Registered No. 05046791

Wales & West Utilities Limited

Consolidated regulatory accounts
For the year ended 31 March 2016

Contents **Page**

Important information

Important Information

Wales & West Utilities Limited ("the Company") is a regulated gas distribution business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of local transmission pipeline. The Company operates under a Gas Transporters' Licence granted by The Gas and Electricity Markets Authority (the "Regulator") and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns. Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

The Company is a privately owned Company. Details of the immediate and ultimate parent companies are set out in note 26 to the consolidated regulatory accounts.

The obligation to produce consolidated regulatory accounts

The obligation to produce consolidated regulatory accounts is placed on the Company by Standard Special Condition A30 ("the Condition") of the Gas Transporters' Licence ("the Licence") granted under the Gas Act 1986 ("The Gas Act"). The principal requirements of the Condition, in respect of the financial year ended 31 March 2016, are that the consolidated regulatory accounts must:

- fairly represent the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributed to, that business. Taxation, capital liabilities and interest thereon are only attributed to individual businesses to the extent that they relate principally to those businesses;
- have the same content and format as the Annual Report and Consolidated Financial Statements of the Company and conform to UK Generally Accepted Accounting Practice, in so far as is reasonably practicable;
- separately show, in appropriate detail, the amounts of revenues, costs, assets, liabilities, reserves or provisions which have been charged from or to any business in the Wales & West Gas Networks (Holdings) Limited Group, or which have been determined by apportionment ("charges and apportionments");
- be subject to audit by the Company's statutory auditor; and
- be published, except for the information on charges and apportionments.

These consolidated regulatory accounts are therefore produced in compliance with, and solely for the purposes of, the Condition and no reliance may be placed on them and no responsibility is assumed for them for any other purpose whatsoever.

Consolidated regulatory accounts have been prepared for Wales & West Utilities Limited ("WWU") and its wholly owned subsidiary, Wales & West Utilities Finance plc ("WWUF") (together referred to as "the Group"), in order to disclose the external borrowings which the Group has entered into to fund the Company's activities; accordingly no Company balance sheet is included within these consolidated regulatory accounts.

All of the trading activity of the Group is performed by the Company, whereas the external borrowings have been entered into by the Company and its wholly owned subsidiary, Wales & West Utilities Finance plc.

Important information (continued)

Regulatory ring-fence

The Company Licence contains special “ring-fence conditions”, which include requirements on the Company:

- to only carry on certain activities;
- to ensure that it has sufficient management and financial resources to carry out its business;
- to use reasonable endeavours to maintain an investment grade credit rating as the issuer of corporate debt; and
- to deal on an arm’s length basis and on normal commercial terms with other companies in the Group and not to give new guarantees for them.

If the Company is in material default of any of the ring-fence conditions it can be prohibited from declaring and paying a dividend.

Transportation business

The transportation business comprises the development, administration, maintenance and operation of the Company’s gas distribution network and the supply of gas transportation services.

Metering business

The metering business comprises the provision of metering services, which includes the provision, installation and maintenance of gas metering equipment. It is subject to price control in respect of the provision of domestic services.

De-minimis

The de-minimis activities of the Company are not subject to price control, but must be carried on within the terms of the Licence. These terms include restrictions on the level of those activities with respect to the overall level of the regulated businesses, unless The Regulator has otherwise consented.

Other activities

Other activities as set out in Standard Special Condition A30 paragraph 1(f) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in accordance with sub-paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing). These activities specifically include the service agreements entered into with National Grid Gas plc (“NGG”). These activities would otherwise have been classed as de-minimis. All de-minimis and other activities arise as a result of the transportation business. These activities are not subject to price control.

Directors and advisors

Directors

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

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

Company Secretary and registered office
Paul Millar
Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ

Independent auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

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

Strategic report

Strategy and objectives

Wales & West Utilities Limited group's ("Company" or "Group" as the context requires) strategy is to continue to maintain the gas distribution network for which it is responsible in Wales and the South West of England as required under its Gas Transporters' Licence and by the Health and Safety Executive ("HSE"), whilst providing appropriate levels of customer and consumer service. Maintenance of the gas distribution network includes development to increase the number of consumers connected as well as regular repair and replacement to ensure that it is kept in a good operational state.

As a regulated business the Company is subject to price controls set by the Office of Gas and Electricity Markets ("Ofgem") which define its allowed revenues. The current eight year price control commenced on 1 April 2013 under Ofgem's RIIO (Revenue = Incentives, Innovation and Outputs) principles (the RIIO-GD1 price control). This price control defined allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on the Company's investment in the gas infrastructure asset.

Further information in respect of the regulatory environment is included within "the business model" section below.

The Group reports financial and non-financial key performance indicators to the extent necessary for an understanding of the development, performance and position of the Group on pages 10 and 11.

The business model

Business environment

The Gas Distribution and Transmission Network in Great Britain comprises the National Transmission System and eight regional gas distribution networks. The National Transmission System and four of the eight regional gas distribution networks are owned and operated by companies within the National Grid plc group.

These consolidated regulatory financial statements represent the Group's results for the year ended 31 March 2016 and the comparative year ended 31 March 2015.

The Company operates one of the independently owned regional gas distribution networks comprising the Wales and South West of England local distribution zones. Three other regional distribution networks are owned by independent operators, with National Grid retaining the remaining four regional gas distribution networks. Together these eight networks represent the large majority of the gas distribution network in Great Britain. The gas distribution business comprises the development, administration, maintenance and operation of the Company's gas distribution network and the supply of gas transportation services.

There are other independent gas transporters which operate within the principal area of the Company's operation and the Company has contractual arrangements in place with them to ensure the safe passage of gas to their networks.

The business model (continued)

Business environment

In addition to its gas distribution role, the Company also has obligations under its Gas Transporters' Licence to:

- provide 24 hour emergency response to all public reported gas escapes in Wales and South West England, irrespective of the cause (the significant majority of which are unrelated to the Company's distribution network);
- connect gas consumers to the distribution network, unless the consumer chooses to use another party to provide the connection; and
- provide meters to certain consumers if the consumer's gas supplier has not made alternative arrangements.

Regulatory environment

The gas distribution business of the Company is regulated by Ofgem. Ofgem operates under the direction and governance of The Regulator, which makes all major decisions and sets policy priorities for Ofgem. The mechanism for regulation of the Company's activities in gas distribution and metering is derived from:

- the Gas Act 1986 (as amended);
- the terms of its Gas Transporters' Licence granted under Section 7 of the Gas Act 1986 (as amended); and
- the Utilities Act 2000.

Under the current RIIO–GD1 price control, Ofgem has the ability to conduct a mid-period review. During the period ended 31 March 2016 Ofgem consulted on a mid-period review in respect of the gas distribution price control alongside other controls. The consultation resulted in Ofgem's decision document which was issued on 12 May 2016. In this decision document, Ofgem confirmed that it would not conduct a mid-period review over the operation of the RIIO-GD1 price control as it deemed the control to be working appropriately. Ofgem however, did identify that some work was required to ensure effective output accountability by the Licensees, to fill in some gaps in the framework, and improve the operation of some of the mechanisms.

