

**GREATER GABBARD
OFTO**

Company Registration No.08180541

Greater Gabbard OFTO Plc

Annual Report and Financial Statements

For the year ended 31st March 2016

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Operating and financial review

For the year ended 31 March 2016

Introduction

This Operating and Financial Review explains the operations of Greater Gabbard OFTO Plc and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2016, as well as those matters which are likely to affect its future development and performance.

The ultimate parent Company of the Company is Greater Gabbard OFTO Holdings Limited, a Company registered in England and Wales, United Kingdom.

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

Background

The Office of Gas and Electricity Markets ("Ofgem"), in partnership with the Department of Energy and Climate Change ("DECC"), has developed a regulatory regime for electricity transmission networks connecting offshore wind farms to the onshore electricity system. A key feature of this regime is that the transmission assets required by offshore generators should be owned and operated by offshore transmission owners ("OFTOs"). OFTOs are subject to the conditions of a transmission licence.

The Company holds the Licence, awarded by the Authority on 26 November 2013. The asset was purchased by the use of bonds and subordinated debt. This Licence, amongst other matters, permits and requires the Company to maintain and operate the Greater Gabbard offshore electricity transmission assets in perpetuity with a revenue entitlement period of 20 years from the date funds were drawn on 29 November 2013. The Company's offshore electricity transmission system exports the output of the Greater Gabbard wind farm owned by Greater Gabbard Offshore Winds Limited (GGOWL) to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Company to be certified as complying with the unbundling requirements of European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). On 2 August 2013, the Company was issued a certificate pursuant to section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Company has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

The Company's offshore electricity transmission system

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

The Greater Gabbard offshore wind farm comprises 140 turbines, with a combined capacity of around 504 megawatts ("MW"), and is located off the Suffolk coast in two zones approximately 40km east of Harwich in the Thames Estuary. The power that is generated by the wind farm is transported to shore by the Company and connects into the NGET system at Sizewell in Suffolk.

Operating and financial review (continued)

For the year ended 31 March 2015

The Company's offshore electricity transmission system (continued)

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 GGOWL and run to the offshore electricity substations that are owned by the Company. At the Inner Gabbard offshore electricity substation the voltage is "stepped up" to 132kV by an electrical transformer and then transported to land by three 45.5km high voltage submarine cables buried in the sea bed. There is a further high voltage submarine cable, 16km in length, which connects the Galloper OSP (off shore platform) to the Inner Gabbard OSP. At landfall the submarine cable is joined to a buried land cable that runs for 0.59km to the Company's onshore electricity substation at Sizewell. At the Leiston 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 Company's long term business objectives

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

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

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

The Company's operating model

The Company's operating model is to outsource all operational and maintenance ("O&M") activities including asset management capability. O&M activities are outsourced to Balfour Beatty Utility Solutions Limited. Until 29 February 2016 Balfour Beatty Investments Limited ("BBI") was providing certain financial and management services to the Company through a Professional Services Agreement ("PSA"), however due to change in ownership from 1 March 2016 Equitix Management Services Limited ("EMS") performs these services through the amended Professional Services Agreement ("PSA"). As part of its general asset management responsibilities EMS fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Company meets its Licence obligations and complies with good industry practice. The Company has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

Operating and financial review (continued)

For the year ended 31 March 2016

The Company's approach to managing the business

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

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

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

Licence obligations

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

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

Regulated revenue and incentives

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

Operating and financial review (continued)

For the year ended 31 March 2016

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

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

As previously noted, the Licence contains mechanisms to incentivise the Company to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The Company is incentivised on a monthly basis with higher targets, and higher potential penalties or credits, in the winter months, and lower targets, and lower potential penalties or credits, in the summer months. These incentive mechanisms help drive the management of the Company to manage proactively the 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 Company’s charges and hence its revenue in future periods. The Licence provides for adjustments to “base revenue” where the OFTO’s system availability performance is different to the target system availability. If transmission system availability in any given year is in excess of the target availability level then credits are “earned” and if availability is less than target then penalties accrue. The Company is then permitted or required to change its prices to reflect the credits earned or penalties accrued as necessary. The maximum credit which the Company can “earn” and collect in charges amounts to around 5% of base revenue for that year and the maximum penalty that can be reflected in charges is around 10% of base revenue for that year. The detailed mechanism that is used to adjust charges to reflect these credits and penalties in charges is described below.

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

In respect of net penalties which are outstanding at the end of the calendar year then, in principle, the charges in respect of the following financial year are lowered by an amount that would reduce the charges for that financial year by the amount of the net penalty. However, the reduction in charges can never exceed 10% of the base revenue for that year.

To the extent that the cumulative net penalty, if applied, to the Company’s charges would result in those charges being reduced by more than 10% of the base revenue for that year, the excess net penalty is carried

Operating and financial review (continued)

For the year ended 31 March 2016

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

forward on a cumulative and notional basis and aggregated with additional credits and penalties arising in the subsequent period. The maximum period that penalties relating to a particular calendar year can be carried forward is five years.

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

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

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

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

Transmission system capability (capacity)

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

Under the terms of the TOCA with NGET, the Company provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for year 31 March 2016 was 500 MW. The practical significance of the declared maximum capacity is that the maximum declared capacity of the transmission system determines the maximum MWhr availability of the transmission system for the purpose of comparing with the Company's actual transmission availability during any performance year – which in turn determines the Company's performance credits or penalties as described under "Regulated revenue and incentives" earlier in this Operating and Financial Review.

The Company has provided 100.00% transmission capacity based on the declared maximum capacity of the transmission system during the performance year ended 31 December 2015 – see "Transmission System Availability" below. In the incentive year January to March 2016 the transmission capacity was 100.00%. The Company minimises the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice.

Operating and financial review (continued)

For the year ended 31 March 2016

Transmission system quality of supply

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

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

Key performance indicators ("KPIs")

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

	Definition	Objective
Financial KPIs		
Profit before taxation	Profit before taxation: £3,135k (2015: £3,164k)	To increase ⁺ .
Cash available for debt service ⁺⁺	Net cash outflow from operating activities less net cash inflow from investing activities ⁺⁺ £8,279k (2015: £5,807k).	To increase ⁺ .
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance period 1 January 2015 to 31 December 2015: 100.00% (period from 1 January 2014 to 31 December 2014: 99.98%).	To exceed the Licence target availability 98%.
Ensure that the quality of electricity at the export connection point is compliant with 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 the year ended March 2016.
HS&E	1) Zero lost time accidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under GGOWL's Marine Management Organisation ("MMO") Licence.	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence All of the above objectives have been met for the year ended March 2016.

+ Where appropriate adjustments will be made where events give rise to unusual patterns of income, expenditure and/or one-off events.

⁺⁺After adjustment for the initial acquisition cost of the OFTO assets.

Operating and financial review (continued)

For the year ended 31 March 2016

The Company's operational performance

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

The OFTO has a fully wrapped O&M contract with Balfour Beatty PT&D that contains requirements to effectively operate and maintain the assets in accordance with the OFTO Operating Approvals. Maintenance is required to be delivered taking into account Statutory obligations, the requirements and recommendations of the Original Equipment manufacturer (OEM) plus condition, age and service duty of the asset. The OFTO regularly monitors O&M delivery performance. Balfour Beatty PT&D has ISO 9001, 14001 and 18001 certification for its business including O&M activity on OFTO assets.

Greater Gabbard OFTO achieved 100% availability during the year to 31 March 2016.

