Company Registration No.08180558

Greater Gabbard OFTO Holdings Limited

Annual Report and Group Financial Statements

For the year ended 31st March 2018

Page

Financial statements under IFRS

Introduction

This Operating and Financial Review explains the operations of Greater Gabbard OFTO Plc ('the subsidiary') and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2018, as well as those matters which are likely to affect its future development and performance.
Greater Gabbard OFTO Holdings Limited ("GGOHL" or "Company") is a private company limited by shares and an investment holding company whose sole business is the holdings of investments in its wholly owned subsidiaries, Greater Gabbard OFTO Intermediate Limited and Greater Gabbard OFTO PLC, which together form the Greater Gabbard OFTO Group ("the Group")

GGOHL's subsidiary Greater Gabbard OFTO Plc ("the subsidiary" and "the licensee"), is a holder of an Offshore Electricity Transmission Licence ("the licence") granted under the Electricity Act 1989. The licence was awarded to the subsidiary on 26 November 2013 by The Gas and Electricity Markets Authority ("the Authority").

The ultimate controlling parties of the Group are Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited. The Group Companies are registered in England and Wales, United Kingdom.

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

Background

The Office of Gas and Electricity Markets ("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 subsidary 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 subsidary 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 subsidary'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 subsidary 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"). This is essentially a separation of control between the electricity generators and transmission owners. On 2 August 2013, the subsidary 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 subsidary has on-going obligations and is required to make certain on-going 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 subsidary's offshore electricity transmission system

The subsidary transmits the electrical power of the Greater Gabbard wind farm from the offshore connection point of the subsidary's electrical assets with the electrical assets owned by GGOWL to the onshore connection point of the subsidary'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 subsidary and connects into the NGET system at Sizewell in Suffolk.

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 subsidary. 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 subsidary'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 subsidary's long term business objectives

The subsidary is a special purpose vehicle formed to hold the Licence. Its non-financial objectives are, therefore, consistent with the objectives of the Licence. The subsidary 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 subsidary'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 subsidary 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 subsidary's operating model

The subsidary'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 subsidary 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 subsidary meets its Licence obligations and complies with good industry practice. The subsidary has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

The subsidary's approach to managing the business

The subsidary'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 subsidary:

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the subsidary'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 subsidary 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 subsidary'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 subsidary is required to carry out its licenced activities and have in place governance arrangements that ensure (amongst other obligations) that the subsidary 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 subsidary'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 subsidary 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 subsidary determines how much the subsidary 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 subsidary with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the subsidary'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 subsidary's electricity transmission system (as determined by the subsidary's System Capability Statement) in any given calendar year, or part thereof.

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 subsidary's "base revenue". For the avoidance of doubt, the subsidary'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 subsidary to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The subsidary 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 subsidary 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 subsidary'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 subsidary is then permitted or required to change its prices to reflect the credits earned or penalties accrued as necessary. The maximum credit which the subsidary 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 subsidary'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

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 subsidary 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 subsidary 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 subsidary's ability to collect credits as explained above changes. There is an acceleration of the subsidary'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 subsidary's onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the subsidary 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 subsidary 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 subsidary provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for Performance Year ended 31 December 2017 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 subsidary's actual transmission availability during any performance year – which in turn determines the subsidary's performance credits or penalties as described under Regulated revenue and incentives earlier in this Operating and Financial Review.

The Company has provided 99.97% transmission capacity based on the declared maximum capacity of the transmission system during the performance year ended 31 December 2017– see Transmission System Availability below. In the incentive period January to March 2018 the transmission capacity was 98.41%. 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.

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 subsidary's transmission system with NGET's transmission system.
The subsidary 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 subsidary 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 KPI's	
Profit before taxation	Profit before taxation: £2,956k (2017: £3,553k)	To increase+.
Cash available for debt service	Net cash outflow from operating activities less net cash inflow from investing activities £8,770k (2017: £9,509k).	To increase+.
	Non-Financial KPI's	
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year 1 January 2017 to 31 December 2017: 99.97% (year from 1 January 2016 to 31 December 2016: 99.78%).	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 2018.
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 2018.

