

Registered No. 05149491

## Wales & West Gas Networks (Junior Finance) Limited

Annual report and financial statements  
for the year ended 31 March 2018



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## Directors and advisers

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### Directors

Andrew Hunter	Chairman (R)
Graham Edwards	Chief Executive Officer (H)
Dominic Chan	(A, R, H, T)
Edmond Ip	
Hing Lam Kam	(R)
Duncan Macrae	(A, R, H, T)
Charles Tsai	(R)
Neil Henson	(Alternate Director to Graham Edwards)
Neil McGee	(Alternate Director to Dominic Chan)
Wendy Tong-Barnes	(Alternate Director to Hing Lam Kam)

- (A) *Member of the Audit Committee of Wales & West Utilities Limited*  
(R) *Member of the Remuneration Committee of Wales & West Utilities Limited*  
(H) *Member of the Health & Safety Committee of Wales & West Utilities Limited*  
(T) *Member of the Treasury Committee of Wales & West Utilities Limited*

### Company secretary and registered office

Paul Millar  
Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ

### Independent auditor

Deloitte LLP  
Statutory Auditor  
Cardiff, United Kingdom

### Principal bankers

Barclays Bank plc  
One Churchill Place, London, E14 5HP

# Strategic report

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## **Business review**

The financial statements present the Company's results for the year ended 31 March 2018 and the financial position as at 31 March 2018 with comparatives for the year ended 31 March 2017 ("2017").

Overall Wales & West Gas Networks (Junior Finance) Limited ("the Company") has performed satisfactorily during the year.

## **Results and operating performance**

The profit before taxation for the year ended 31 March 2018 amounted to £2.5m (2017: £2.8m). The profit for the year amounted to £2.2m (2017: £2.2m).

The results of the Company for the year ended 31 March 2018 are set out in the profit and loss account on page 9.

The principal trading subsidiary of the Company is Wales & West Utilities Limited.

## **History and development**

The Company is a member of a private group. Details of the immediate and ultimate parent company are set out in note 12 to the financial statements.

## **Principal risks and uncertainties**

The principal risk to the Company is the recovery of its investment in its wholly owned subsidiary Wales & West Gas Networks (Senior Finance) Limited, the fixed asset investment in that company and the repayment of the amounts owed to the parent company.

From the perspective of the Company, additional principal risks and uncertainties are integrated with the principal risks of the Wales & West Gas Networks (Holdings) Limited group ("The Group") and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed within the Group's consolidated financial statements.

## **Financial review**

### *Basis of accounting*

The financial statements present the Company's results for the year ended 31 March 2018 with comparatives for the year ended 31 March 2017 and the financial position as at 31 March 2018 and 31 March 2017. They have been prepared using the accounting policies shown on pages 13 to 16, in accordance with Financial Reporting Standard 102 ("FRS 102") as issued by the Financial Reporting Council in the United Kingdom and Republic of Ireland.

### *Cash flow forecasting*

Both short term and long term cash flow forecasts are produced periodically to support liquidity management.

### *Shareholder funds*

Shareholder funds at 31 March 2018 amounted to £105.4m (2017: £68.8m) following a retained profit for the year of £2.2m (2017: £2.2m) and the release of intercompany loan interest of £34.4m to reserves (2017: £43.6m).

There were no movements in the authorised and issued share capital of the Company during the year.

### *Borrowings*

Details of gross borrowings are disclosed in notes 5 and 6.

## **Strategic report (continued)**

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### **Future developments**

The directors do not envisage any material changes in the activity of the Company for the foreseeable future.

On 4 April 2018, the Company received £645.0m from its immediate subsidiary, Wales & West Gas Networks (Senior Finance) Limited, and on the same day the Company repaid £645.0m of its intercompany loan from its immediate parent, Wales & West Gas Networks (Holdings) Limited. See note 13 – Post balance sheet event.

Other than the matter referred to above, there were no other significant developments within the Company that occurred during the financial year under review and prior to approval of the annual report and financial statements.

**By order of the Board**



Paul Millar  
**Company secretary**  
19 July 2018

## Report of the directors

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The directors have pleasure in presenting their annual report to the shareholder of Wales & West Gas Networks (Junior Finance) Limited ("the Company"), together with the audited financial statements for the year ended 31 March 2018 as presented on pages 9 to 21.

### Principal activities

The Company is a private company limited by shares. The Company is principally a holding company. It has an indirect 100% interest in Wales & West Utilities Limited, a company engaged in the management of gas transportation assets. That company provides gas distribution and meter work services throughout Wales and the South West of England.