In maintaining the gas distribution network, the Company expects to operate within the revenue constraints placed on it by Ofgem as part of the price control settlement. It also anticipates earning incentive income through exceeding certain targets set by Ofgem as part of the RIIO-GD1 price control.

In addition to the revenues permitted by Ofgem, the Company earns other revenues, predominantly through gas meter work. The Company aims to continue undertaking this work, where it is of benefit to the Company. However, it is anticipated that revenue will reduce with the planned introduction of smart metering across the UK's population of domestic electricity and gas meters.

The Company is also regulated by the Health and Safety Executive.

The business model (continued)

Results and operating performance

All of the trading activity of the Group is performed by the Company, whereas the external borrowings have been entered into by the Company and its wholly owned subsidiary, Wales & West Utilities Finance plc. Consolidated regulatory accounts have been prepared in order to disclose the external borrowings which the Group has entered into to fund the Company's activities.

The results of the Group for the year ended 31 March 2016 are set out in the consolidated profit and loss account on page 35.

The operating profit amounted to £117.5m for the year ended 31 March 2016 (2015: £131.6m). After net interest of £161.4m (2015: £174.2m) the consolidated loss on ordinary activities before taxation amounted to £43.9m for the year ended 31 March 2016 (2015: loss of £42.6m). The consolidated loss attributable to shareholders amounted to £34.1m for the year ended 31 March 2016 (2015: loss of £34.9m).

Wales & West Utilities Limited ("the Company") replaced 438kms of gas mains and undertook work on the related gas service pipes running from the gas mains to the properties of gas consumers at a cost of £76.8m (2015: 455kms at a cost of £77.1m). The replacement work was undertaken either because:

(i) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains below 9" in diameter and within 30 metres of a property are to be replaced with plastic alternatives within a period of 30 years from 2002; or
(ii) mains were required to be replaced under a programme defined by the Health and Safety Executive where all iron mains above 8" and less than 18" in diameter, within 30 metres of a property and in excess of a defined risk threshold are to be replaced within a period of 30 years from 2002; or
(iii) the overall condition of the metallic main warranted replacement; or
(iv) of a request (usually through a local authority as a result of a highways project) to move the gas infrastructure.

A further £1.3m (2015: £0.9m) was spent on Local Transmission System ("LTS") replacement projects.

Under Generally Accepted Accounting Practices in the United Kingdom these costs are charged as an operating cost.

In addition, during the year ended 31 March 2016, the Group invested and capitalised £58.2m (2015: £54.0m), against which consumers contributed £8.7m (2015: £11.1m), on expanding and improving the gas distribution network.

Organisational restructure

An early retirement programme was announced by WWU on 15 October 2014 which was open to all staff who will reach 55 within three years of 30 December 2014. As a result the Company offered early retirement to 58 people in December 2014 and accrued £4.0m for expected costs. During the year ended 31 March 2016 £1.4m of the accrual was utilised and £2.5m remains accrued for future pension strain liabilities within the consolidated regulatory accounts at 31 March 2016 (2015: £3.9m).

The business model (continued)

Business review

The Group's operating performance over the past twelve months has been satisfactory, with all standards of performance being achieved. In particular, external targets for mains abandoned and replaced were met, as were targets in response to reported possible gas escapes, both within one and two hour time frames. The standards for achieving connection quotations and for completing connection activities within agreed timescales were also both met. Other targets include those relating to the achievement of Ofgem outputs and are measured and reported in Ofgem's RIIO-GD1 Annual Reports. In 2015/16 all Ofgem targets have been met by the Company (2014/15: All targets met). There were 1,776 (2015: 2,900) complaints during the year ended 31 March 2016. The definition of a complaint is in line with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

There were two direct labour lost time injuries ("LTI") and one contract labour LTI during the year ended 31 March 2016 (2015: none).

In addition to meeting all operational standards for the year the Group also continued to work to improve operational efficiency through the performance management framework and the use of management information tools through the performance management framework and the use of management information tools.

Financial review

Basis of accounting

The consolidated regulatory accounts present the Group's results for the year ended 31 March 2016 and the financial position as at 31 March 2016. They have been prepared using the accounting policies shown on pages 39 to 42, have the same content, with the exception of a Company balance sheet, and format as the consolidated statutory financial statements of the Group and conform to Generally Accepted Accounting Practice in the United Kingdom, in so far as is reasonably practicable.

There were no changes in accounting policies adopted during the regulatory year.

The Company will transition from UK GAAP to Financial Reporting Standard ("FRS102") as issued by the Financial Reporting Council for the year ending 31 March 2017.

Segmental reporting

In addition to providing the overall results and financial position within these consolidated regulatory accounts, the Company provides a breakdown of those results and balances into a number of different business segments as required by the Licence.

Liquidity, resources and capital expenditure

Net cash inflow from operating activities for the year ended 31 March 2016 amounted to £162.9m (2015: £186.1m).

Investing activities absorbed net cash of £45.9m (2015: £43.3m) and net financing costs amounted to £190.2m (2015: £105.6m), which included a triennial swap accretion payment in March 2016 of £83.6m (2015: £nil).

Cash flow forecasting

Both short term and long term cash flow forecasts are produced regularly to assist in identifying the liquidity requirements of the Group.

<u>The business model (continued)</u>

Financial review (continued)

Pension scheme

At 31 March 2016 an FRS17 valuation of £77.2m deficit (2015: £77.5m deficit) less a deferred tax asset of £2.8m (2015: £nil) resulted in a charge to the statement of total recognised gains and losses of £7.5m (2015: £36.1m). The Group contributed £10.1m (2015: £10.1m) of deficit contributions in respect of the defined benefit pension deficit during the year ended 31 March 2016. Details of the movements in the pension Scheme are set out in note 25.

Shareholder deficit

Shareholder deficit at 31 March 2016 amounted to £1,033.4m (2015: £991.8m) as a result of the retained loss of £34.1m for the year ended 31 March 2016 (2015: loss of £34.9m) and an actuarial loss on the pension Scheme net of deferred tax of £7.5m within the statement of total recognised gains and losses (2015: loss of £36.1m).

Details of the ownership of the Company are included in note 26. There were no movements in the authorised or issued share capital of the Company in the year.

Borrowings and financing

Details of net borrowings of £1,531.2m (2015: £1,367.7m) are set out in notes 10 and 11 and gross borrowings of £1,525.0m (2015: £1,365.0m) in note 12.
Net borrowings include index-linked bond accretion and unamortised discount and debt issues costs. Cash of £100.0m as set out in note 9 was placed on deposit from borrowings drawn in the period (2015: £nil).

Details of the Group's approach to financial risk management are set out in this Strategic report.