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

The subsidary's operational performance

The subsidary'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.

Greater Gabbard OFTO has an O&M contract with Balfour Beatty Utility Solutions Limited 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.

Transmission system availability

The performance of the Company's transmission system for the performance year ended 31 December 2017 and 2016 were as tabulated below:

MW Hours	Note	Performance Year ended 31 December 2017	Performance Year ended 31 December 2016
Maximum system availability (capability - MWhrs)	(a)	4,383,000	4,383,000
Actual system availability (MWhrs)		4,381,903	4,373,253
Actual system availability (%)		99.97%	99.78%
Regulatory target system availability (%)		98%	98%
Availability credits (MWhrs)			
Availability credits at 1 January		288,268	199,672
Net availability / credits for the performance year [1]		94,055	88,596
Net availability credits at 31 December	(b)	382,323	288,268

The performance of the subsidary's transmission system for the performance quarter ended 31 March 2018 and 2017 were as tabulated below:

MW Hours	Note	Performance Period 1 January 2018 to 31 March 2018	Performance Period 1 January 2017 to 31 March 2017
Maximum system availability (capability - MWhrs)	(a)	1,083,000	1,083,000
Actual system availability (MWhrs)		1,065,831	1,081,903
Actual system availability (%)		98.41%	100%
Regulatory target system availability (%)		98%	98%
Availability credits (MWhrs)			
Availability credits at 1 January		382,323	288,268
Net availability / credits for the performance quarter		7,748	24,033
Net availability credits at 31 December	(b)	390,071	312,301

(1) The maximum system availability of the subsidary's transmission system as declared to NGET during the performance year.

Quality of supply

The quality of supply constraints agreed with NGET (see "Transmission system quality of supply" above) requires the subsidary 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 subsidary'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 subsidary closely monitors compliance with these qualities of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the subsidary to meet these qualities of supply obligations.

During the financial year the subsidary has met its obligations to transmit electricity compliant with these operational obligations. The subsidary 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 subsidary. The operation of the subsidary'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 subsidary is committed to reducing the environmental impact of its operations to as low as practically possible. The subsidary 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 subsidary'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

Stakeholder relationships

The potentially hazardous nature of subsidary's operations and the environmentally sensitive nature of the locations where its assets are located require the subsidary 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 subsidary 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 subsidary have been discussed and referenced in this Operating and Financial Review, alongside a discussion of the operational and financial performance of the subsidary.

The Group' s financial performance

Summary

The financial performance of the Group for the year ended 31 March 2018, and its financial position as at 31 March 2018, 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 Group reports its results in accordance with International Financial Reporting Standards ("IFRS").

	2018	2017
	£'000	£'000
Operating (loss) /profit	(218)	47
Net finance income	3,174	3,506
Profit before taxation	2,956	3,553
Taxation	(515)	(546)
Profit after taxation	2,441	3,007

	2018	2017
	£'000	£'000
Net cash inflow from operating activities and investing activities	8,770	9,509

Operating and finance income

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

Finance income for the year amounted to £19,687k (2017: £20,029k), 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 Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 31.

Operating income for the year amounted to £3,705k (2017: £4,166k), 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 Group.

Operating costs

Operating costs for the year amounted to £3,923k (2017: £4,119k.)

The most significant costs included within operating costs for the year to 2018 were those costs associated with operations and maintenance £2,387k (2017: £2,297k); insurance £795k (2017: £1,112k) and management service fees amounting to £101k (2017: £83k.) The non-domestic rates associated with the transmission network are £536k (2017: £497k.)

Operating (loss)/profit

Operating profit/(loss) being the net of operating income and operating costs amounted to (£218k) (2017: £47k).