Except for the non-adjusting event described in note 13 Post balance sheet event, the Company does not envisage any changes in its activities in the foreseeable future.

### Dividend on ordinary shares

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2018 (2017: £nil).

### Directors

The names of the current directors of the Company are shown on page 1.

There were no changes in directors during the period under review and up to the date of signing of the annual report and financial statements, all directors served throughout the year.

### Company secretary

The name of the current Company secretary is shown on page 1.

### Directors' service contracts and remuneration

No director received any remuneration in respect of their duties to the Company.

### Directors' interests

There were no significant contracts subsisting during or at the end of the year with the Company in which any director is or was materially interested (other than service contracts).

None of the directors has or has had a beneficial interest in the shares of the Company.

### Contributions for political purposes

During the year ended 31 March 2018, there have been no political donations (2017: £nil).

### Directors' liability insurance

The Company has entered into deeds of indemnity for the benefit of each director of the Company in respect of liabilities to which they may become liable in their capacity as director of the Company and of any Company in the Group. These indemnities are qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 and were in force during the year and also at the date of approval of the annual report and financial statements.

### Non-adjusting events after the end of the reporting year

A non-adjusting event after the end of the year under review and up to the date of signing the annual report and financial statements is disclosed within note 13 - Post Balance sheet event and in future developments within the Strategic report on page 3.

### Future developments

Details of future developments can be found in the Strategic report on page 3 and form part of this report by cross-reference.

## Report of the directors (continued)

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### Going concern

The Company's financial statements have been prepared on the basis that the Company is a going concern.

The business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 2 and 3. The risks that the business faces in the coming year are set out on page 2. The financial position of the Company is set out on page 2.

In arriving at their decision to prepare the financial statements on a going concern basis, the directors have reviewed the Group's and Company's budgets and forecast for calendar year 2018, its medium term business plans from 2019 to 2021; the risks faced by the Group and Company and the Group net current liabilities position and the directors believe that the Group is well placed to manage its risks successfully. The review included considering the forecast operating cash flows generated, cash flow implications of the plans, available debt facilities at the year end and raised post year end and comparing these with the Group's and Company's cash resources and committed borrowing facilities and concluded that the Company was in a position to meet its liabilities as they fall due.

### Disclosure of information to auditor

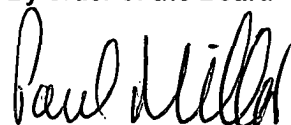
In the case of each person who is a director at the time when the report is approved under section 419 of the Companies Act 2006:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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.

Deloitte LLP has expressed their willingness to continue in office as auditor and are deemed to be reappointed, subject to certain specified circumstances under s487 of the Companies Act 2006.

By order of the Board



Paul Millar

Company secretary

19 July 2018

## **Directors' responsibilities statement**

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The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, the directors are required to:

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

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

**By order of the Board**



Paul Millar

**Company secretary**

**19 July 2018**



# **Independent auditor's report to the members of Wales & West Gas Networks (Junior Finance) Limited**

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## **Report on the audit of the financial statements**

### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Wales & West Gas Networks (Junior Finance) Limited which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the principal accounting policies; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

# **Independent auditor's report to the members of Wales & West Gas Networks (Junior Finance) Limited (continued)**

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## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's 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 auditor's 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.

## **Use of our report**

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

## **Report on other legal and regulatory requirements**

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Report of the directors.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

*Delyth Jones*

Delyth Jones (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Cardiff, United Kingdom  
27 July 2018

## Profit and loss account for the year ended 31 March 2018

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	Note	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
<b>Operating result</b>	1	-	-
Interest receivable and similar income	2(a)	87.8	89.4
Interest payable and similar charges	2(b)	(85.3)	(86.6)
<b>Profit on before taxation</b>		<b>2.5</b>	<b>2.8</b>
Tax on profit	3	(0.3)	(0.6)
<b>Profit for the year</b>		<b>2.2</b>	<b>2.2</b>

All operations are continuing.

## Statement of comprehensive income for the year ended 31 March 2018

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	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Profit for the financial year attributable to ordinary shareholder	2.2	2.2
Intercompany loan interest released (i)	34.4	43.6
Total comprehensive income relating to the year	<u>36.6</u>	<u>45.8</u>

- (i) During the year ended 31 March 2018 £34.4m of unpaid intercompany loan interest (2017: £43.6m) was released to other comprehensive income. The release of intercompany loan interest arose from the release of intercompany loan interest payable to Wales & West Gas Networks (Holdings) Limited.

