3,598)	(248)	(248)	(745)	(2,357)
Decommissioning provision	(5,999)	-	-	-	(5,999)
	(397,507)	(26,233)	(19,437)	(63,462)	(288,375)
Derivative financial instruments					
RPI swaps	(2,422)	(112)	(120)	(415)	(1,775)
Net total	50,598	20,720	5,037	14,273	10,568

+ Including interest payments.

Notes to the financial statements continued

For the year ended 31 March 2022

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

b) Management of risk continued

iv) Sensitivities

Changes in RPI affect the carrying value of those financial instruments that are recorded in the 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 swaps as described in note 12 earlier. 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. Changes in the fair value of RPI swaps are expected to be substantially matched by changes in the fair values of the position they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the transmission owner asset which is carried at amortised cost. Consequently, any change in the fair value of the underlying hedged position, being the transmission owner asset, 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, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to that proportion of the underlying cash flows being hedged that emanate from the holding of the transmission owner asset.

As at 31 March 2022, we estimate that a +/- 1% change in RPI as applied over the remaining life of the RPI swaps would result in a corresponding increase or decrease in the market value of the RPI swaps included in the balance sheet at that date by c£14,905k (2021: c£16,444k).

v) Capital management

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

Senior debt comprises a fixed rate borrowing arising from the issuance of fixed rate secured bonds due August 2034 that were issued in August 2015. The secured bonds are guaranteed by HoldCo and in certain specified circumstances where the Group has insufficient funds to meet the contractual senior debt service or hedging payments, the Group can draw down under the PBCE letter of credit, with a view to meeting these obligations, with the maximum amount that can be accessed under this facility equivalent to 15% of the outstanding nominal principal amount of the senior debt outstanding. All of the senior debt and related RPI swap hedging arrangements are serviced on a six-monthly basis (June and December) and are expected to amortise through to 24 August 2034. At 31 March 2022, the total principal carrying value of senior debt net of unamortised issue costs excluding any accrued interest amounted to £195,497k (2021: £205,929k).

The other unsecured borrowing raised from the Group's immediate parent undertaking, TopCo, carries a fixed rate coupon (see note 9). At 31 March 2022, the total principal value of the other borrowing outstanding excluding accrued interest amounted to £49,099k (2021: £48,858k).

Notes to the financial statements continued

For the year ended 31 March 2022

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

b) Management of risk continued

v) Capital management continued

No ordinary equity share capital was issued during the year (2021: £nil). At 31 March 2022 share capital and associated share premium amounted to £469k (2021: £469k).

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

19. Investments in subsidiary undertaking

Company	Equity £'000	Loans £'000	Total £'000
At 1 April 2020	469	46,868	47,337
Additions	-	1,990	1,990
At 31 March 2021	469	48,858	49,327
Additions	-	241	241
At 31 March 2022	469	49,099	49,568

The Company holds all of the issued ordinary share capital of WoDS Transmission plc ("WoDS") a company registered in England & Wales, which recorded a loss attributable to equity shareholders for the year ended 31 March 2022 of £93k (2021: loss of £880k) and has capital and reserves of £17,599k at 31 March 2022 (2021: £2,779k). The Company has advanced unsecured loan notes to WoDS which carries a fixed coupon of 8.31% per annum. The loan investment is contractually repayable on 25 August 2035.

Group

The sole operating subsidiary undertaking within the Group is WoDS Transmission plc, which is 100% owned by the Company, and is registered in England & Wales; the principal business activity of this subsidiary is the transmission of electricity. The registered office of WoDS Transmission plc is: Canon Place, 78 Canon Street, London, EC4N 6AF.

20. Ultimate parent company

The Company's immediate and ultimate parent company and controlling party is WoDS Transmission TopCo Limited; a company incorporated and registered in Jersey. WoDS Transmission Holdco Limited is the largest and smallest group which consolidates the financial statements of WoDS Transmission plc.

At 31 March 2022, WoDS Transmission TopCo Limited is jointly owned in equal proportions by Ednaston Project Investments Limited (which is ultimately owned by a number of Dalmore Capital Limited managed funds) and PPDI AssetCo 2 Limited (which is ultimately wholly owned by PPP Equity PIP LP, another Dalmore Capital managed fund).

21. Company income statement

No income statement is presented by the Company as permitted by Section 408 of the Companies Act 2006. The result attributable to equity shareholders for the year ended 31 March 2022 was £nil (2021: £nil).

Glossary

A

Annual General Meeting (AGM)

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

The Authority

The Gas and Electricity Markets Authority

B

Base Revenue

Representing that revenue, in any one charging year, which reflects the Licence target availability of 98%.

Board

The Board of Directors of the Company

C

called up share capital

Shares (common stock) 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, WoDS Transmission Holdco Limited, HoldCo we, our, or us

The terms 'the Company', 'WoDS Transmission Holdco Limited', HoldCo, 'we', 'our', or 'us' are used to refer to WoDS Transmission Holdco 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 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.

derivative

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

E

EIB

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

equity

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

F

financial year

For WoDS Transmission plc 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

WoDS Transmission Holdco Limited and its subsidiary undertaking, WoDS Transmission plc.

H

HS&E

Health, Safety and the Environment

Glossary

I

IAS or IFRS

International accounting standards

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

K

KPIs

Key performance indicators

kV

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

L

the Licence

The Offshore Electricity Licence held by WoDS Transmission plc

LTIs

Lost time injury – an incident arising out of WoDS Transmission plc's operations which leads to an injury where an employee or contractor of the O&M 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 WoDS Transmission plc's premise, 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

MW

Megawatts – an amount of power equal to one million watts

MW/hr(s)

Megawatt hour(s) – 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 borrowing)

Unsecured 8.31% Loan Notes 2035

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)

Other borrowing (see also the Notes)

Amounts borrowed by the Company from its immediate parent undertaking, WoDSH which ranks behind the Senior Debt.

O&M

Operations and Maintenance

Glossary

P

Performance year

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

PBCE

Project Bonds Credit Enhancement in relation to the issuance of a letter of credit by the EIB in favour of the senior creditors.

R

RPI

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

RPI Swaps

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

S

Senior Debt

All borrowings except those arising under the other borrowing agreement.

STC

System Operator Transmission Owner Code

SQSS

Security and Quality of Supply Standard

T

TEC

Transmission Entry Capacity

TOCA

Transmission Owner Construction Agreement

TopCo group

WoDS Transmission TopCo Limited and its subsidiary undertakings, WoDS Transmission Holdco Limited and WoDS Transmission plc.

U

UK

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

W

WoDS

WoDS Transmission plc

WoDSH (or "HoldCo")

WoDS Transmission Holdco Limited

WoDST (or "TopCo")

WoDS Transmission TopCo Limited