Details of the financial instruments (interest rate swaps and RPI index-linked swaps) entered into by the Group, with a fair value (net liability) of £757.0m (2015: £659.1m) are set out in note 13. These instruments are held off balance sheet within these consolidated regulatory accounts as required under UK GAAP.

At 31 March 2016 Wales & West Utilities Finance plc, the Company's subsidiary, had in issue a series of guaranteed bonds, all of which are listed on the London Stock Exchange. Details of these issuances are set out below:

Nominal value	Coupon	Class	Issue date	Redemption date
£250m	6.25%	A	10 July 2009	30 November 2021
£200m	5.125%	A	2 December 2009	2 December 2016
£300m	5.75%	A	31 March 2010	29 March 2030
£100m	2.496% Index linked	A	31 March 2010	22 August 2035
£115m	6.75%*	B	31 March 2010	17 December 2018/2036*
£250m	4.625%	A	4 November 2011	13 December 2023
£150m	5.0%	A	4 November 2011	7 March 2028

* Legal maturity of the bond is 2036; however, the bond can be redeemed at the Group's sole option in 2018. If not redeemed in December 2018, the coupon for the bond increases to three month LIBOR + 9.4%, therefore management intends to refinance these borrowings by 2018 and as a result borrowings are disclosed as maturing within less than five years.

<u>The business model (continued)</u>

Financial review (continued)

Borrowings and financing (continued)

All of the bonds are unconditionally and irrevocably guaranteed by the Company and its immediate parent, Wales & West Utilities Holdings Limited, pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transporters' Licence.

The cumulative net proceeds of the issue of these bonds, of £1,347.5m, were lent by WWUF to the Company to repay its existing financing and to fund further capital investment.

Fixed assets

Freehold land and buildings are carried in the consolidated regulatory accounts at depreciated historic cost of £16.0m (2015: £15.8m).

Investment in the network is essential for ensuring the security of the gas supply and the safety of the public. Gross capital expenditure in the Company's network was £58.2m (2015: £54.0m), offset by customer capital contributions towards the construction of fixed assets of £8.7m (2015: £11.1m), and net replacement expenditure charged to the profit and loss account was £78.1m (2015: £78.0m) in the year to 31 March 2016. Fixed assets acquired on the acquisition of the Wales & West gas distribution business by the Company in June 2005 are included at fair value. The Company now considers this to be cost.

Contractual relationships

The Group has contractual relationships with many parties including directors, employees, suppliers and banking groups. The most significant in terms of their effect on the business of the Group is considered to be the relationship with Xoserve Limited, the sole company which provides gas throughput and billing information to the Group, which is used by the Group in setting its regulated gas distribution charges to gas transporters. The investment in Xoserve was £0.1m at 31 March 2016 (2015: £0.1m).

Future developments

The Group is a regulated gas distribution business owning and operating the principal Gas Distribution Network in Wales and the South West of England; the Directors do not envisage any material changes in the activity of the Group for the foreseeable future. Other than those matters referred to above, there were no significant developments within the Group that occurred during the financial year under review.

The Group expects to continue to safely maintain and develop the Gas Distribution Network for the benefit of stakeholders in accordance with the Gas Transporters' Licence granted by the Regulator. The Group has a good record against its key performance measures as set out below and aims to maintain this position into the future.

Key performance measures

The Group uses a number of key measures of operational and financial performance to plan and monitor its business activities. These measures are principally focused on the safe and effective operation of the gas network infrastructure asset. Measures of operational performance include:

- process safety – safety of the gas transportation assets;
- occupational health and safety – injuries, near misses and ill health;
- environment – waste disposal, energy usage and use of natural resources;
- the management of controllable costs in relation to the regulated business;
- the achievement of service levels and the minimisation of complaints;
- achievement of capital and replacement programme targets and cost efficiency; and
- the reliability of the gas distribution network and other customer facing quality of service measures.

The directors believe that safety is paramount and, as a fundamental part of this, that all work related injuries and illnesses are preventable. Consequently the Group measures the level of injuries, incidents and near misses as a key operational performance indicator. In addition, process safety measures have been devised to measure both the 'health' of the infrastructure assets and their impact on the environment and the communities in which the Group works.

Contractor performance is measured in the same way as for direct employees.

Operational reliability is a core measure of the Group's success, and it is fundamental to the Group's relationships with Ofgem and the public. Reliability of the gas distribution network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies. The Group is required by Ofgem to meet a number of different service targets ("Overall Standards"), including attendance at gas escapes and notifying consumers in advance of planned interruptions and responding to complaints. The Company's Licence also requires it to meet certain service targets for connections. Performance against these standards is reported to senior management every month and is reportable to Ofgem on an annual basis. Compensation payments are made to consumers under the Gas (Standards of Performance) Regulations 2005, in the regrettable event that certain service standards are not met. Compensation payments for the year ended 31 March 2016 amounted to £0.2m (2015: £0.2m).

The Company measures service quality to assess the performance of management and staff in serving consumers, including a quarterly survey which is undertaken by an independent market research company, the results of which are published on the Company's website and are reported to Ofgem.

All regulatory standards of performance were achieved in the year to 31 March 2016 and the preceding years as shown overleaf.

Key performance measures (continued)

Key operational performance measures were:

	Ofgem Target	2015/16	2014/15	2013/14	2012/13	2011/12
Responding to gas escapes						
1 hour target for uncontrolled escapes	97.0%	**98.6%**	98.5%	98.3%	98.3%	98.6%
2 hour target for controlled escapes	97.0%	**99.6%**	99.6%	99.4%	99.4%	99.6%
Standards of performance						
Issuing quotations	90.0%	**99.2%**	98.7%	98.7%	98.7%	99.1%
Offer dates for work start and finish	90.0%	**99.9%**	99.0%	99.9%	99.8%	99.9%
Jobs completed on agreed dates	90.0%	**94.2%**	93.9%	94.6%	96.3%	95.2%
Responding to complaints		**99.9%**	99.9%	99.8%	100.0%	99.3%
Customer complaints						
Number of complaints		**1,776**	2,900	2,519	2,208	2,161
Number of jobs undertaken		**229,158**	242,954	234,584	218,572	150,000
Percentage complaints		**0.8%**	1.2%	1.1%	1.0%	1.4%
Upheld complaints*						
Ombudsman service		**-**	-	-	-	-

*Upheld complaints are defined in accordance with The Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008.

Key financial performance measures of the Group were, operating costs and operating cash flows as shown below:

	2015/16 £m	2014/15 £m	2013/14 £m	2012/13 £m	2011/12 £m
Turnover	**404.4**	420.1	415.5	371.5	350.9
Operating costs before replacement expenditure, exceptional items and depreciation	**(149.5)**	(147.8)	(146.6)	(141.5)	(116.6)
Replacement expenditure	**(78.1)**	(78.0)	(73.4)	(91.9)	(97.3)
Operating profit before exceptional items and depreciation	**176.8**	194.3	195.5	138.1	137.0
Loss after tax	**(34.1)**	(34.9)	(31.0)	(103.4)	(119.5)
Operating cash flows after exceptional items	**162.9**	186.1	165.6	92.0	116.3

Principal risks and uncertainties

The management of the business and the execution of the Group and the Company's strategy are subject to a number of risks.