Interest income

Interest income relates to interest on bank deposit of £105k (2017: £100k) and notional interest of £19,687k (2017: £20,029k).

Finance costs

Finance costs amounted to £16,618k (2017: £16,623k.) 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 £11,439k (2017: £11,796k) and holders of subordinated debt £4,808k (2017: £4,806k.) Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

Taxation

The net taxation charge on profit before taxation for the year is £515k (2017: £546k) and relates solely to deferred taxation. There was no current taxation arising in the year (2017: £nil) as the Group incurred taxable losses. The taxation charge for the year has been computed at 19% (2017: 20%)

A taxation credit of -£236k (2017: £2,149k) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2018.

The taxation credit relates solely to deferred taxation as the subsidary incurred taxable losses during the year. This taxation credit has been computed at 19% (2017: 20%).

Profit after taxation

Profit for the year after taxation amounted to £2,441k (2017: £3,007k.)

Cash flows

Net cash flow used in operating activities amounted to £35,298k (2017: £17,409k) primarily reflecting the cash outflows relating to operating activities incurred during the year to 31 March 2018.

Net cash inflows from investing activities amounted to £27,580k (2017: £26,918k).

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 £105k (2017: £100k) amounted to £27,580k (2017: £26,918k).

Net cash outflows from financing activities amounted to £9,263k (2017: outflow £8,471k).

Payments to service senior debt holders during the year amounted to £24,939k (2017: £24,170k.) Payments to subordinated debt holders during the year amounted to £3,900k (2017: £3,900k).

No corporation tax was paid in the year (2017: £nil.).

No dividend was paid in the year (2017: £nil.)

There were no undisclosed dividends proposed between the year end and the date of the approval of the financial statements.

Statement of Financial Position and consideration of financial management

Going concern

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

Statement of Financial Position

The Group's Statement of Financial Position as at 31 March 2018 is summarised below:

	Assets	Liabilities	Net assets
	£'000	**£'000**	**£'000**
Non-current Transmission owner assets	304,854	-	304,854
Non-current deferred taxation	-	(3,869)	(3,869)
Current assets and liabilities [1]	-	(3,551)	(3,551)
	32,910	(7,263)	25,647
	337,764	(14,683)	323,081
Borrowings	-	(315,776)	(315,776)
Derivatives financial assets	8,730	-	8,730
Totals at 31 March 2017	346,494	(330,459)	16,035

(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 and is carried at amortised cost. 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 subsidary. A discussion of the critical accounting policies adopted by the Group that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 31.

Transmission owner asset and decommissioning (continued)

The Transmission owner asset was acquired on 29 November 2013 from Greater Gabbard Offshore Winds 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 £9,412k (2017: £9,330k). These costs will be incurred from year 18 onwards.

Deferred taxation

in full, of the deferred taxation impact of all temporary differences arising to March 2018, including taxable losses. This is increased by a deferred tax liability of £1,485k (2017: £1,249k) relating to pre-taxation losses arising on marking the subsidary's cash flow hedges to market at 31 March 2018, which gives a total deferred tax liability of £3,869k (2017: £3,119k).

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 2018 net debt stood at £307,046k (2017: £316,489k) and included £8,730k asset (2017: £7,349k). 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 subsidary 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 2018 amounted to £269,548k (2017: £278,813k). 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 subsidary's intermediate holding 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 2018 the total principal carrying value of the subordinated loan outstanding amounted to £45,989k (2017: £45,989k).

Ordinary equity share capital amounted to £51k at 31 March 2018 (2017: £51k).

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 Group is a going concern, and has adequate resources in the foreseeable future to meet its on-going 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 subsidary 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 2018 there were no sums outstanding from NGET (2017: £nil) and from 31 March to the date of this report all amounts due from NGET had been received on time.