Transmission system availability

The performance of the Company's transmission system for the performance year ended 31 December 2015 and 2014 were as tabulated below:

	Note	Performance Year ended 31 December 2015	Performance Year ended 31 December 2014 ¹
MW hours			
Maximum system availability (capability - MWhrs)	(a)	4,383,000	4,383,000
Actual system availability (MWhrs)		4,383,000	4,382,050
Actual system availability (%)		100.00%	99.98%
Regulatory target system availability (%)		98%	98%
Availability credits/(penalties) (MWhrs)			
Availability credits at 1 January 2015 (2014)		104,526	10,325
Net availability (penalties) / credits for the performance year ¹		95,146	94,202
Net availability credits at 31 December 2015 (2014)	(b)	199,672	104,527

The performance of the Company's transmission system for the performance quarter ended 31 March 2015 and 2016 were as tabulated below:

	Note	Performance Period 1 January 2016 to 31 March 2016	Performance Period 1 January 2015 to 31 March 2015
MW hours			
Maximum system availability (capability - MWhrs)	(a)	1,083,000	1,083,000
Actual system availability (MWhrs)		1,083,000	1,083,000
Actual system availability (%)		100%	100%
Regulatory target system availability (%)		98%	98%
Availability credits/(penalties) (MWhrs)			
Availability credits at 1 January 2015 (1 January 2014)		199,672	104,526
Net availability (penalties) / credits for the performance year		25,124	25,124
Net availability credits at 31 March 2015 (31 March 2014)	(b)	224,796	129,651

¹ The maximum system availability of the Company's transmission system as declared to NGET during the performance period.

Operating and financial review (continued)

For the year ended 31 March 2016

Quality of supply

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

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

Health, safety, and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety, and the environment. Safety is critical both to business performance and to the culture of the Company. The operation of the Company’s assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm, and to safeguard members of the general public.

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 1995 were zero.

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

The Board is 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 had complied with the Marine licence obligations transferred under the Sale and Purchase Agreement (“SPA”) by GGOWL when the transmission assets were acquired by the Company.

Operating and financial review (continued)

For the year ended 31 March 2016

Stakeholder relationships

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

Principal risks and uncertainties

The principal risks and uncertainties faced by the Company have been discussed and referenced in this Operating and Financial Review, alongside a discussion of the operational and financial performance of the Company.

The Company's financial performance

Summary

The financial performance of the Company for the year ended 31 March 2016, and its financial position as at 31 March 2016, 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.

The Company reports its results in accordance with International Financial Reporting Standards ("IFRS").

	2016 £'000	2015 £'000
Operating profit	37	181
Net finance income	3,098	2,983
Profit before taxation	3,135	3,164
Taxation	(477)	(673)
Profit after taxation	2,658	2,491

	2016 £'000	2015 £'000
Net cash inflow from operating activities and investing activities	8,279	5,807
Cash inflows to finance acquisition of the Transmission owner asset and initial working capital requirements	-	-
Cash flows relating to acquisition of Transmission owner asset	-	-
Net cash flows used in financing activities ¹	8,279	5,807

¹ Excluding all proceeds from funding activities.

Operating and financial review (continued)

For the year ended 31 March 2016

Operating and finance income

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

Finance income for the year amounted to £20,376k (2015: £20,529), and represents the finance income that would have been generated from an efficient stand-alone "transmission owner". The finance income has been recorded in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company is shown in the accounting policies section of the financial statements commencing on page 29.

Operating income for the year amounted to £3,683k (2015: £4,510), and primarily represents the operating income that would be generated by an efficient provider of operating services to NGET, our principal customer. Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Operating income has been recorded in accordance with the principal accounting policies adopted by the Company.

Operating costs

Operating costs for the year amounted to £3,646k (2015: £4,329k).

The most significant costs included within operating costs for the year to 2016 were those costs associated with operations and maintenance £2,162k (2015: £2,366k); insurance £852k (2015: £855k), directors remuneration £- (2015: £308k) and management service fees amounting to £71k (2015: £143k). The non-domestic rates associated with the transmission network are £493k (2015: £482k).

Operating profit

Operating profit being the net of operating income and operating costs amounted to £37k (2015: £181k).

Interest income

Interest income relates to interest on bank deposit of £57k (2015: £57k) and notional interest of £20,376k (2015: £20,529k).

Finance costs

Finance costs amounted to £17,335k (2015: £17,603k). Funding was required to acquire the transmission system (Transmission owner asset) from GGOWL and the acquisition of the Transmission owner asset took place on 29 November 2013.

The vast majority of the finance costs relates to the interest cost of servicing senior debt holders £12,119k (2015: £12,372k) and holders of subordinated debt £4,611k (2015: £4,599k). Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

Operating and financial review (continued)

For the year ended 31 March 2016

Taxation

The net taxation charge on profit before taxation for the year is £477k (2014: £673k) and relates solely to deferred taxation. There was no current taxation arising in the year (2015: £nil) as the Company incurred taxable losses. The taxation charge for the year has been computed at 18% (2015: 21%).

A taxation credit of £911k (2015: £3,095k) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at 31 March 2016. The taxation credit relates solely to deferred taxation as the Company incurred taxable losses during the year. This taxation credit has been computed at 20% (2015: 21%).

Profit after taxation

Profit for the year after taxation amounted to £2,658k (2015: £2,491k).

Cash flows

Net cash flow used in operating activities amounted to £18,009k (2015: £19,751k) primarily reflecting the cash outflows relating to operating activities incurred during the year to 31 March 2016.

Net cash inflows from investing activities amounted to £26,288k (2015: £25,558k).

Cash available for debt servicing defined as net cash flows from operations less (or add) net cash flows used in (or generated from) investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) and includes interest income received of £57k (2015: £57k) amounted to £26,288k (2015: £25,558k). Net cash outflows from financing activities amounted to £7,525k (2015: outflow £7,249).

Payments to service senior debt holders during the year amounted to £19,714k (2015: £17,814k). Payments to subordinated debt holders during the year amounted to £3,506k (2015: £4,608k).

No corporation tax was paid in the year (2015: £nil).

No dividend was paid in the year (2015: £1,900k).

Operating and financial review (continued)

For the year ended 31 March 2016

Statement of Financial Position and consideration of financial management

Going concern

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

Statement of Financial Position

The Company's Statement of Financial Position at 31 March 2016 is summarised below:

	Assets	Liabilities	(Net assets)
	£'000	£'000	£'000
Non-current Transmission owner asset	314,097	-	314,097
Non-current deferred taxation	-	(3,713)	(3,713)
Current assets and liabilities ¹	26,904	(4,877)	22,027
	<u>341,001</u>	<u>(8,590)</u>	<u>332,411</u>
Borrowings	-	(331,458)	(331,458)
Derivatives financial assets	11,938	-	11,938
Totals at 31 March 2016	<u>352,939</u>	<u>(340,048)</u>	<u>12,891</u>
Totals at 31 March 2015	<u>350,327</u>	<u>(343,737)</u>	<u>6,590</u>

¹ Excluding borrowing

Transmission owner asset and decommissioning

The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Greater Gabbard offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 29.

Operating and financial review (continued)

For the year ended 31 March 2016

Transmission owner asset and decommissioning (continued)

The Transmission owner asset was acquired on 29 November 2013 from Greater Gabbard Offshore Wind Limited. The total costs of acquisition of this asset amounted to £317.1m. The estimate of the costs of decommissioning the Transmission owner asset at the end of its economic useful life in 2033 amounted to £9,523k (2015: £9,714k). These costs will be incurred from year 18 onwards.

Deferred taxation

The Company has recognised a deferred taxation liability of £1,325k (2015: £848k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising to March 2016, including taxable losses. This is increased by a deferred tax liability of £2,388k (2015: £1,477k) relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at 31 March 2016.

Net debt

Net debt is defined as all borrowings (senior and subordinated debt) less the carrying value of all financial derivative contracts that are marked to market (UK Retail Price Index (RPI) related swaps).

At 31 March 2016 net debt stood at £319,520 (2015: £329,953k) and included £11,938k asset (2015: £ 7,383 k) relating to the carrying value of financial derivatives that were marked to market at that date.

A discussion of the capital structure and the use of financial derivatives is provided below.

Current funding structure

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

Senior debt is comprised of fixed rate bonds credit enhanced by the European Investment Bank's ("EIB") Project Bond Credit Enhancement ("PBCE") instrument at a level of 15% of senior bonds outstanding. All senior debt is serviced on a six monthly basis and is expected to amortise over the life of the project through to November 2032. The total carrying value of the bonds outstanding at 31 March 2016 amounted to £287,283k (2015: £294,809k). The bonds carry a fixed rate coupon which requires servicing on a half yearly basis.

The subordinated loan ranks behind the senior debt and is held by the Company's intermediate Company, Greater Gabbard OFTO Intermediate Limited ("GGOIL"). The subordinated loan was issued by GGOIL on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2016 the total principal carrying value of the subordinated loan outstanding amounted to £45,989k (2015: £45,989k).