The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. Within the business, the risk management process continues to be based on assessments of operational risk (including safety), financial and other business or project risks. Key business departments prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. Senior Management are closely involved at critical stages in the review process, owning their respective risks in the corporate risk register maintained by the Internal Audit Department and, where appropriate, individual directorates risk registers.

The key business risks and uncertainties facing the Company are set out below and have been identified from our risk management process as potentially having a material adverse effect on our business, financial condition, results of operations and reputation. They are managed within the business, but are not wholly within our control, and may still result in having a material adverse impact on the Group and its business activities, as may factors besides those listed.

Operational

- maintenance of the gas distribution network and security of supply;
- health, safety and environmental compliance;
- appropriate investment in the network asset; and
- meeting mains replacement targets.

Regulatory

- compliance with the Company's licence obligations and standards of service; and
- impact of future price controls determined by Ofgem, including the effect of incentive mechanisms.

Employee

- retention of key individuals and the ability to recruit people with the right experience and skills from the local community.

Finance and funding

- the ability to raise sufficient funds to finance its activities or such funds may be only available at higher cost.

The Group has a comprehensive approach to risk. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified below. In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Transporters' Licence, standards of service and obligations with the Health and Safety Executive.

If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Company.

On an annual basis, the Board, as the body with overall responsibility for the Group's system of internal control and for the monitoring of its effectiveness, undertakes a review of internal processes, risks and controls. WWU has endorsed a Corporate Governance Framework which supports the Board and puts assurance at its foundation and internal control and risk management at its core. Risk Management, including internal control, is ultimately the responsibility of the WWU Board and more detail on our risk management process and internal controls process is set out in our Corporate Governance Statement on pages 24 to 31. A key part of that process is the receipt of a Letter of Assurance from the Chief Executive, which consolidates the key matters of interest raised through the statutory and regulatory year end processes undertaken by the Group.

Principal risks and uncertainties (continued)

Financial risk management

The Company's operations and capital structure expose it to a variety of financial risks that include the effects of pension deficit risk, commodity price risk, credit risk, liquidity risk, interest rate risk and inflation risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs. The Company also uses derivative financial instruments to manage interest rate and inflation risk.

The directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. However, key decisions of the Treasury Committee are referred back to the Board for ratification. The policies set by the Board are implemented by the Company's Finance Department through the Treasury Department.

Pension deficit risk

The Group operates the Wales & West Utilities Pension Scheme ("the scheme"). The defined benefit section of the scheme was closed to new entrants in 2005 and has a considerable number of members who are either retired or have deferred benefits. Since 2005 new employees are entitled to enrol into the defined contribution section of the scheme.

There are risks of increasing pension contributions associated with the financial performance of the assets within the defined benefit section of the scheme and with the estimate of the liabilities of the scheme including longevity of members. Currently, deficit repair costs in respect of service earned to 31 March 2013 are separately funded through the price control. Deficit repair costs in respect of service post 31 March 2013 and on-going service costs are funded out of the total expenditure allowance ("TOTEX") through regulated income.

Commodity risk

The Company is exposed to commodity volume risk through the purchase of "shrinkage gas" as a result of its operations. Shrinkage gas is that gas which leaks from the gas distribution network, gas used by the Company and gas stolen from the network. This risk is managed through appropriate commodity purchases in the forward market.

The total gross cost for the year ended 31 March 2016 was £4.9m (2015: £6.8m). The gas is purchased through contracts renewed annually and these contracts typically fixed the price of gas a day ahead of purchase. That price risk is allowed for under the RIIO-GD1 price control regime and treated as a cost pass through, therefore price risk is negligible. The volume risk is closely monitored and is not considered a material risk given the relatively stable flows of gas through the network and consequent consumption volumes.

Liquidity risk

The Company maintains adequate liquidity resources through a combination of cash balances (overnight or short term deposits) with approved counterparties and headroom under committed revolver facilities provided by core banks. Liquidity forecasting over short and medium term timescales is embedded within the Finance Department as a core process and is periodically updated.

Principal risks and uncertainties (continued)

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis.

Credit risk arises from cash at bank and deposits with banks and other financial institutions. For banks and financial institutions, only independently rated parties with a minimum short term rating of A2 with Standard & Poor's, F2 with Fitch or P-2 with Moody's; and a minimum long term rating of A- with Standards & Poor's or Fitch, or A3 with Moody's, are accepted.

The amount of credit given to Gas Shippers is governed by Uniform Network Code ("UNC") regulations and guidelines. This provides for defined levels of unsecured credit with Gas Shippers based on their Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Company Guarantees or by way of prepayment.

The value at risk is monitored on a daily basis and is again regulated by UNC criteria allowing a maximum credit limit usage of 100% (2014: 100%) which, if exceeded, allows the Company to apply sanctions.

The Company's overall exposure is also monitored and approved having regard to the levels of exposure within each IGR category.

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. The Company has a policy target for interest rate risk of a minimum of 85% fixed and a maximum of 15% floating.

Inflation risk

The Group's revenue base is exposed to the effects of changes in inflation; the Group has entered into RPI Index-linked Swaps primarily to mitigate RPI volatility in revenue.

Corporate and social responsibility

Health, safety and environment, social and community

Health and safety

The Company's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to the public. Over the last year, there were two direct labour LTIs and one contract labour LTI (2015: none), giving a 12 month frequency rate of 0.07 LTIs/100,000 hours worked (2015: 0.00 LTIs/100,000 hours worked).

The Company continues to make progress in the management of occupational illnesses with a comprehensive health surveillance and occupational health programme for industrial employees.

With a deployed work force (including contractors) of around 2,000, a multi-million pound replacement programme and the Company's core role of managing the safe and secure delivery of gas; the safety challenge is significant. The Company meets this challenge by having a comprehensive management system designed and certified to standards such as ISO 55001 and ISO 14001, with a structured risk management process at its core.

The Company believes that its safety performance is amongst the leaders in the sector. This valued position is targeted at being maintained through continued, vigilant implementation of its health, safety and environmental procedures. Nurturing a safety aware culture within the Company's workforce that sees accountability resting with line management, employees and contract partners is a key element in the Company's successful record.

Environment

The Company is also proud of its environmental achievements and again maintained certification to ISO 14001 environmental management. By utilising and developing industry-wide best practices, the Company has reduced its environmental impact. Key areas of focus have been climate change, the disposal of waste to landfill and the use of quarried stone. Protecting the environment is a key focus for the Company going forward, and the Company is constantly looking for ways to minimise the environmental impact of its past, present and future activities.

The Company continues to manage its portfolio of contaminated land sites. These sites are former gas manufacturing plants and can sometimes have a complex mix of contamination dating back over 100 years. The Company's remediation programme has a main focus on managing environmental risk.