The subsidary enjoys certain protections afforded under the Licence granted to the subsidary. In particular, provided that the subsidary can demonstrate that it has applied good industry practice in the management of the subsidary and its assets, then in the event that an unforeseen incident results in the subsidary 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 subsidary 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 subsidary 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 subsidary'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 subsidary in relation to its transmission services that are not subject to the RPI swaps arrangements.

Going concern, liquidity, and treasury management (continued)

The subsidiary also has access to a liquidity facility of £5,326k (2017: £5,326k) that the subsidiary 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 £40,432k at 31 March 2018 (2017: £41,822k) as a form of subordinated credit enhancement instrument for the subsidary 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 subsidary 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 subsidary has maintained an investment grade credit rating of A3 in respect of its senior debt consistent with its obligations under the licence.

During the rating agency's assessment of the subsidary'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 subsidary 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 subsidary'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.

On-going funding requirements

The subsidary 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 subsidary are expected to be met by the cash inflows generated by the subsidary. Consequently, based on the current capacity of the existing transmission system operated by the subsidary, 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 subsidary's transmission licence to allow the subsidary to increase its charges in respect of such expenditure. The Directors would expect that such additional expenditure would be capable of being funded based on the increased cash flows arising from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

Surplus funds

The 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 2018, the Company had £16,488k (2017: Nil) on deposit of which £16,488k (2017: 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, £2,073k (2017: £18,286k) 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 subsidary 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 subsidary these amounts are insignificant.

Hedging arrangements

It is the policy of the Board that the subsidary 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 subsidary 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 subsidary 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 subsidary 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 subsidary'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 subsidary's risk management objective and strategy for undertaking the hedge. The majority of the subsidary's cash outflows relate to

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 subsidary can meet its obligations under the terms of the subsidary'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 2018 was £8,730k (2017: £7,349k). A corresponding entry has been recorded in other comprehensive income.

Lending covenants and other restrictions

The subsidary is subject to certain covenants and conditions under lending agreements with the senior debt holders. The subsidary 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 subsidary 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 subsidary 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 subsidary 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 subsidary 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 subsidary 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 subsidary 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 subsidary investing in term deposits with maturities not exceeding six months;

6) The subsidary is required to maintain adequate insurances at all times;

Lending covenants and other restrictions (continued)

7) The subsidary 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 subsidary materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, the subsidary 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 subsidary 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 subsidary has materially complied with all of the lending covenants and conditions and has continued to do so through to the date of this report.

Accounting policies

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

Presentation of financial statements

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

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

Financial Instruments

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

A discussion of critical accounting 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 31.

The Directors, in preparing this Group Strategic Report, have complied with s414C of the Companies Act 2006.

Principal activities and business review

A full description of the Group's principal activities, business, and principal risks, and uncertainties is contained in the Operating and Financial Review on pages 3 to 20, which are incorporated by reference into this report. No change in the Group's activities is anticipated.

Material interests in shares

Greater Gabbard OFTO Holdings Limited is an investment holding company whose sole business is the holdings of investments in its wholly-owned subsidiaries, Greater Gabbard OFTO Intermediate Limited and Greater Gabbard OFTO Plc, which together form the Greater Gabbard OFTO Group ("the Group").

Review of the business

The Directors have performed a full review of the Group's results for the year as part of the Operating and Financial review section on pages 3 to 20.

Future developments of the business

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

Key Financial Performance Indicators

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

	31 March 2018	31 March 2017
	£'000	£'000
Profit before taxation	**2,956**	3,553
Cash available for debt service	**8,770**	9,509

Principal risks and uncertainties

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

Licence obligations

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 issued in relation to the European Parliament Directive.

Financial risks

Credit and cash flow risks to the Group arise from its client, NGET. Credit and cash flow risks to the Company arise from its client, NGET. 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.

Contractual relationships

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

This report was approved by the Board on 30 July 2018 and signed by its order by:

K Shah
Company Secretary

The Directors present their annual report together with the audited consolidated financial statements for the year ended 31 March 2018.