Ordinary equity share capital amounted to £51k at 31 March 2016 (2015: £51k).

Operating and financial review (continued)

For the year ended 31 March 2016

Current funding structure (continued)

Going concern, liquidity, and treasury management

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

The expected cash in-flows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under “Regulated revenue and incentives”. In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is very low. As at 31 March 2016 there were no sums outstanding from NGET (2015: £nil) and from 31 March to the date of this report all amounts due from NGET had been received on time.

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

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

The licence protections together with the insurance arrangements reduce uncertainties and address certain risks regarding loss/destruction of assets that arise from remote and/or catastrophic events.

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

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

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

Operating and financial review (continued)

For the year ended 31 March 2016

Going concern, liquidity, and treasury management (continued)

The Company also has access to a liquidity facility of £5,308k (2015: £5,153k) that the Company can access in the event that it has an insurable or income adjusting event.

The EIB has provided a letter of credit at a level of 15% of senior bonds outstanding which is £43,092k at 31 March 2016 (2015: £44,221k) as a form of subordinated credit enhancement instrument for the Company in relation to the bonds and the hedging agreements.

Under the terms of the loan note instrument, the loan notes are redeemable from 2032.

Credit rating

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

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

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

Ongoing funding requirements

The Company does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding. Debt servicing and other obligations of the Company are expected to be met by the cash inflows generated by the Company. Consequently, based on the current capacity of the existing transmission system operated by the Company, there is minimal refinancing risk.

To the extent that a requirement for significant expenditure is required in the future as a result of additional capital works being required to provide incremental transmission capacity, there is a mechanism in the Company's transmission licence to allow the Company to increase its charges in respect of such expenditure. The Directors would expect that such additional expenditure would be capable of being funded based on the increased cash flows arising from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

Operating and financial review (continued)

For the year ended 31 March 2016

Surplus funds

The Company invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. At 31 March 2016, the Company had £nil (2015: £nil) on deposit of which £nil (2015: £nil) was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Of the cash and cash equivalents of £18,119k (2015:£17,572k) were held in reserve accounts, the Common Terms Agreement ("CTA") defines the requirements to transfer in and withdraw funds from these accounts. If the request is not defined in the CTA the consent of the Company's lenders is required prior to use, but are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

The Company has some variability of cash flows in relation to the interest it earns on its investments, as typically these investments are held in deposits with a typical maturity of six months or less and earn variable rates of interest. However, in the context of the other cash flows generated by the Company these amounts are insignificant.

Hedging arrangements

General

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

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 63.5%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows with the final payment date expected on 29 November 2032. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Company enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the vast majority of cash flows from the project are expected to be generated.

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

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

Operating and financial review (continued)

For the year ended 31 March 2016

Hedging arrangements (continued)

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

The carrying value of the RPI swaps asset at 31 March 2016 was £11,938k (2015: £7,383k). A corresponding entry has been recorded in other comprehensive income.

Lending covenants and other restrictions

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

- 1) The Company is required to operate on the basis of a financial plan while the lending agreements are in place (19 years) which the Security and Bond Trustee has approved and subject to certain allowances; any deviation from that plan requires the approval of the Security and Bond Trustee. The financial plan is refreshed on a six monthly basis and revised on an annual basis as required;
- 2) The Company is required to deliver financial and other information at specified intervals (typically six monthly) to the Security and Bond Trustee;
- 3) The lending agreements specify the bank accounts that the Company is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose. With the exception of one bank account, all withdrawals from bank accounts require the consent of the Security and Bond Trustee;
- 4) The Company is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments it cannot exceed a specified gearing ratio;
- 5) The Company is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically this results in the Company investing in term deposits with maturities not exceeding six months;
- 6) The Company is required to maintain adequate insurances at all times; and

Operating and financial review (continued)

For the year ended 31 March 2016

Lending covenants and other restrictions (continued)

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

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

Since entering into the lending agreements the Company has 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 Company using the accounting policies outlined in the financial statements and are in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. IFRS permits certain choices and the following material choices have been made as follows:

Presentation of financial statements

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

In the Income Statement the Company presents a sub-total of operating profit, being the total of operating income and operating costs.

Financial Instruments

The Company has elected to apply hedge accounting to its stand-alone derivative financial instruments.

Critical accounting policies

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

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 29.

Strategic Report

For the year ended 31 March 2016

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities and business review

A full description of the Company's principal activities, business, and principal risks, and uncertainties is contained in the Operating and Financial Review on pages 1 to 18, which are incorporated by reference into this report.

No change in the Company's activities is anticipated

Material interests in shares

Greater Gabbard OFTO Plc is a wholly-owned subsidiary undertaking of Greater Gabbard OFTO Holdings Limited.

Review of the business

The results for the year are set out on page 38.

Future developments of the business

No change in the Group's future developments is anticipated.

Key Performance Indicators

The Company has set specific business objectives, which are monitored using key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below.

	31 March 2016	31 March 2015
	£'000	£'000
Profit before taxation	3,135	3,164
Cash available for debt service	8,279	5,807

Principal risks and uncertainties

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

Financial risks

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

Contractual relationships

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

This report was approved by the Board on 25 July 2016 and signed on its behalf by:


K Shah

Company Secretary

Directors' Report

For the year ended 31 March 2016

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2016.

The following information has been disclosed in the strategic report:

- Principal activities and business review
- Key performance indicators
- Indication of likely future developments in the business

Returns and dividends

The Company recorded a profit for the year after taxation of £2,658 (2015: £2,491k).

There was no dividend paid in the year (2015: £1,900k).

Share Capital

The issued share capital of the Company at 31 March 2016 was £50,999 consisting of 50,999 ordinary shares of £1 each.

Directors

The Directors serving throughout the year and subsequently (unless otherwise indicated) were:

Rebecca Collins

Sion Jones

Jennifer Louise Crouch (appointed on 20/01/2016)

Richard Daniel Knight (appointed on 20/01/2016)

Stewart Orrell (resigned on 20/08/2015)

Manish Aggarwal (resigned on 01/12/2015)

Tauno Juhani Sillanpaa (resigned on 01/12/2015)

Brian Roland Walker (resigned on 02/12/2015)

Sean McLachlan (appointed on 20/08/2015 and resigned on 02/12/2015)

No Director has any interest in the issued, called up share capital of the Company or the Company's parent undertaking.

Donations and research and development

No charitable or political donations were made during the year (2015: £nil) and expenditure on research and development activities was £nil (2015: £nil).

Financial instruments

Details on the use of financial instruments and financial risk management are included on page 1 to 18 in the Operating and Financial Review.

Going concern

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

Directors' Report (continued)

For the year ended 31 March 2016

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

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

Employee involvement

The Company does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Company's Operating Model" in the Operating and Financial Review on page 2.

Supplier payment policy

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Company at 31 March 2016 were equivalent to 62 (2015: 49) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Company Information

Greater Gabbard OFTO plc is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

Company Secretary and Registered Office

The Company Secretary is K. Shah. The registered address is Welken House, 10-11 Charterhouse Square, London, EC1M 6EH, UK.

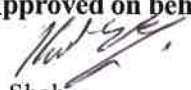
Audit information

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

The confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor at the forthcoming Annual General Meeting.

Approved on behalf of the Board



K Shah
Company Secretary
25 July 2016
Greater Gabbard OFTO Plc
Welken House,
10-11 Charterhouse Square,
London,
EC1M 6EH,
UK

Corporate governance statement

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

As a subsidiary undertaking of Greater Gabbard OFTO Holdings Limited (“GGOHL”) the Company operates within the corporate governance framework of GGOHL and its subsidiary undertakings (“the Group”). Consequently, an understanding of the Group’s governance framework is required to understand the Company’s position within that framework.

Appointments to the Board of Directors of GGOHL and its subsidiary undertakings are governed by a shareholders’ agreement (“the Agreement”) between the shareholders of GGOHL that jointly control this Company through a common class of ordinary shares, Equitix Transmission 2 Limited and Equitix Capital Investors UK Cable Limited. Directors’ fees are paid by the Company to the shareholders in respect of the services of the directors who are appointed by the shareholders. The Agreement requires that all Boards within the Group must comprise two Directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Group Company has a nomination committee and the performance of the Boards is not evaluated.