Social and community

The Company aims to be a socially responsible citizen in the region covered by its gas distribution network. The Company is working to help combat fuel poverty in the region by working with Warm Wales (incorporating Integrated Energy Services), a community interest company, and Centrica to invest in network extensions with in-house projects by social landlords and local authorities to further improve energy efficiency and sustainability.

Corporate and social responsibility (continued)

Gender diversity

The Group employed the following mix of staff as at 31 March 2016:

Number	Male	Female	Total
Executive and directors	14	1	15
Senior managers	31	8	39
Other employees	1,101	211	1,312
Total employees	**1,146**	**220**	**1,366**

The Group is based in the UK and, to the extent appropriate, aims for a workforce that is representative of the societies and industry in which it operates.

The Group is committed to ensuring equal opportunities in recruitment, career development, promotion, training and reward for all employees.

Employment policies

The Group recognises that its employees are key to both the present and future success of the Group and supports the fundamental belief that, to maximise employee potential of every individual, there must be:

- a comprehensive framework of policies, business priorities and values which are widely understood;
- investment in training and development;
- a supportive working environment; and
- employee participation and involvement in business matters.

All employees have regular opportunity to discuss their individual performance and development in a focused and proactive way. The Group seeks to maximise employees' potential by identifying and developing talent and skills.

A comprehensive communications programme has been developed and is led by the Executive Team. The Executive Team comprises eight of the WWU internal departmental heads. During the regulatory year this ranged from a programme of interactive face to face colleague briefings by our Executive Team to individual team meetings supported by management infographics and updates.

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation; colleague engagement surveys provide the Group with valuable information upon which to base future policy decisions. The overall score from the annual colleague engagement survey in March 2016 was 8.4 out of 10 (2015: 7.8 out of 10).

The Group offers equality of opportunity and support for disabled employees and provides a comprehensive occupational health service which seeks to retain colleagues in employment.

Corporate and social responsibility (continued)

Employment policies (continued)

The Group's policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes and abilities and to the Group's operational requirements. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities in line with the Group's operational requirements. The Group operates an in-house Occupational Health function to ensure a continued focus on the health and well-being of the Group's workforce with a wide reaching Colleague Well Being Strategy.

As part of our ongoing resourcing strategy we offered a voluntary early retirement programme to eligible staff during 2014. At 31 March 2016 the number of staff that had left on agreed terms was 34, with others due to leave on agreed dates during 2016 and 2017.

Training and development

The Group has consistently sought to recruit and retain the best employees in its local geography in order to provide the level of service which is expected.

The Group measures success in this area through employee retention. The Group had an annual staff turnover rate of 3.0%, in the year to 31 March 2016 (2015: 2.9%) and this compares favourably to the published Chartered Institute of Personnel and Development statistics which showed that the average turnover rate in UK industry during 2014 was 13.6%.

To maintain appropriate retention rates the Group has continued its focus on succession planning and talent management. This ensures that workers with key skills and knowledge are retained and that there is a plan to replace them upon retirement.

The Company's Apprenticeship Programme is a three to five year training period, depending on the course of study undertaken; there are three purpose built in-house training centres for the apprentices to develop their practical and technical skills. Recruitment is undertaken on a targeted basis, ensuring that apprentices are recruited to areas of need.

The age profile of the industrial workforce is high and the Group expects to see a large number of leavers during the next five years and beyond. Historically, our apprentice population has been recruited into the areas of "Emergency", "Mechanical Engineering" and "Electrical and Instrumentation"; and in 2015 we extended our apprentice recruitment into the areas of "Build and Repair" and "Replacement". All our apprenticeships are in key technical areas where skills are not readily available in the external market and training times can be from three to five years.

Ensuring continuity of the key skills required within the industry and enabling a full and proper knowledge transfer to take place will ensure that the Group is well placed to effectively undertake this work going forward. The number of apprentices recruited since the Company started trading in 2005 is 119 (2015: 94), meaning that 16% (2015: 13%) of the industrial workforce has joined the Company via the Company's Apprenticeship Programme.

Corporate and social responsibility (continued)

Employment policies (continued)

Since 2005 the Company has also directly employed people previously employed by the Group’s contract partners. This has tangible benefits to both the employees and the Group; not least the fact that it further refreshes the workforce.

By order of the Board

P Millar
Company Secretary
20 July 2016

Report of the directors

The directors of the Wales & West Utilities Limited group ("the Group") have pleasure in presenting their consolidated regulatory accounts for the year ended 31 March 2016 as presented on pages 35 to 73.

Principal activities

The Group is principally engaged in the management of gas distribution assets. The Group provides gas distribution and meter work services throughout Wales and the South West of England.

History and development

The Company is a regulated gas transportation business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 32,400 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline. The Company operates under a Gas Transporters' Licence granted by the Gas and Electricity Markets Authority and is responsible for the safety, development, maintenance and daily operation of the gas distribution network which it owns. Gas is transported on behalf of approximately 30 gas shippers through the Company's distribution pipelines to around 2.5 million consumers.

The Company is a privately owned company. Details of the immediate and ultimate parent companies are set out in note 26 to the consolidated financial statements.

Share structures

At 31 March 2016, the authorised and issued share capital of the Company was £30,675,000 divided into ordinary shares of £1 each. Details of the share capital are given in note 17 to the consolidated regulatory accounts. There were no movements in the authorised or issued share capital of the Company in the year. All ordinary shares have the same rights, including the right to one vote at a general meeting, to an equal proportion of any dividend declared and payable, and to an equal amount of any surplus assets which are distributed in the event of a winding up.

Dividend on ordinary shares

The directors do not recommend the payment of a dividend in respect of the regulatory year (2015: £nil).

Directors

The names of the current directors of the Company are shown on page 3.

There were no changes in directors during the year and up to the date of signature of the consolidated regulatory accounts; all directors served throughout the period.

Company secretary

The name of the current Secretary of the Company is shown on page 3.

Directors' service contracts and remuneration

Details of directors' remuneration are set out in note 2(a).

Directors' interests

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

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

Contributions for political purposes

During the year ended 31 March 2016, there have been no political donations (2015: £nil).

Going concern

The Group's consolidated regulatory accounts have been prepared on the basis that the group is a going concern.

The business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The risks that the business faces in the coming year and the mitigants which address these risks are set out on pages 12 to 14. The financial position of the Group, its cash flows and liquidity position are set out on pages 7 and 8.

In arriving at their decision to prepare consolidated regulatory accounts on a going concern basis the directors have reviewed the Group's budgets for 2016, its forecasts and medium term business plans from 2017 to 2021 including capital expenditure plans, and taking into account the risks faced by the business, the directors believe that the Group is well placed to manage its business risks successfully. The review included considering the cash flow implications of the plans and comparing these with the Group's cash resources and committed borrowing facilities and concluded that the Group and Company was in a position to meet its liabilities as they fall due.