The following information has been disclosed in the Group Strategic Report:

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

Returns and dividends

The Group recorded a profit for the year after taxation of £2,441k (2017: £3,007k).

There was no dividend paid in the year (2017: £nil).

Share Capital

The issued share capital of the Company at 31 March 2018 was £50,999 consisting of 50,999 ordinary shares of £1 each.

Directors

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

Rebecca Collins
Sion Jones (Resigned 03/11/2017)
Jennifer Louise Crouch (Resigned 01/08/2017)
Richard Daniel Knight
Robert Alistair Martin Gillespie (Appointed 01/08/2017)
Nathan John Wakefield (Appointed 16/11/2017)

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

Donations and research and development

No charitable or political donations were made during the year (2017: £nil) and expenditure on research and development activities was £nil (2017: £nil).

Financial instruments and risk management

Details on the use of financial instruments are included on page 3 to 20 in the Operating and Financial Review and details of financial risk management included in Note 19 of the Notes to the Financial statements.

Internal Controls and Corporate Governance

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. They recognise the importance of a robust control environment to mitigate the key risks of the Company and whilst they consider that the material risks are managed adequately, they have elected to appoint an Audit committee as part of its corporate governance. The responsibilities of the audit committee are mentioned in the Corporate Governance Statement on page 24.

There are no significant issues for the year ended 31 March 2018 that have required the Board to deal with any related material internal control issues.

The Directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the year and confirm that the system of internal controls that are currently in place are considered sufficient that all key risks to the business are adequately managed and mitigated.

Going concern

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

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

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

Employee involvement

The Group does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Group's Operating Model" in the Operating and Financial Review on page 4.

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Group at 31 March 2018 were equivalent to 73 (2017: 83) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Group Information

Greater Gabbard OFTO Holdings Limited is incorporated in the United Kingdom, registered in England and Wales and domiciled in the United Kingdom.

Group Secretary and Registered Office

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

Statement of disclosure of information to Auditors

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

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

PricewaterhouseCoopers 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 auditors at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by order of the Board

K Shah
Group Secretary
30 July 2018
Greater Gabbard OFTO Plc
EMS, Welken House, 10-11 Charterhouse Square,
London, EC1M 6EH, UK

The Group does not have a premium listing of equity share and is therefore not subject to the UK Corporate Governance Code but seeks to apply the principles of the Code.

The Group 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 Group'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 Group through a common class of ordinary shares, Equitix Transmission 2 Limited and Equitix Capital Investors UK Cable Limited. Directors' fees are paid by the Group 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 Group has a nomination committee and the performance of the Boards is not evaluated.

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

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.

Audit committee

The Group does not have an internal audit function. The Group does not have an internal audit function. The Directors have concluded that the Company is far to small to have such a function and assessement of internal controls are via an Audit Committee. The purpose of the Audit Committee is to assist the Board of the Group 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 Group, as the case may be;

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 auditors.

The Group

Board and management meetings

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

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

Directors and their attendance at Group Board meetings

The Directors of the Group are as shown below. Board meetings were held on four 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	4 of 4
Sion Jones (Resigned 03/11/2017)	1 of 4
Jennifer Louise Crouch (Resigned 01/08/2017)	3 of 4
Richard Daniel Knight	4 of 4
Robert A. M. Gillespie (Appointed 01/08/2017)	0 of 4
Nathan J. Wakefield (Appointed 16/11/2017)	0 of 4

Compliance committee

The Group has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role to fulfil the compliance requirements of the Licence, without executive functions, with powers of information, assessment, and presentations to the Board. Following consultation with the Gas and Electricity Markets Authority, on 25 November 2013 the Board appointed Henderson Loggie as Compliance Officer. Henderson Loggie is not engaged in the management or operation of the subsidary'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 subsidary, the compliance committee and consultants and other third parties providing services to the subsidary. 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 subsidary 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 (Resigned 01/08/2017)	1 of 2
Nathan J. Wakefield (Appointed 16/11/2018)	1 of 2

The compliance committee met in July 2018 to receive the compliance report for the year ended 31 March 2018 from the compliance officer and in turn produced a report approved by the Board.