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

GGOHL

Meetings of the Board of GGOHL

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

Audit committee

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

- monitoring the integrity of financial and financial regulatory reports issued by GGOHL and its two subsidiary undertakings with the objective of ensuring that these reports present a fair, clear, and balanced assessment of the position and prospects of the Group including the Company, as the case may be;

Corporate governance statement (continued)

GGOHL (continued)

Audit committee (continued)

- reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;
- reviewing and approving the internal control and risk management policies applicable to the Group;
- maintaining an appropriate relationship with the external auditor.

The Company

Board and management meetings

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

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

Directors and their attendance at Company Board meetings

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

Rebecca Collins		7 of 9
Sion Jones		6 of 9
Jennifer Louise Crouch	(appointed on 20/01/2016)	2 of 9
Richard Daniel Knight	(appointed on 20/01/2016)	2 of 9
Stewart Orrell	(resigned on 20/08/2015)	1 of 9
Manish Aggarwal	(resigned on 01/12/2015)	2 of 9
Tauno Juhani Sillanpaa	(resigned on 01/12/2015)	6 of 9
Brian Roland Walker	(resigned on 02/12/2015)	5 of 9
Sean McLachlan	(appointed on 20/08/2015 and resigned on 02/12/2015)	2 of 9

Corporate governance statement (continued)

Compliance committee

The Company has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role to fulfil the compliance requirements of the Licence, without executive functions, with powers of information, assessment, and presentations to the Board. Following consultation with the Gas and Electricity Markets Authority, on 25 November 2013 the Board appointed Henderson Loggie as Compliance Officer. Henderson Loggie is not engaged in the management or operation of the Company's Licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Boards of the Group at least once annually.

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

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

R Collins		2 of 2
Jennifer Louise Crouch	(appointed on 20/01/2016)	0 of 2
Stewart Orrell	(resigned on 20/08/2015)	2 of 2
Manish Aggarwal	(resigned on 01/12/2015)	2 of 2

The compliance committee met in July 2016 to receive the compliance report for the year ended 31 March 2016 from the compliance officer and in turn produced a report approved by the Board.

Compliance statement

The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from www.ggofto.com) that addresses how the Company has addressed its Licence obligations.

Corporate governance statement (continued)

Health, Safety and Environment

The Board recognises that the nature of the Company's business requires an exceptional focus on health, safety and the environment (HSE). The OFTO General Manager provides the Board with a monthly report that shows HSE performance through the month and year to date.

The OFTO Board has a Health and Safety Committee that meets at least bi-annually and comprises the Director Responsible for Health and Safety, the "OFTO Representative", OFTO General Manager and co-opted members as appropriate, with the following objectives:

- Ensure the OFTO achieves the highest possible levels of HSE performance through the use of leading and lagging indicators
- Ensure that the OFTO incorporates best practice
- Create a culture of innovation to promote and develop new ways of working that will transform operational practice in the pursuit of excellence in HSE
- Oversee HSE management to ensure that:
 - appropriate levels of Assurance and reporting are provided by the various parties with accountability in the area of HSE
 - all Accidents, HSE Incidents and Near Misses are reviewed and actions implemented

There have been no RIDDOR reportable incidents or accidents to date.

Directors' Responsibilities Statement

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

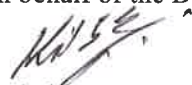
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

On behalf of the Board



K Shah

Company Secretary

25 July 2016

Independent Auditor's Report to the Members of Greater Gabbard OFTO Plc

We have audited the financial statements of Greater Gabbard OFTO Plc (the "Company") for the year ended 31 March 2016, which comprise the accounting policies, the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and the Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's Report to the Members of Greater Gabbard OFTO Plc (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Company's Act 2006 requires us to report to you if, in our opinion:

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



Makhan Chahal (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

25th July 2016

Accounting policies

For the year ended 31 March 2016

A. Basis of preparation of financial statements under IFRS

These financial statements have been prepared in accordance with standard condition E2 of the licence and IFRS as issued by the IASB and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for the year ended 31 March 2016, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates as referred in section I, Critical accounting judgements, key assumptions and sources of estimation uncertainty on page 34.

B. Transmission availability arrangements

The Company owns and operates an electricity transmission network that is principally offshore based. This network electrically connects a wind farm generator to the onshore electricity transmission operator (NGET). The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available (“transmission availability charges”) to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12, an interpretation issued by the IFRS Interpretations Committee. Consequently, the accounting for charges made by the Company for transmission network availability is consistent with that interpretation.

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

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

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

Accounting policies (continued)

For the year ended 31 March 2016

B. Transmission availability arrangements (continued)

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

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

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

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

C. Financial instruments

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

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

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

The Transmission owner asset is classified as a financial instrument and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as referenced above – see B. Transmission availability arrangements. The annual revenue is agreed upfront with the client including the RPI uplift per the licence. The maximum credits available are 5% and penalties available are 10% of base revenue for that year which is shared. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty. Finance income relating to the Transmission owner asset is recognised in the Income Statement as a separate line item – “Finance income”, see G. Operating and finance income below.

Borrowings, which include fixed interest-bearing debt, are recorded at their carrying value which reflects the proceeds received, net of direct issue costs.

Accounting policies (continued)

For the year ended 31 March 2016

C. Financial instruments (continued)

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. Gains and losses arising from the changes in fair value are included in other comprehensive income in the period they arise.

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

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

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

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

E. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired. Impairments are recognised in the Income Statement and, where material, are disclosed separately.

Accounting policies (continued)

For the year ended 31 March 2016

F. Income taxation

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

Taxation

Corporation 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 Statement of Financial Position date.

Deferred taxation

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

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

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

Unrecognised deferred taxation assets are reassessed at each Statement of Financial Position 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.

G. Operating and finance income

General

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

Operating income

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

Accounting policies (continued)

For the year ended 31 March 2016

G. Operating and finance income (continued)

Finance income

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

H. Cash and cash equivalents

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

I. 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 ongoing 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 Company together with information about the key judgements, estimations and assumptions that have been applied.

i) Transmission availability arrangements – income and related asset recognition

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

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

- a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12; and
- b. In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset.

Accounting policies (continued)

For the year ended 31 March 2016

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

i) Transmission availability arrangements – income and related asset recognition (continued)

An alternative accounting analysis could result in a significantly different accounting outcome which would affect the amounts and classification of asset and liabilities in the Statement of Financial Position and alter the income recognition and presentation of amounts included within the Income Statement.

The Company has determined that the Transmission owner asset will be recovered over a period of 20 years from the date of Licence grant (29 November 2013) – being the principal period over which the Company is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

ii) Operating and finance income

Operating income

Operating income represents the income derived from the provision of operating services to our principal customer, NGET. Such services include those activities that result in the efficient and safe operation of those assets and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Estimates and judgements have been made by management to estimate the appropriate amount of revenue that would be attributable to this income classification as if this service were provided by an independent stand-alone operator with responsibility for operations, maintenance and insurance. To the extent that an alternative judgement or estimate was made as to the reasonable level of revenue attributable to such an operator, then in the case of the Company, the level of income attributed to finance income (see below) would be amended.

Finance income

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

Accounting policies (continued)

For the year ended 31 March 2016

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

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

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

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

The Company's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the Income Statement.

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

iv) Income taxation

Current taxation

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

Accounting policies (continued)

For the year ended 31 March 2016

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

iv) Income taxation (continued)

Deferred taxation

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

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

J. Accounting developments

i) Accounting standards as applied to these financial statements

In preparing the financial statements the subsidiary has complied with IFRS, International Accounting Standards (IAS) and interpretations applicable for 2015/16. Interpretations and amendments have been adopted by the Company in the current period:

- Improvements to IFRSs (2010-2012)
- Improvements to IFRSs (2011-2013)

The above new and amended standards do not have a material quantitative effect on the Company.