Qualifying indemnity

On 5 June 2008, the Group entered into a qualifying indemnity, as it is permitted to do pursuant to section 235 of the Companies Act 2006, in favour of a director/s of the Group's subsidiary, Wales & West Pension Scheme Trustees Limited; where a director is acting as Trustee of an occupational pension scheme to protect him/her against liability.

Directors' liability insurance

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

Carbon reporting

Our report reflects the carbon emissions across all our work streams and the geography within which we operate. It includes all occupied buildings whether owned by the Company or leased from third parties and operational installations where gas and electricity is used. The report also includes Scope 3 emissions for vehicles used by our primary contractors and emissions associated with primary suppliers.

Carbon reporting (continued)

Performance report

An overview of our total emissions performance is shown below:

Assessment parameters

Baseline year	1 April 2012 to 31 March 2013
Consolidation approach	Financial control
Boundary summary	All processes and all facilities either owned or under financial control are included; this includes locations that are rented from third parties in respect of the consumption of Electricity & Gas
Consistency with the financial statements	Energy Use includes locations that are rented from third parties and refers to Electricity & Gas
Emission factor data source	Defra June 2015
Assessment methodology	The Greenhouse Gas Protocol and ISO 14064-1 (2006)
Materiality threshold	A materiality threshold of 1% of total emissions (some 190 tonnes CO_2e) has been applied
Intensity ratio	Emissions per £m revenue
Target	16% reduction in reportable leakage emissions by 2020/21, from a 2012/13 baseline 10% reduction in other business emissions by 2020/21, from a 2012/13 baseline
Independent assurance/verification	Data has not been independently verified/assured

Carbon emissions

	2015/16		2014/15*		Movement from prior year (reduction)/increase		
	tCO_2e	tCO_2e/£m	tCO_2e	tCO_2e/£m	tCO_2e	tCO_2e %	tCO_2e/£m %
Scope 1							
Network leakage (fugitive emissions)	528,376	1,306.57	545,551	1,302.03	(17,175)	(3.15)	0.35
Energy Consumption (Gas)	190	0.47	195	0.47	(5)	(2.56)	0.95
WWU Fleet (fuel consumption from direct commercial fleet vehicles)	8,143	20.14	7,770	18.54	373	4.80	8.58
WWU Cars (fuel consumption associated with business mileage)	1,008	2.49	997	2.38	11	1.12	4.77
	537,717	**1,329.67**	**554,513**	**1,323.42**	**(16,796)**	**(3.03)**	**0.47**
Scope 2							
Purchased electricity	2,158	5.34	2,372	5.66	(214)	(9.01)	(5.72)
Statutory total Scope 1 and Scope 2	**539,875**	**1,335.01**	**556,885**	**1,329.08**	**(17,010)**	**(3.05)**	**0.45**
Scope 3							
Polyethylene pipe & fittings	4,249	10.51	6,720	16.04	(2,471)	(36.77)	(34.48)
Other reportable to Ofgem (from 2014)	51	0.13	61	0.14	(10)	(15.76)	(12.72)
Primary contractor vehicles	621	1.54	784	1.87	(163)	(20.84)	(17.98)
	4,921	**12.18**	**7,565**	**18.05**	**(2,644)**	**(34.95)**	**(32.60)**
Total carbon emissions	**544,796**	**1,347.19**	**564,450**	**1,347.13**	**(19,654)**	**(3.48)**	**0.00**

* The conversion factors set by Defra (Department for Environment, Food & Rural Affairs) to standardise reporting into tco_2e increased in June 2015, to enable a year on year comparison 2014/15 emissions have been restated using these conversion factors.

Carbon reporting (continued)

Overwhelmingly, our primary emissions continue to be associated with losses from the gas distribution network (fugitive emissions). These emissions are estimates of the gas lost from the distribution network we operate using the same models we use for reporting to our economic regulator, Ofgem. These losses accounted for 97.0% (528,376 tonnes CO_2e) (2015: 97% - 545,551 tonnes CO_2e) of our total emissions - this represents an increase of 15% or 69,139 tonnes CO_2e when compared to the previous year. The remaining 3.0% (16,420 tonnes CO_2e) (2015: 3.1% - 18,898 tonnes CO_2e) was associated with the other operational activities of the business; this includes transport, purchased energy and primary contractors. This is consistent with previous reporting periods and will continue to be directly related to our programme of abandoning old and inefficient gas mains as part of our agreed replacement programme with Ofgem, together with the benefits of improved pressure management across the gas infrastructure network.

The reduction in network leakage during the reporting period were primarily achieved by:

- abandonment of 438kms of metallic mains with approximately 33,669 services being replaced or transferred; and
- updating old and inefficient pressure management equipment and maintaining statutory average system pressures.

Based on the above, we will continue to focus our investment and resources on reducing our fugitive emissions from the gas distribution network as the greatest reduction in emissions can be achieved in this area.

The RIIO-GD1 Gas Distribution Price Control requirements are based on the Department for Environment Food & Rural Affairs (Defra) Environmental Reporting Guidelines June 2013. These guidelines support greenhouse gas reporting under the Climate Change Act 2008 and the Companies Act 2006 (Strategic Report and Directors Reports) Regulations 2013. Scope 1, Scope 2 and primary Scope 3 emissions are reported under these guidelines, and are based on published Defra CO_2e conversion figures. Published average values are used for categories based on business mileage.

Disclosure of information to auditor

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

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

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

Deloitte LLP has expressed its willingness to continue as auditor and is deemed to be appointed, subject to certain specified circumstances under s487 of the Companies Act 2006.

By order of the Board

P Millar
Company Secretary
20 July 2016

Corporate governance statement

Statement of Compliance

The Company is a private non- listed Company and is therefore not required to comply with the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council ("FRC"). The Company is however, required to prepare a corporate governance statement as if it were a listed Company under the requirements of Standard Special Condition A30 paragraph 4 (b) (v). The Company has resolved to adopt such parts of the Code as are appropriate to its circumstances and to disclose the reasons for non-compliance for those parts of the Code considered inappropriate.

This statement has been prepared solely for the Regulator to fulfil the requirements of Standard Special Condition A30 paragraph 4 (b) (v) and should not be relied upon by any other party or for any other purpose.

The Company has reviewed its compliance with the provisions of the Code which replaced the 2008 Combined Code, which was effective from June 2010 and subsequently revised in September 2014 for periods beginning on or after 1 October 2014. FRC guidance outside of the Code has been considered but is not explicitly covered by our Statement of Compliance.