Compliance statement

The subsidary 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 subsidary has addressed its Licence obligations.

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 (Reporting of Injuries, Diseases and Dangerous Occurences Regulations 2013) reportable incidents or accidents to date.

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 prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

On behalf of the Board

K Shah
Group Secretary
30 July 2018

Report on the audit of the financial statements

Opinion

In our opinion, Greater Gabbard OFTO Holdings Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Group Financial Statements (the "Annual Report"), which comprise: the group and parent company statement of financial position as at 31 March 2018; the group income statement and group statement of comprehensive income, the group and parent company cash flow statement, and the group and parent company statement of changes in equity for the year then ended, the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We have provided no non-audit services to the group or the parent company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview

Materiality	• Overall group materiality: £147k, based on 5% of profit before tax. • Overall parent company materiality: £1k, based on 2% of total assets.
Audit scope	• The Group financial statements comprise three components, each of which were subject to full scope audits. • We tailored the scope of our audit taking into account the significant balances within the Group, the accounting processes and controls, and the industry in which the Group operates. • We obtained an understanding of the internal controls in place and then performed substantive testing where required over the significant balances.
Key audit matters	• Valuation of derivatives (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, UK tax legislation and the Transmission Licence. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Valuation of derivatives ***(see note 13 of the financial statements)*** The Group have entered into an arrangement with third parties that are designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Group has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Group's net cash flows. We focused on this area as valuation, specifically in respect of derivatives, requires the use of judgement by the Directors and the involvement of valuation experts. Derivatives require judgements because, for some instruments, quoted prices are not readily available. As such, management use models to estimate their fair value. The key judgements for derivative valuations is whether appropriate valuation methodology and judgements around input assumptions have been made and whether there are any changes required to the methodology of these models as a result of market practice, accounting or regulatory updates.	Our audit work in respect of the valuation of derivative assets and liabilities include understanding and assessing the models and methodology used for the derivative investments, using our valuations specialists. This included recalculating the valuations using independent models and sourcing our own input data from recognised independent market data and investigating any differences found that were greater than predefined thresholds. We determined that the resultant valuations of the derivatives, were within ranges that we consider to be acceptable.

How we tailored the audit scope

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

The group comprises three components, a holding company, an intermediate company and a trading company, all of which were subject to full scope audits.

We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statements line item.

Materiality

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

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

	Group financial statements	*Parent company financial statements*
Overall materiality	£147k	£1k
How we determined it	5% of profit before taxes.	2% of total assets
Rationale for benchmark applied	We believe that profit before taxes is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1k and £110k.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7k (Group audit) and £51 (Parent company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 30 November 2016 to audit the financial statements for the year ended 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 March 2017 to 31 March 2018.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 July 2018

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

These financial statements have been prepared on a going concern basis in accordance with IFRS as adopted by the EU and interpretations issued by the IFRS Interpretations Committee (IFRS IC). They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for the year ended 31 March 2018, 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 accounting policies have been applied consistently, other than where new policies have been adopted. The financial statements are presented in pounds sterling, which is the functional currency of the Group 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 J, Critical accounting judgements, key assumptions and sources of estimation uncertainty on page 38.

The consolidated financial statements present the results of the Company and its own subsidiaries ('the Group') as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained.

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company 's profit for the year was £nil (2017 : £nil).

B. Transmission availability arrangements - income and related recognition

The subsidary 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 subsidary 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 subsidary 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.

B. Transmission availability arrangements - income and related recognition (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

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.

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

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

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

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.

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

Operating income

Operating income represents the income derived from the provision of operating services. Such services include those activities that result in the efficient and safe operation of the Group's transmission assets, and are reflective of the costs incurred in providing those services, including the cost of operations and maintenance and 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.