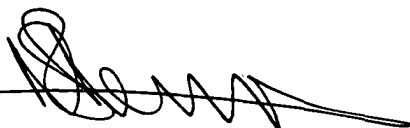
## Balance sheet as at 31 March 2018

	Note	31 March 2018 £m	31 March 2017 £m
<b>Fixed assets</b>			
Investment	4	83.5	46.6
		<u>83.5</u>	<u>46.6</u>
<b>Current assets</b>			
Debtors: amounts owed by group undertakings		747.1	748.5
		<u>747.1</u>	<u>748.5</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	(725.2)	(726.3)
		<u>(725.2)</u>	<u>(726.3)</u>
<b>Net current assets</b>		<u>21.9</u>	<u>22.2</u>
<b>Total assets less current liabilities</b>		<u>105.4</u>	<u>68.8</u>
<b>Net assets</b>		<u>105.4</u>	<u>68.8</u>
<b>Capital and reserves</b>			
Called up share capital	9	-	-
Profit and loss account		105.4	68.8
		<u>105.4</u>	<u>68.8</u>
<b>Total shareholder's funds</b>		<u>105.4</u>	<u>68.8</u>

The financial statements of Wales & West Gas Networks (Junior Finance) Limited (registered number 05149491) on pages 9 to 21 were approved by the Board of Directors on 19 July 2018 and were authorised for issue and signed on its behalf by:



Graham Edwards  
Chief Executive Officer



Neil Henson  
Director

## Statement of changes in equity for the year ended 31 March 2018

	Called up share capital £	Profit and loss account £m	Total £m
<b>At 31 March 2016</b>	<b>2.0</b>	<b>23.0</b>	<b>23.0</b>
Profit for the year	-	2.2	2.2
Intercompany loan interest released (i)	-	43.6	43.6
<b>Total comprehensive income</b>	<b>-</b>	<b>45.8</b>	<b>45.8</b>
<b>At 31 March 2017</b>	<b>2.0</b>	<b>68.8</b>	<b>68.8</b>
Profit for the year	-	2.2	2.2
Intercompany loan interest released (i)	-	34.4	34.4
<b>Total comprehensive income</b>	<b>-</b>	<b>36.6</b>	<b>36.6</b>
<b>At 31 March 2018</b>	<b>2.0</b>	<b>105.4</b>	<b>105.4</b>

- (i) During the year ended 31 March 2018 £34.4m of unpaid intercompany loan interest (2017: £43.6m) was released to other comprehensive income. The release of intercompany loan interest arose from the release of intercompany loan interest payable to Wales & West Gas Networks (Holdings) Limited.

## Principal accounting policies

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The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom including Financial Reporting Standard 102 ("FRS 102") and comply with the Companies Act 2006. A summary of the principal Company accounting policies, which have been consistently applied in both the current year and prior year, is shown below.

### Changes in accounting policy

There have been no changes in accounting policy during the year.

### General information and basis of accounting

Wales & West Gas Networks (Junior Finance) Limited (registered number 05149491) is a private company limited by shares and was incorporated in Wales, United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Report of the directors on page 4.

The financial statements have been prepared in accordance with the historical cost convention and in accordance with FRS 102 issued by the Financial Reporting Council.

The Company has early adopted the Financial Reporting Council Triennial review 2017 amendments to the FRS 102 as issued in December 2017.

The functional currency of Wales & West Gas Networks (Junior Finance) Limited is considered to be the pound sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling.

Wales & West Gas Networks (Junior Finance) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in relation to the presentation of a cash flow statement, related party transactions and the directors have taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements on the basis that its parent company, Wales & West Gas Networks (Holdings) Limited, prepares consolidated financial statements which are publicly available.

The consolidated financial statements of Wales & West Gas Networks (Holdings) Limited, within which this Company is included, can be obtained from the address provided in note 12.

### Going concern

The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these financial statements as set out in the Report of the directors on page 5.

### Cash flow statement

The Company is a 100% owned subsidiary of Wales & West Gas Networks (Holdings) Limited, and is included in the consolidated financial statements of that company, which is incorporated in the United Kingdom, and whose consolidated financial statements are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Section 1.12 of FRS 102.