Throughout the year ended 31 March 2016 the Company has been in compliance with the Code provisions set out in the UK Corporate Governance Code except for the following matters:

- board members are not subject to the re-election criteria as required by the Corporate Governance Code section B.7.1. The composition of the board is evaluated annually by the companies' shareholders, the shareholders are satisfied that the composition of the board continues to be appropriate to ensure effective leadership;
- the Company does not operate a standing Nomination Committee and the Non-Executive directors do not site on the remuneration committee. Therefore the Non-Executive Directors are not directly involved in determining the level of remuneration and the removing/appointing of executive directors. This is mitigated by the fact that all board members, including Non-Executive Directors, have the ability to scrutinise and challenge any decisions made by the Remuneration Committee during board meetings;
- full compliance with the accountability requirements of section C3.8 is not considered relevant to the users of the consolidated regulatory accounts;
- the Company has chosen not to apply the disclosure requirements of the Corporate Governance Code section D.1.2. in respect of the remuneration of executive directors serving as a non-executive director elsewhere. As the Company is not quoted it is not required to prepare a remuneration report, therefore this requirement of the code is not applicable; and
- the Company has chosen not to apply the disclosure requirements of the Corporate Governance Code section C.2.2. in respect of the Viability Statement. As the Company is not quoted it is not required to prepare a Viability Statement, therefore this requirement of the code is not applicable.

Chairman's statement

The role and effectiveness of the board
The Board is responsible for ensuring leadership through effective oversight and review. Supported by its Principal Committees – Audit, Health and Safety, Remuneration, and Treasury – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term. The work of the Board compliments, enhances and supports the work of the Executive Board. We believe that effective governance is realised through leadership and team work. Collaboration across all levels within the Board structure drives a culture of continuous improvement.

Capital Providers
The Company is funded by a combination of debt and equity. Representatives of the companies' shareholders are members of the board and also site on the Principal Committees - Audit, Health and Safety, Remuneration, and Treasury. This ensures that the needs and concerns of the Company's' shareholders are considered and addressed.

The Company communicates with its debt holders on an individual basis upon request of each bond holder. Furthermore the annual financial statements are available for inspection on the Company's website and half yearly accounts are submitted to the bond holders within 90 days of the period end.

Andrew Hunter
Chairman

The Board and its Corporate Governance Framework

Corporate Governance Framework

The Board and its Corporate Governance Framework is set out below. The board has detailed terms of reference setting out its responsibilities, accountabilities and reporting obligations and, in respect of the subsidiary board committees, how they operate in conjunction with the Board as detailed later in this section. These, together with the risk management and internal control frameworks, form an effective and robust governance structure designed to manage and develop the Group in accordance with the Group's strategy.

Board of Directors

The Board is responsible to the shareholders for all aspects of the Group's and Company's performance and meets on a bi-monthly basis to review the strategic direction of all business activities and monitor performance against approved business plans and budgets.

Appointment to the Board is made in accordance with the articles of the Company.

The roles of Chairman (Andrew Hunter) and Chief Executive (Graham Edwards) are held separately. There is no standing Deputy Chairman. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The directors other than the Chief Executive are independent of management and free from any business or other relationship with the Company, other than as shareholder representatives. Due to the nature of the Shareholder Agreement in place for the Wales & West Gas Networks (Holdings) Limited Group which entitles each shareholder to a relevant number of seats on the Board of each entity in that group, WWU's shareholder appointed board directors are representatives from each shareholder. Therefore, the shareholders are already appropriately protected as they are involved in making all the key business decisions. As such some aspects of the UK Corporate Governance Code are not applicable for the Group. All directors have full access to both the internal audit team, external auditor and to management. No director has a financial interest in the Company other than by way of their fees as disclosed in the report of the directors and their service is not pensionable. The Chairman has confirmed that he has sufficient time to undertake his duties as Chairman given his commitments outside the Group.

Grant Hawkins and Michael Pavia are considered to be independent non-executive directors. The role of the non-executive directors includes scrutinising the performance of management; and satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.

The two independent non-executive directors attend and participate in decisions at all WWU Board meetings and at meetings of WWU's Audit Committee, Treasury Committee and HSE Committee. Whilst these are formally constituted at the Wales and West Gas Networks Limited ("WWGN") Group level, their work relates to the Group's activities. The independent non-executive directors therefore play a full part in all strategic decisions at the WWU Board. All directors' views are given full consideration and due weight in all proceedings of the Board and Committees.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

During the year ended 31 March 2016, attendance at Board and Committee meetings has been quorate. Papers are circulated to the relevant directors in advance of the meetings and, where they have been unable to attend, any comments or issues are raised with management prior to the meeting.

The Board meetings held, during the year and up to the date of signing, are detailed below with attendees:

Date of 2015/16 Board meetings	Attendees	Directors	Attendance at Board meetings
28 April 2015	8 out of 9	Andrew Hunter	7 out of 10
24 July 2015 (telecon)	8 out of 9	Graham Edwards	10 out of 10
6 August 2015	8 out of 9	Dominic Chan (or alternate)	9 out of 10
24 September 2015	7 out of 9	Grant Hawkins	10 out of 10
7 October 2015 (telecon)	5 out of 9	Edmond Ip	1 out of 10
29 October 2015 (telecon)	8 out of 9	Hing Lam Kam (or alternate)	9 out of 10
20 November 2015	9 out of 9	Duncan Macrae	10 out of 10
27 January 2016	8 out of 9	Michael Pavia	10 out of 10
26 April 2016	7 out of 9	Charles Tsai	9 out of 10
7 June 2016	6 out of 9		

Board composition is reviewed regularly to ensure appropriate balance of expertise, skills and experience for the requirements of the business of the Group. Evaluation of the performance of the Board directors is conducted by virtue of their appointments being made and monitored by the investing shareholders; accordingly there is no standing nominations committee. The Chairman regularly reviews and agrees the training and development needs with each director.

The performance of members of the Executive Team is assessed annually by the Chief Executive Officer as part of WWU's performance management process.

All directors make an active contribution to the affairs of the Board. The Company Secretary is responsible to the Board for ensuring that all Board procedures are followed and that the Board is briefed on all legislative, regulatory and corporate governance developments.

The Board reserves for its consideration or approval all Company matters which includes the Group's strategy, major items of capital expenditure and certain material contracts, save for those which it explicitly delegates to management. The form of delegated authority is reviewed by the Board periodically.

The Board is responsible for monitoring the statutory audit of the consolidated annual report and financial statements, reviewing and monitoring the independence of the statutory auditor, and, in particular, the provision of additional services to the Company.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

The Remuneration Committee, which comprises Andrew Hunter, as chairman, Dominic Chan, Duncan Macrae, Hing Lam Kam and Charles Tsai, has written terms of reference. This Committee meets as necessary to consider and determine the terms and conditions of employment of senior management, including salary, bonus, and pension entitlements. The activities of the Remuneration Committee meetings are reported to the Board at least annually.

The Treasury Committee, which comprises Dominic Chan, as chairman, Duncan Macrae, Michael Pavia and Grant Hawkins, has written terms of reference and meets as required. The directors have delegated financial risk management to the Treasury Committee, which considers the funding requirements of the Group and reports its activities to the Board with key decisions referred back to the Board for ratification. The policies set by the Board are implemented by the Company's Finance department.