At the date of authorisation of the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments;
- IFRS 14 Regulatory Deferral Accounts;
- IFRS 15 Revenue from Contracts with Customers;
- IFRS 16 Leases;

Accounting policies (continued)

For the year ended 31 March 2016

J. Accounting developments (continued)

i) Accounting standards as applied to these financial statements (continued)

Amendments to the following standards:

- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption;
- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations;
- IAS 1: Disclosure Initiative;
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation;
- IAS 16 and IAS 41: Agricultural: Bearer Plants;
- IAS 27: Equity Method in Separate Financial Statements.

With the exception of the items disclosed below, the above standards and interpretations are either not relevant to the Company's current activities or are not expected to have any significant impact on the measurement of assets or liabilities or disclosures in the financial statements. Those standards and interpretations that are expected to impact on the financial statements, either by way of measurement or disclosure, are as follows:

IFRS 9, 'Financial instruments' – classification and measurement

IFRS 9 currently expected to be effective with the effect from the financial year commencing 1 April 2018, although the effective date for adoption may change as a result of an on-going consultation process. The Company does not expect that the adoption of IFRS 9 will lead to any material measurement changes as compared with the policies currently adopted by the Company. However, it is expected that IFRS 9 will require additional and different disclosures to those currently provided.

Income Statement

For the year ended 31 March 2016

		2016	2015
	Notes	£'000	£'000
Operating income	2	3,683	4,510
Operating costs	3	(3,646)	(4,329)
Operating profit		37	181
Finance Income	4	20,376	20,529
Bank interest	4	57	57
Finance Costs	4	(17,335)	(17,603)
Profit before taxation		3,135	3,164
Income taxation charge	5	(477)	(673)
Profit attributable to equity shareholders		2,658	2,491

The notes on pages 43 to 59 form part of these financial statements.

The results reported above relate to continuing operations.

Statement of comprehensive income

For the year ended 31 March 2016

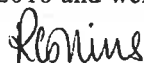
	Notes	2016 £'000	2015 £'000
Profit for the year		2,658	2,491
Other comprehensive profit / (loss):		-	-
Amounts to be reclassified subsequently to the income statement when specific conditions are met			
Net profit taken to equity in respect of cash flow hedges	12	4,555	15,477
Deferred taxation on cash flow hedges	7	(911)	(3,095)
Total other comprehensive profit		3,644	12,382
Total comprehensive profit for the year attributable to equity shareholders		6,302	14,873

Statement of Financial Position

As at 31 March 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Transmission owner asset	6	314,097	318,664
Derivative financial asset	12	11,938	7,383
Total non-current assets		326,035	326,047
Current assets			
Trade and other receivables	8	4,347	2,935
Transmission owner asset	6	4,101	3,643
Cash and cash equivalents	9	18,456	17,702
Total current assets		26,904	24,280
Total assets		352,939	350,327
Current liabilities			
Borrowings	10	(9,189)	(7,525)
Trade and other payables	11	(4,877)	(4,076)
Total current liabilities		(14,066)	(11,601)
Net current assets		12,838	12,679
Non-current liabilities			
Borrowings	10	(322,269)	(329,811)
Deferred taxation liability	7	(3,713)	(2,325)
Total non-current liabilities		(325,982)	(332,136)
Total liabilities		(340,048)	(343,737)
Net asset		12,891	6,590
Equity			
Called-up share capital	13	51	51
Retained earnings	14	3,291	633
Cash flow hedge reserve	14	9,549	5,906
Total shareholders' surplus		12,891	6,590

These financial statements, comprising accounting policies, the Income Statement, statement of comprehensive income, Statement of Financial Position, statement of changes in equity, cash flow statement, and notes to the financial statements, on pages 29 to 59 for Greater Gabbard OFTO plc, company registered number 08180541 were approved by the Board of Directors and authorised for issue on 25 July 2016 and were signed on its behalf by:



Rebecca Collins Director

Statement of changes in equity

For the year ended 31 March 2016

	Called-up share capital £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 31 March 2014	51	(6,476)	42	(6,383)
Recognised income and expense for the year	-	-	2,491	2,491
Net profit taken to equity in respect of Cash flow	-	15,477	-	15,477
Deferred taxation on cash flow hedges	-	(3,095)	-	(3,095)
Total other comprehensive income	51	5,906	2,533	8,490
Dividend Paid	-	-	(1,900)	(1,900)
At 31 March 2015	51	5,906	633	6,590
Recognised income and expense for the year	-	-	2,658	2,658
Net profit taken to equity in respect of Cash flow	-	4,554	-	4,554
Deferred taxation on cash flow hedges	-	(911)	-	(911)
Total other comprehensive income	51	9,449	3,291	12,891
Dividend Paid	-	-	-	-
At 31 March 2016	51	9,449	3,291	12,891
	Notes	13	14	14

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 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.

Cash flow statement

For the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
<u>Cash flows from operating activities</u>			
Operating profit for the year		37	181
Adjustments for:			
Income recognised in respect of financial asset		(3,190)	(4,011)
Interest paid		(15,694)	(17,073)
Increase in debtors		(4,561)	(7,370)
Increase in creditors		5,399	8,522
		(18,046)	(19,932)
Net cash flow used in operating activities		(18,009)	(19,751)
<u>Cash flows from investing activities</u>			
Acquisition of Transmission owner asset including day one transaction costs		-	-
Cash receivable on the finance asset		26,231	25,501
Interest received		57	57
Net cash flow generated from investing activities		26,288	25,558
<u>Cash flows from financing activities</u>			
Proceeds from senior debt received ⁺		-	-
Proceeds of subordinated loans received		-	-
Proceeds of share issues		-	-
Repayment of senior debt		(7,525)	(5,349)
Dividends paid		-	(1,900)
Net cash flow generated from financing activities		(7,525)	(7,249)
Net increase/(decrease) in cash and cash	15	754	(1,442)
Cash and cash equivalents at the start of the year		17,702	19,144
Cash and cash equivalents at the end of the year		18,456	17,702

+ Net of issue costs amounting to £nil (2015: £nil)

Notes to the financial statements

For the year ended 31 March 2016

1. Operating segment

The Board of Directors is the Company's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities¹). The Company and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and cash flow statement on page 38, 40 and 42 respectively. Additional notes relating to the Company and segment are shown in the notes to the financial statements on pages 43 to 59.

The electricity transmission operation of the Company comprises the transmission of electricity from a wind farm located approximately 26km off the coast of Suffolk within the Thames Estuary, and then connecting directly into the national grid at an electricity substation near Sizewell.

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

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

2. Operating income

Operating income of £3,683k (2015: £4,510k) relates primarily to the Company's activity as a provider of electricity transmission services to the Company's principal customer – NGET. The vast majority of the Company's income is derived from NGET.

3. Operating costs

Operating costs are analysed below:

	2016	2015
	£'000	£'000
Operations and maintenance	2,162	2,366
Insurance costs	852	855
Non-domestic rates	493	482
Professional services fees	71	143
Auditor's remuneration	29	34
Other professional services	37	130
Directors' Remuneration	-	308
Other	2	11
Total	3,646	4,329

Auditor's remuneration comprises:

Auditor's remuneration ¹	29	25
Other services supplied pursuant to legislation ²	7	7
Total	36	32

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

2. These represent fees payable for services in relation to engagements which are required to be carried out by the compliance officer. In particular this includes fees for the compliance audit and report on the licence's compliance statement.

Notes to the financial statements (continued)

For the year ended 31 March 2016

3. Operating costs (continued)

The Directors received no salary, fees or other benefits in the performance of their duties during the current or preceding year. There were no Directors' fees paid (2015: £308k) by the Company to the shareholders. The Company had no employees in the current or preceding year. All salary, fees or other benefits of the Directors and other staff are borne by the shareholders who second their employees to the Company.

4. Net interest income

Net interest income is tabulated below:

	2016 £'000	2015 £'000
Interest income		
Interest on bank accounts and deposits	57	57
Finance income	20,376	20,529
	<u>20,433</u>	<u>20,586</u>
Interest expense and other financial costs		
Interest on senior debt	(12,119)	(12,372)
Interest on subordinated debt	(4,611)	(4,599)
Other financial costs	(605)	(632)
	<u>(17,335)</u>	<u>(17,603)</u>
Net interest income	<u>3,098</u>	<u>2,983</u>

5. Income taxation charge

a) Taxation on items included in the Income Statement

The net taxation charge for the year is £477k (2015: £673k), and the composition of that charge is shown in the table below.