### Related party transactions

As stated above, the Company is a 100% owned subsidiary of Wales & West Gas Networks (Holdings) Limited, and is included in the consolidated financial statements of that company, which is incorporated in the United Kingdom, and whose consolidated financial statements are publicly available. Consequently, under the terms of Section 33 of FRS 102 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are wholly owned within the Wales & West Gas Networks (Holdings) Limited group.

### Investments

Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect permanent diminutions in value. Those held as current assets are stated at the lower of cost and net realisable value.

## Principal accounting policies (continued)

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### Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value, which is the amount of the net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### i) Financial assets and liabilities

Debt is initially measured at fair value, which is the amount of the net proceeds after deduction of directly attributable issue costs, with subsequent measurement at amortised cost. Debt issue costs and discounts on issue are recognised over the expected term of the instruments.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that have no stated interest rate (and do not constitute a financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.



## Principal accounting policies (continued)

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### Financial instruments (continued)

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less/(more) than the value at which it is recognised, a deferred tax liability/(asset) is recognised for the additional tax that will be paid/(avoided) in respect of that difference. Similarly, a deferred tax asset/(liability) is recognised for the additional tax that will be avoided/(paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

## **Principal accounting policies (continued)**

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### **Critical accounting judgements and key sources of estimation uncertainty**

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

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

### **Critical judgements in applying the Company's accounting policies**

The directors have not made any critical judgements, not involving estimations (which are dealt with separately) in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### **Key source of estimation uncertainty**

The directors do not consider there to be any key assumptions concerning the future, and the other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

## Notes to the financial statements

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### 1. Operating result

Operating result is stated after charging:

#### Auditor remuneration

#### Services provided by the Company auditor

During the year the Company obtained the following services from the Company auditor:

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Fees payable to Company auditor for the audit of the financial statements	<u>5.0</u>	<u>5.0</u>

Audit fees are paid by Wales & West Utilities Limited, a Group company.

### 2. Interest

#### (a) Interest receivable and similar income

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
On group loans	<u>87.8</u>	<u>89.4</u>

#### (b) Interest payable and similar charges

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
On group loans	<u>85.3</u>	<u>86.6</u>

## Notes to the financial statements (continued)

### 3. Tax on profit

#### (a) Analysis of tax charge in the year

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
<b>The charge for taxation is made up as follows:</b>		
<b>Current taxation</b>		
UK corporation tax on profits of the year	0.3	0.3
Adjustment in respect of prior periods	-	0.3
<b>Total current tax</b>	<b>0.3</b>	<b>0.6</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	-
<b>Total deferred tax</b>	<b>-</b>	<b>-</b>
<b>Total tax charge on profit (note 3(b))</b>	<b>0.3</b>	<b>0.6</b>

The £0.3m tax charge reflects a £0.3m current year charge to the amounts due to Group undertakings in respect of group relief claimed (2017: £0.6m annual tax charge; £0.3m current year charge and a £0.3m prior period adjustment).

#### (b) Factors affecting the current tax charge for the year

The current tax assessed for the year/period is different to the weighted average rate of corporation tax in the UK of 19.0% (2017: 20.0%). The differences are explained below:

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Profit before tax	2.5	2.8
Profit multiplied by the weighted average rate of corporation tax in the UK of 19.0% (2017: 20.0%)	0.5	0.5
<b>Effects of:</b>		
Adjustment in respect of prior periods	-	0.3
Permanent differences	(0.2)	(0.2)
<b>Current tax charge for the year (note 3(a))</b>	<b>0.3</b>	<b>0.6</b>

Legislation in Finance Bill 2016 set the corporation tax main rate at 17%, replacing the 18% rate set for Financial Year 2020 in the Finance (No. 2) Act 2015. This change in the corporation tax rate will not materially affect the future tax charge.

## Notes to the financial statements (continued)

### 4. Fixed asset investment

	Interests in group undertakings £m
<b>Cost and net book amount</b>	
At 31 March 2017	46.6
Capital contribution – intercompany loan interest receivable released	<u>36.9</u>
At 31 March 2018	<u><u>83.5</u></u>

The Company's direct subsidiary is Wales & West Gas Networks (Senior Finance) Limited (UK), whose principal activity is that of a holding company, and comprises 2 ordinary shares of £1 each. The Company owns the entire issued share capital of Wales & West Gas Networks (Senior Finance) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ, United Kingdom ("UK").

The Company's principal indirect subsidiary undertaking is Wales & West Utilities Limited whose principal activity is that of the management of gas transportation assets throughout Wales and the South West of England, and comprises 30,675,000 ordinary shares of £1 each. The Company's direct subsidiary Wales & West Gas Networks (Senior Finance) Limited owns the entire issued share capital of Wales & West Utilities Holdings Limited, which owns the entire issued share capital of Wales & West Utilities Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ, United Kingdom ("UK") a company incorporated in England and Wales, UK.