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. Decommisioning Costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission network associated with the safe decommisisoning of that network. Provision for these costs is based on future estimated expenditures, discounted to present values. Changes in the provision arising from revised estiamtes or discount rates, or changes in the expected timing of expenditures, are recognised in the income statement. The unwinding of the discount and changes arising from revisions to the discount rate are included within the income statement as a component of the service margin calculations used to calculated the operating income. Changes in estimates arising from revised cost assessements are included within operating costs.

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

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

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

i) Transmission availability arrangements - income and related 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 subsidary 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.

J. 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 subsidary 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 subsidary 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 Subsidary, 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 Subsidary, the level of income attributed to operating income (see above) would be amended.

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

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

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

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

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

As referred to above, the Group carries its derivative financial instruments in its Statement of Financial Position at fair value. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by a third party that is independent of the Group, but use observable market data in respect of RPI 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.

J. 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.

v) Decomissioning Provision

Provisions are made for certain liabilities where the timing are amount of the liability is uncertain. The subsidiary's only provision relates to the estimated costs of decommissioning the subsidiary's offshore transmission system at the end of its expected economic life - being 20 years. These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The plan for decommissioning these assets has not yet been approved by the Secretary of State for Business, Energy and Industrial Strategy but the preliminary assessment of the decommissioning plan includes many assumptions.

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

- the estimated economic useful life of the transmission system is assumed to be 20 years being the period the subsidiary has exclusive rights to operate under the Licence and collect revenue which is expected to generate the vast majority of cash flows relating to the ownership of the system.

- estimates of costs relating to the appropriate and safe removal, disposal, recycle and making safe of the transmission system having regards to market prices and access to the appropriate level of technology; and

- discount rate appropriate to the 20 year life of the assets being decommissioned. The subsidiary has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to be the finance interest rate applicable to the project life, reflective of the long term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

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

K. Accounting developments

i) Accounting standards as applied to these financial state

In preparing the financial statements the subsidiary has complied with IFRS, International Accounting Standards (IAS) and interpretations applicable for 2017/2018.

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

At the date of authorisation of the financial statements, the Group 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;

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 Group'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:

ii) IFRS 9, 'Financial instruments' – classification and measurement

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The Group is currently determining the impact of implementing IFRS 9 with effect from 1 April 2018 and anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by the adoption of IFRS 9 and further expects to take the accounting policy choice to continue to account for all hedges under IAS 39.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

K. Accounting developments (continued)

ii) IFRS 9, 'Financial instruments' – classification and measurement (continued)

Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

The requirements for hedge effectiveness under IFRS 9 is relaxed as compared with IAS 39 by replacing the bright-line hedge effectiveness tests. To qualify for hedge accounting, it requires an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that management actually uses for risk management purposes. Contemporaneous documentation is still required, but it is different from that currently prepared under IAS 39. However, IFRS 9 does allow for an accounting policy choice to continue to account for all hedges under IAS 39.

iii) IFRS 15, 'Revenue from contracts with customers'

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved. The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations.

The standard is effective for annual periods beginning on or after 1 January 2018. The Company is currently determining the impact of implementing IFRS 9 with effect from 1 April 2018 and is carrying out a review of existing contractual arrangements as a part of this process. This review is also considering the interaction between IFRS 15 and IFRIC 12 "Service Concession Arrangements".

iiii) IFRS 16, 'Leases'

IFRS 16 'Leases' is expected to be applicable to the Company's financial statements commencing 1 April 2019, but is not yet endorsed by the EU. The Company is evaluating the impact of this new accounting standard; however, this new accounting standard is expected to have an impact on measurement and disclosure of lease liabilities and related right-of-use assets within the balance sheet presented by the Company. In addition, there is likely to be an impact on income statement geography and the timing and recognition of lease related expenses.