The taxation charge on current year profits arising in the year represents deferred taxation, and has been computed at 20% (2015: 21%) and adjusted to re-measure at 18% (2015: 20%). There is no current taxation included in the Income Statement (2015: nil).

The taxation charge for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 21%) for the reasons outlined below:

	2016 £'000	2015 £'000
Profit before taxation	<u>3,135</u>	<u>3,164</u>
Taxation at 20% (2015: 21%) on profit before taxation	627	664
Effects of:		
- permanent differences	(65)	41
- effect of change of tax rate	(85)	(32)
Total tax charge	<u>477</u>	<u>673</u>

Notes to the financial statements (continued)

For the year ended 31 March 2016

5. Income taxation charge (continued)

b) Taxation on items included in other comprehensive income

The net taxation debit on items included in other comprehensive income for the year is £911k (2015: £3,095k) and comprises a charge on items arising in the current year computed at 20% (2015: 20%) of £911k (2015: £3,095k).

c) Rates of taxation - current and future years

The main rate remains at 20% from 1 April 2015 and from 1 April 2016, however the Finance Act 2015 was enacted on 26 October 2015 which provides for further rate reductions to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. These rates were substantively enacted at the statement of financial position date and have been reflected in the calculation. A rate reduction to 17% from 1 April 2020 has been announced but is not yet substantively enacted.

6. Transmission owner asset

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

	2016	2015
	£'000	£'000
At 1 April 2015	322,307	325,252
Additions ¹	(38)	(98)
Income recognised in the income statement:		
-interest income	20,376	20,529
Other Movements		
-cash expenditure	3,190	4,011
-cash received	(27,637)	(27,387)
At 31 March 2016	318,198	322,307
Comprising:		
Amounts falling due within one year	4,101	3,643
Amounts falling due after more than one year	314,097	318,664
	318,198	322,307

¹ Negative additions of £38k in the year to March 2016 relates to the refund from OFGEM due to recalculation of bid costs for Tier 1 project.

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2016 was £371,208k (2015: £372,432k). 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 4.11% (2015: 4.50%) per half year.

Notes to the financial statements (continued)

For the year ended 31 March 2016

7. Deferred taxation

The net deferred taxation liability recognised in the Statement of Financial Position arises as follows:

	Fair value losses on derivatives £'000	Accelerated capital allowances £'000	Tax losses £'000	Total £'000
At 1 April 2014	1,619	(2,923)	2,748	1,444
Additions	(2,940)	(11,509)	10,819	(3,630)
Effect of change in tax rate	(156)	292	(275)	(139)
At 31 March 2015	(1,477)	(14,140)	13,292	(2,325)
Additions	(911)	(7,126)	6,564	(1,473)
Effect of change in tax rate	-	1,414	(1,329)	85
At 31 March 2016	(2,388)	(19,852)	18,527	(3,713)

The Deferred tax liability of £3,713k (2015: £ 2,325k) calculated at 18% (2015: 20%) and is due after more than 1 year.

The deferred tax liability is derived from tax losses in previous accounting periods which will be used against future profits as currently forecast.

There were no unrecognized deferred tax assets in the year.

8. Trade and other receivables

	2016 £'000	2015 £'000
Prepayments and Accrued Income	3,850	2,935
Other receivables	497	-
	4,347	2,935

9. Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £nil (2015: £nil). Short-term deposits are made for various periods of between one day and six months, depending on immediate cash requirements, and earn interest at the respective short-term deposit rates.

Cash and cash equivalents include amounts of £18,119k (2015: £17,572k) that the Company can only use for specific purposes and with the consent of the Company's lenders. Of the remaining cash and cash equivalents £337k (2015: £130k) require the consent of the Company's lenders prior to use, but are held for general corporate purposes.

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

Notes to the financial statements (continued)

For the year ended 31 March 2016

10. Borrowings

The following table analyses borrowings:

	2016	2015
	£'000	£'000
Current		
Bonds – fixed rate	8,471	7,525
Less arrangement fees	(388)	-
Subordinated debt loans	1,106	-
	9,189	7,525
Non-current		
Bonds – fixed rate	278,812	287,284
Less arrangement fees	(2,532)	(3,462)
Subordinated debt loans	45,989	45,989
	322,269	329,811
Total borrowings	331,458	337,336

Total borrowings are repayable as follows:

	2016	2015
	£'000	£'000
In one year or less	9,576	7,525
In more than one year, but not more than two years	9,263	8,471
In more than two years, but not more than three years	10,173	9,263
In more than three years, but not more than four years	11,820	10,173
In more than four years, but not more than five years	12,914	11,820
In more than five years other than by instalments	280,632	293,546
Less arrangement fees	(2,920)	(3,462)
	331,458	337,336

The fixed rate bonds under the commercial facility taken together comprise the “senior debt”, and are secured over all of the assets of the Company.

The secured subordinated loan stock has been subscribed by the associate, Greater Gabbard OFTO Intermediate Limited. The loan stock bears interest at 10% per annum and is repayable in instalments between 2032 and 2034.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 17.

There have been no instances of default or other breaches of the terms of the financing agreements during the year in respect of all borrowings outstanding at 31 March 2016.

11. Trade and other payables

Trade and other payables are as tabulated below.

	2016	2015
	£'000	£'000
Trade payables	544	574
Other taxes	654	710
Accrued expenses	3,679	2,792
	4,877	4,076

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.

Notes to the financial statements (continued)

For the year ended 31 March 2016

12. Derivative financial instruments

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

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 63.5%) of variable cash inflows arising from the operation of the Company's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 26 November 2013 with a forward start date for the calculation of the relevant rates commencing on 31 March 2012 and ending on 29 November 2032.

Under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its principal customer, NGET, an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April by an amount computed by reference to the average increase in RPI over the previous 12-month period measured from 1 January through to 31 December. Where there is a reduction, or no increase, in the retail price index over the relevant period, then the charges remain unaltered from the previous year. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking these hedges. The vast majority of the Company's cash outflows relate to borrowings that carry a fixed coupon so that both the principal repayments, and coupon payments are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Company can meet its obligations under the terms of its borrowing arrangements.

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

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at market value. The carrying value of all derivative financial assets at 31 March 2016 was £11,938k (2015: £7,383k). All of the movement in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £11,938k (2015: charge £7,383k). The change in the carrying value from a liability to an asset is a result of changes in the RPI assumptions used for valuation purposes.

Ineffective portion of cash flow hedge recognised in the income statement was £nil (2015: £nil).

Further details regarding financial instruments and their related risks are given in note 17.

13. Called-up share capital

Called-up share capital is as analysed below.

	No. (thousand)	£'000
Authorised, allotted, called-up and fully paid at 1 April 2015 and 31 March 2016	51	51

Notes to the financial statements (continued)

For the year ended 31 March 2016

13. Called-up share capital (continued)

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.

14. Reserves

The Company's reserves are analysed below.

	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
At 1 April 2015	633	5,906	6,539
Profit after tax	2,658	-	2,658
Dividends	-	-	-
Surplus on cash flow hedges taken to equity	-	4,555	4,555
Deferred taxation on cash flow hedges	-	(911)	(911)
At 31 March 2016	3,291	9,550	12,841

15. Cash flow statement

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

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

	2016 £'000	2015 £'000
Movement in cash and cash equivalents	754	(1,442)
Net decrease in borrowings ⁺	5,878	4,851
Change in net debt resulting from cash flows	6,632	3,409
Non-cash net interest expense included in net debt	1,106	(8)
Change in fair values of derivatives	4,555	15,477
Movement in net debt in the year	12,293	18,878
Net debt at start of year	(312,251)	(331,129)
Net debt at end of year	(299,958)	(312,251)

+ Arising from the proceeds of loans net of repayments.

(b) Analysis of changes in net debt

	Cash and cash equivalents £'000	Borrowings £'000	Derivatives £'000	Interest accruals £'000	Total £'000
At 1 April 2015	17,702	(337,336)	7,383	-	(312,251)
Cash flow	754	5,878	-	-	6,632
Change in fair values	-	-	4,555	-	4,555
Non-cash net interest	-	-	-	1,106	1,106
At 31 March 2016	18,456	(331,458)	11,938	1,106	(299,958)

Notes to the financial statements (continued)

For the year ended 31 March 2016

16. 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.