During the year ended 31 March 2018 a £36.9m capital contribution (2017: £46.6m) was added to the investment. The capital contribution arose from the release of intercompany loan interest receivable from Wales & West Gas Networks (Senior Finance) Limited.

### 5. Creditors: amounts falling due within one year

Gross borrowings	31 March 2018 £m	31 March 2017 £m
Amounts owed to group undertakings (note 6)	703.9	705.0
Accrued interest on group loans (note 6)	21.3	21.3
	<u>725.2</u>	<u>726.3</u>

The maturity profile of the Company's gross borrowings was as follows:

	31 March 2018 £m	31 March 2017 £m
In one year or less, or on demand	<u>725.2</u>	<u>726.3</u>

## Notes to the financial statements (continued)

### 6. Financial instruments and risk management

#### (a) Interest rate composition of gross borrowings

The fixed and floating interest rate profile of the Company's gross borrowings, including intra-group indebtedness, was:

	<b>31 March 2018 £m</b>	31 March 2017 £m
Fixed rate	<b>527.9</b>	528.8
Floating rate	<b>176.0</b>	176.2
<b>Total (note 5)</b>	<b>703.9</b>	705.0

The above analysis represents £703.9m (2017: £705.0m) of intra-group indebtedness to its parent undertaking. The remaining £21.3m (2017: £21.3m) owed to parent undertaking constitutes the interest accrued on the principal (note 5).

Interest was chargeable on these loans at 14% (2017: 14%) on the fixed element and LIBOR + 6% (2017: LIBOR + 6%) on the floating element.

#### (b) Interest rate profile of fixed rate borrowings

The weighted average interest rate profile of the Company's gross borrowings, including intra-group indebtedness, together with the weighted average period for which the rate is fixed was:

	<b>Weighted average interest rate</b>		<b>Weighted average period for which rate is fixed</b>	
	<b>31 March 2018 %</b>	31 March 2017 %	<b>31 March 2018 Years</b>	31 March 2017 Years
Sterling: Inter-company fixed rate	<b>14.0</b>	14.0	<b>1.0</b>	1.0

### 7. Capital commitments

The Company had no capital commitments at 31 March 2018 or at 31 March 2017.

### 8. Leasing commitments

The Company had no operating lease commitments at 31 March 2018 or at 31 March 2017.

### 9. Called up share capital

	<b>31 March 2018 £</b>	31 March 2017 £
Authorised: 2 Ordinary shares of £1 each	<b>2</b>	2
Allotted, called up and fully paid: 2 Ordinary shares of £1 each	<b>2</b>	2

## Notes to the financial statements (continued)

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### 10. Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or the prior year or were outstanding at the end of the year.

### 11. Directors and employees

#### (a) Staff costs

The Company had no employees during the year ended 31 March 2018 (2017: none).

#### (b) Directors' emoluments

There were no directors' emoluments in the year ended 31 March 2018 (2017: none). The directors receive no remuneration for services provided to the Company. The Chief Executive Officer is remunerated through a wholly owned subsidiary, Wales & West Utilities Limited. The other six directors are employees of the parent companies they represent and are remunerated by them in their operational country.

### 12. Immediate and ultimate parent company

The immediate and ultimate parent company is Wales & West Gas Networks (Holdings) Limited (UK). Wales & West Gas Networks (Holdings) Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 March 2018. Copies of the annual report and consolidated financial statements of Wales & West Gas Network (Holdings) Limited may be obtained from The Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

The shares in the ultimate parent company, Wales & West Gas Networks (Holdings) Limited (UK), are owned equally by West Gas Networks Limited (UK) and Western Gas Networks Limited (UK). These two companies are ultimately owned by a consortium based in Hong Kong comprising CK Hutchison Holdings Limited (30%), CK Infrastructure Holdings Limited (30%), Power Asset Holdings Limited (30%) and Li Ka Shing Foundation (10%).

### 13. Post balance sheet event

On 4 April 2018, the Company received £645.0m from its immediate subsidiary, Wales & West Gas Networks (Senior Finance) Limited in majority settlement of its intercompany balance, and on the same day the Company paid £645.0m to its immediate parent company, Wales & West Gas Networks (Holdings) Limited, in majority settlement of the intercompany receivable balance.