	Parent undertakings		Other		Total	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Expenditure:						
Interest ¹ (including indexation)	4,611	4,599	-	-	4,611	4,599
Services received ^{2,3}		565	858	1,607	858	2,172
	4,611	5,164	858	1,607	5,469	6,771
Outstanding balances at 31 March:						
Borrowings payable ¹ (principal)	45,989	45,989	-	-	45,989	45,989
Interest accrual ¹ 1,105	-	-	-	-	1,105	-
Other	-	-	11	129	11	129
	47,094	45,989	11	129	47,105	46,118

¹ Relates to funding related transactions and balances with the intermediate undertaking (GGOIL) all interest has been directly attributed to the Company.

² Services received from Parent undertakings relate to transactions with the new parent undertakings Equitix Transmission 2 Limited and Equitix Capital Investors UK Cable Limited and previous parent undertakings Balfour Beatty OFTO Holdings Limited ("BBOHL") and AMP Capital Investors (European Infrastructure No 4) S.a.r.l.). Services amounting to £nil (2015: £565k) were in respect of services that were directly attributable to the Company and £nil (2015: £nil) were in respect of services that were allocated to the Company.

³ The other services rendered at 31 March 2016 of £ 858 k (2015: £1,607k) relates to amounts due to Balfour Beatty Investments Limited, Balfour Beatty Utility Solutions Limited and Equitix Management Services Limited.

A summary of funding transactions with the intermediate undertaking is shown below:

	2016 £'000	2015 £'000
Borrowings from intermediate undertaking (principal)		
At 1 April	45,989	45,997
Advances	-	-
Interest	(3,506)	(4,607)
Non-cash interest	4,611	4,599
At 31 March	47,094	45,989

Borrowings from the intermediate undertaking (GGOIL) were negotiated on normal commercial terms and are repayable in accordance with the terms of the secured 10% loan notes 2033 ("the notes"). Payments of interest were made during the year which amounted to £3,506k (2015: £4,607k). Absent to any non-compulsory repayment of the notes, the notes are contractually repayable by 28 November 2033.

BBI was a related party of the Company during the year ended 31 March 2016 by virtue of it being a related party to BBOHL through to 2 December 2015. The services provided to the Company by BBI were under normal commercial terms and related to professional management and financial services as described in the PSA.

16. Related party transactions (continued)

Equitix Management Services Limited (“EMS”) was a related party of the Company during the year ended 31 March 2016 by virtue of it being a related party to Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited through to 31 March 2016. The services provided to the Company by EMS, started on 1 February 2016, were under normal commercial terms and related to professional management and financial services as described in the amended PSA.

Equitix Limited (“Equitix”) was a related party to Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited through to 31 March 2016. The services provided to the Company by Equitix were under normal commercial terms and related to professional management and financial services.

AMP Capital Investors (European Infrastructure No 4) S.a.r.l. was a related party of the Company during the year ended 31 March 2016 by virtue of it being a related party of an AMP Group Company that held 33.3% of the equity shareholding in AMP Capital Investors UK Cable Limited (“AMP”) through to 1 December 2015. The services provided to the Company by AMP were under normal commercial terms and related to professional management and financial services.

Balfour Beatty Utility Solutions Limited (“BBUS”) was a related party of the Company during the year ended 31 March 2016 by virtue of it being a related party to BBOHL through to 2 December 2015. The services provided to the Company by BBUS were under normal commercial terms and related to operator services as detailed in the Operating and Maintenance Agreement.

No amounts have been provided at 31 March 2016 (2015: £nil), and no expense was recognised during the year (2015: £nil) in respect of bad or doubtful debts for any related party transactions.

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

a) Fair value disclosures

The following is an analysis of the Company’s financial instruments at the Statement of Financial Position date comparing the carrying value included in the Statement of Financial Position with the fair value of those instruments at that date. None of the Company’s financial instruments have listed 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 net discounted cash flows;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the carrying amount in respect of fixed rate bonds and subordinated debt based on the net present value of discounted cash flows;
- Derivative financial instruments – based on the net present value of discounted cash flows; and
- Financial instrument receivables and payables - approximates to the carrying value because of the short maturity of these instruments.

The table on the following page compares the carrying value of the Company’s financial instruments with the fair value of those instruments at the Statement of Financial Position date, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value because the carrying value approximates to fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

a) Fair value disclosures (continued)

	Carrying value		Fair value		Valuation method (see as follows)
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	
Assets					
<u>Non-current</u>					
Transmission owner asset	318,198	322,307	371,208	372,432	Level 3
Derivative financial	11,938	7,383	11,938	7,383	Level 2
	<u>318,198</u>	<u>322,307</u>	<u>383,146</u>	<u>379,815</u>	
Liabilities					
<u>Non-current</u>					
Fixed rate bank bond	278,812	287,284	340,260	337,350	Level 1
Loan notes 2033	45,989	45,989	98,823	95,132	Level 2
	<u>324,801</u>	<u>333,273</u>	<u>439,083</u>	<u>432,482</u>	

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

The value of the fixed rate bank bond was incorrectly stated at carrying value instead of fair value in the previous year (2015: £287,284k), which has been adjusted in the above table (2015: £337,350k).

With the exception of the Transmission owner asset, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Company's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data.

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

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the year and there have been no reclassifications or transfers between the various valuation categories during the year.

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

b) Management of risk

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

The Company's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Company by using financial instruments, including the use of derivative financial instruments – being the RPI swaps described in note 12 that are appropriate to the circumstances and economic environment within which the Company operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

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

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

The fair value of the Transmission owner financial asset is subject to price risk caused by changes in RPI.

All of the Company's borrowings have been issued at fixed rates. All borrowings are carried at amortised cost, and therefore changes in interest rates, in respect of those borrowings, do not impact the Income Statement or Statement of Financial Position.

Cash and cash equivalents all attract interest at variable rates and therefore are subject to cash flow interest rate risk as cash flows arising from these sources will fluctuate with changes in interest rates. However, the interest cash flows arising from these sources are insignificant to the Company's activities.

The cash flows arising from the Transmission owner financial asset fluctuates with positive changes in RPI. The Company 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 note 12. For the reasons outlined in note 12, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the Statement of Financial Position. The RPI swaps are considered to be effective cash flow hedges.

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

b) Management of risk (continued)

ii) Credit risk

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

Credit risk primarily arises from the Company's normal commercial operations that actually, or potentially, arises from the Company's exposure to: a) NGET in respect of invoices submitted by the Company for transmission services; b) the counterparties to the RPI swaps described in note 12; and c) short term deposits. There are no other significant credit exposures to which the Company is exposed. The maximum exposure to credit risk at 31 March 2015 and 31 March 2014 is the fair value of all financial assets held by the Company. Information relating to the fair value of all financial assets is given above – note 17 (a). None of the Company's financial assets are past due or impaired.

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

The Directors consider credit quality of financial assets and other financial instruments are neither past due nor impaired.

Having considered the credit risks arising in respect of the exposures to NGET, the Directors consider that those risks are extremely low, given the evidence available to them. At 31 March 2016 amounts due from NGET amounted to £nil (2015: £nil).

In respect of the counterparties to the cash flow derivative hedges (RPI swaps) these arrangements have been entered into with banks. At 31 March 2016, the fair values attributable to these positions were assets amounting to £11,938k (2015: £7,383k), and as a consequence there is no credit risk to the Company at this date.

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

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

b) Management of risk (continued)

iii) Liquidity risk and Going Concern

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

As a result of the regulatory environment under which the Company operates; the credit worthiness of the Company's principal customer (NGET); and the RPI swaps that has been put in place, the cash inflows generated by the Company are highly predictable and stable. In addition, all of the Company's senior debt carry a fixed coupon, and based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is expected to generate over the whole period of the project. During the year ending 31 March 2016, senior debt-service costs amounted to £12,119k (2015: £12,372). There is no contractual obligation on the Company to service the secured borrowing until 28 November 2032, although it is the Company's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the secured borrowings amounted to £12,119k (2015: £12,372k).

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

At 31 March 2016, cash and cash equivalents included £18,119k (2015: £17,572k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £337k (2015: £130 k) which requires the consent of the Company's lenders but are available for general corporate purposes.

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

b) Management of risk (continued)

iii) Liquidity risk and Going Concern (continued)

In addition to the existing borrowings of the Company, the Company has secured committed credit facilities with the European Investment Bank through the Project Bond Credit Enhancement amounting to £43,092k at 31 March 2016 (2015: £44,221k) which expire in 2032. These facilities were undrawn at 31 March 2016 (2015: £nil) and are available to the Company under certain conditions laid down within the Company's lending agreements.

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

The contractual cash flows shown in the table 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 Statement of Financial Position date.

In determining the interest element of contractual cash flows in cases where the Company has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Company selects the shortest available interest calculation periods.

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

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

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

b) Management of risk (continued)

iii) Liquidity risk and Going Concern (continued)

Liquidity risk	2016	2016	2016	2016	2016	2016
	Weighted Average Effective Interest rate	Contractual cash flows £'000	0-1 years £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Non-derivative financial						
Transmission owner asset		628,820	26,118	26,373	83,962	492,367
Cash and cash equivalents		18,456	18,456	-	-	-
		647,276	44,574	26,373	83,962	492,367
Non-derivative financial liabilities						
Borrowings +	4.19%	(427,490)	(19,570)	(20,267)	(64,354)	(323,299)
Trade and other non-interest bearing liabilities		(4,877)	(4,877)	-	-	-
		(432,367)	(24,447)	(20,267)	(64,354)	(323,299)
Derivative financial asset						
RPI swaps		9,160	102	444	461	8,153
Net total		224,069	20,229	6,550	20,069	177,221
2015						
Liquidity risk	2015 Weighted Average Effective Interest rate	2015 Contractual cash flows £'000	2015 0-1 years £'000	2015 1-2 years £'000	2015 2-5 years £'000	2015 > 5 years £'000
Non-derivative financial						
Transmission owner asset		640,896	26,118	26,901	85,644	502,233
Cash and cash equivalents		17,702	17,702	-	-	-
		658,598	43,820	26,901	85,644	502,233
Non-derivative financial liabilities						
Borrowings +	4.19%	(427,564)	(19,644)	(20,267)	(64,354)	(323,299)
Trade and other non-interest bearing liabilities		(4,076)	(4,076)	-	-	-
		(431,640)	(23,720)	(20,267)	(64,354)	(323,299)
Derivative financial liabilities						
RPI swaps		2,762	102	109	115	2,436
Net total		229,720	20,202	6,743	21,405	181,370

+ Including interest payments.

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. 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 Statement of Financial Position at fair value. The only financial instruments that are carried in the Statement of Financial Position at fair value are the stand-alone derivative financial instruments - RPI as described in note 12 above. As explained in note 12, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the Income Statement. Changes in the fair value of RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner asset are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Company has no substantive economic impact on the Company because of the corresponding economic impact on the underlying derivative financial instruments it is hedging.

Where there is a movement in long term RPI assumptions, the following changes in valuation and equity are likely to occur with no impact on the income statement:

Sensitivity	Future RPI Rate	Valuation	Movement
-	2.885%	13,167,890	-
0.50%	3.385%	(1,384,810)	14,552,700
(0.50%)	2.385%	27,024,797	(13,856,907)

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

v) Capital management

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

Senior debt is comprised of fixed bonds credit enhanced by the European Investment Bank through the Project Bond Credit Enhancement Instrument (PBCE) and carries an interest rate of 4.14% per annum. All of the senior debt and related interest rate derivatives is serviced on a six monthly basis and is expected to amortise over the life of the project through to November 2032. At 31 March 2016, the total carrying value of senior debt amounted to £284,363k (2015: £291,347k).

Notes to the financial statements (continued)

For the year ended 31 March 2016

17. Information relating to financial instruments and the management of risk (continued)

b) Management of risk (continued)

Subordinated debt has been issued to the Company's intermediate undertaking, GGOIL and carries a fixed rate coupon. At 31 March 2016 the total principal value of the subordinated debt outstanding amounted to £45,989k (2015: £45,989k).

Ordinary equity share capital issued during the year amounted to £nil (2015: £nil) and at 31 March 2016 amounted to £51k (2015: £51k).

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

18. Ultimate parent companies and controlling parties

Greater Gabbard OFTO Plc's is a wholly-owned subsidiary of Greater Gabbard OFTO Holdings Limited which is incorporated in the UK and registered in England and Wales. The only Group in which the results of Greater Gabbard OFTO Plc are consolidated is Greater Gabbard OFTO Holdings Limited whose financial statements are available on the Company's website and from Welken House, 10-11 Charterhouse Square, London, EC1M 6EH.

The Company's ultimate parent companies and controlling parties are Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited (which are incorporated in the UK and registered in England and Wales).

Glossary

A

The Agreement

The Shareholders Agreement.

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.

AMP

AMP Capital Investors UK Cable Limited.

The Authority

The Gas and Electricity Markets Authority.

B

Board

The Board of Directors of the Company.

BBI

Balfour Beatty Investments Limited – supplier of management services to the Group.

BBOHL

Balfour Beatty OFTO Holdings Limited.

BBUS

Balfour Beatty Utility Services Limited – supplier of Operator services to the Company.

C

called up share capital

Shares that have been issued and have been fully paid for.

carrying value

The amount at which an asset or liability is recorded in the Statement of Financial Position.

charging year

The period of time in between 1st April in one calendar year, and 31st 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, Greater Gabbard OFTO Plc, GGO, we, our, or us

The terms ‘the Company’, ‘Greater Gabbard OFTO Plc’, GGO, ‘we’, ‘our’, or ‘us’ are used to refer to Greater Gabbard OFTO Plc, 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

DECC

The Department of Energy & Climate Change, the UK Government Department responsible for those respective fields.

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 Statement of Financial Position 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.

Equitix Transmission 2 Limited.

Equitix Capital Investors UK Cable Limited

Equitix Management Services Limited (“EMS”)

Glossary

equity

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

EU

The European Union, consisting of 27 member European national states.

F

financial year

For Greater Gabbard OFTO Plc this is the accounting year ending on 31st March.

G

Great Britain

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

GGO

Greater Gabbard OFTO Plc.

GGOHL

Greater Gabbard OFTO Holdings Limited.

GGOIL

Greater Gabbard OFTO Intermediate Limited.

the Group

Greater Gabbard OFTO Holdings Limited and its subsidiary undertakings.

GGOWL

Greater Gabbard Offshore Windfarms Limited.

H

HS&E

Health, Safety, and the Environment.

I

IAS or IFRS

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

IASB

International Accounting Standards Board.

IFRIC 12

Service Concessions Arrangements.

IFRS

See IAS.

K

KPIs

Key performance indicators.

kV

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

kWh

Kilowatt hours – an amount of energy equivalent to delivering 1,000 watts of power for a period of one hour.

L

LIBOR

London Interbank Offered Rate.

the Licence

The Offshore Electricity Licence held by Greater Gabbard OFTO Plc.

LTI

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

lost time injury frequency rate

The number of lost time injuries per 100,000 hours worked, over a 12 month period.

Glossary

M

MMO

Marine Management Organisation.

MW

Megawatts – an amount of power equal to one million watts.

MWh

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

N

NGET

National Grid Electricity Transmission plc .

the Notes (see also subordinated loan, subordinated loan agreement, subordinated debt)

Secured fixed rate Loan Notes 2033.

O

Ofgem

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

OFTO(s)

Offshore Transmission Owner (S).

O&M

Operations and Maintenance.

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 April through to 31 March (or part thereof).

PSA

Professional Services Agreement.

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 subordinated loan agreement.

SPA

Sale and Purchase Agreement.

STC

System Operator - Transmission Owner Code.

SQSS

Security and Quality of Supply Standard *Subordinated loan, subordinated loan agreement, subordinated debt (see also the Notes).*

Amounts borrowed by the Company from GGOIL which ranks behind the senior debt.

T

TEC

Transmission Entry Capacity.

TOCA

Transmission Owner Construction Agreement.

U

UK

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