The Health and Safety Committee, which comprises the Chief Executive Officer, Michael Pavia, Dominic Chan and Duncan Macrae, has written terms of reference and meets regularly. It reviews the Company's safety and environmental record and activities. The activities of the Health and Safety Committee meetings are reported to and considered by the Board at least annually, with a formal report being presented to the Board on an annual basis.

The Audit Committee, which comprises Michael Pavia, as chairman, Dominic Chan, Duncan Macrae, Grant Hawkins and Charles Tsai, has written terms of reference. This Committee meets at least three times a year to monitor the adequacy of internal controls, accounting policies and financial reporting of the Company and the Group and receives reports from the internal audit team and external auditor on a regular basis. The activities of the Audit Committee meetings are reported to and considered by the Board at least annually.

During the year, and in the period up to the approval of these consolidated regulatory accounts, the Audit Committee held three meetings and assisted both executive and non-executive directors to discharge their individual and collective responsibilities by undertaking the following work:

i. reviewed significant issues and provided comments on the financial statements, received reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the group's internal controls and risk management and confirming auditor independence,
ii. reviewed the appropriateness of accounting policies, significant accounting judgements and evidence supporting the going concern basis for the accounts and recommended approval of the accounts to the Board;
iii. reviewed the effectiveness of the external auditors and their effectiveness in respect of the audit process and discussed their outputs with the external audit partner;
iv. reviewed the effectiveness of the internal audit function, including approving the appointment of external co-sourcing partners to carry out specialist assurance work;
v. considered and approved external auditor's fees for both audit and non-audit services, by reference to the Committee's policy on approval of non-audit fees;
vi. approved the internal audit work programme for the year, reviewed progress against the programme and received reports on the outputs of internal audits;
vii. reviewed the risk and control framework and reporting; and
viii. monitored compliance with the Company's procedures designed to prevent bribery, having regard to the provisions of the Bribery Act 2010, including receiving reports on any whistleblowing allegations.

The external auditor has confirmed to the Audit Committee that it remains independent and maintains internal safeguards to ensure its objectivity. The Audit Committee considers that the external auditor remains independent.

The Board and its Corporate Governance Framework (continued)

Board of Directors (continued)

Attendance at Committee meetings by directors and/or alternates during the 2015/16 regulatory year and up to the date of signing is shown below:

Date of meeting	Audit Committee	Remuneration Committee	Health and Safety Committee	Treasury Committee
2 June 2015	4 out of 5	-	-	-
6 August 2015	-	-	4 out of 4	3 out of 4
7 October 2015	-	-	-	4 out of 4
29 October 2015	5 out of 5	-	-	4 out of 4
11 January 2016	4 out of 5	-	-	-
27 January 2016	-	3 out of 5	4 out of 4	4 out of 4
23 February 2016	-	-	-	4 out of 4
26 April 2016	-	-	-	3 out of 4
7 June 2016	-	-	-	4 out of 4

Internal control

The Board is responsible for the process to identify, evaluate and manage significant risks facing the Group and maintaining the Group's system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group through the risk register that is regularly reviewed by the Board and has been in place throughout 2015/16 and up to the date of the approval of these consolidated regulatory accounts.

Risk identification and management

On an annual basis, the WWU Board of directors, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of internal processes, risks and controls. WWU has endorsed a Corporate Governance Framework (page 23) which supports the Board and puts assurance at its foundation and internal control and risk management at its core.

The Board is responsible for identifying the major business risks faced by the Company and determining a suitable response. The Audit Committee, as a committee of the Board, operates under delegated authority from the Board to discharge this responsibility on their behalf and reviews the effectiveness of the system of internal financial control of the Group and receives reports from the internal audit team and external auditor on a regular basis. In order to ascertain the effectiveness of the risk management framework, the Board receives a verbal summary of each Audit Committee meeting from the Audit Committee Chairman and requests further information as appropriate.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. There are also established procedures for planning and capital expenditure, together with information and reporting systems for monitoring the Group's businesses and performance. The Board has adopted a Code of Business Conduct applicable to all staff, setting out the standards which the Company expects of them.

Internal control (continued)

Risk identification and management (continued)

The Board is ultimately responsible for reviewing the effectiveness of control of WWU's significant risks and key elements of this process are described below. Using this information the Board will:

- review the previous year and examine WWU's track record on risk management and internal control; and
- consider the internal and external risk profile of the coming year and consider if current internal control arrangements are likely to be sufficient and effective.

Under the Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

The Group also has policies covering suspected fraud, anti-bribery and whistleblowing included in the Code of Business Conduct, and we thoroughly investigate any allegations of misconduct and irregularity and consider the implications for our control environment. In the normal course of business, investigations into irregularities may be ongoing as of the date of the approval of the Consolidated regulatory accounts. These policies apply to all directors, employees, workers, agents or any other persons acting for, or on behalf of, the Group. The Group will seek to ensure that third parties such as joint venture partners, agents and consultants also commit to the principles and relevant practices referred to in the Code.

All of these processes serve to ensure that a culture of effective control and risk management is embedded within the organisation and that the Group is in a position to react appropriately to new risks as they arise. Details of key business risks affecting the Group are set out in the strategic report on pages 12 to 14.

A key part of that process is the receipt of a Letter of Assurance from the Chief Executive, which consolidates the key matters of interest raised through the statutory and regulatory year end processes undertaken by the Group. The Letter of Assurance is based on a confirmation by each member of the Executive Committee of the accuracy of the risk, management process, effectiveness of internal controls and general governance. The report is used by the CEO as an opportunity to update the Board on any significant issues or projects that may have arisen in the period under review.

Internal control framework

The Group has an established internal control framework which is operated and which applies in relation to the process for preparing the consolidated regulatory accounts.

This framework comprises:

- a clearly defined structure which delegates an appropriate level of authority, responsibility and accountability, including responsibility for internal financial control, to management of defined departments;
- a comprehensive budgeting and financial reporting function with an annual budget and business plans approved by the Board, which also monitors the financial reporting process, monthly results and updated forecasts for the year against budget;
- a cash management plan to ensure that the Group has adequate funds and resources for the foreseeable future;
- documented financial control procedures. Managers of departments are required to confirm annually that they have adequate financial controls in operation and to report all material areas of financial risk. Compliance with procedures is reviewed and tested by the Company's internal audit department;
- an investment appraisal process for evaluating proposals for all major capital expenditure and acquisitions, with defined levels of approval and a system for monitoring the progress of capital projects; and
- a post-investment evaluation process for major capital expenditure and acquisitions to assess the success of the project and learn any lessons to be applied to future projects.

<u>Internal control (continued)</u>

Internal control framework (continued)

Key elements of the WWU internal control process are:

- *Strategic risk framework:* This process involves the Executive Committee in the identification, assessment, and ongoing monitoring of risks significant to WWU. The document is formally appraised three times per annum at Audit Committee but new risks are added as required and improvement actions and risk indicators monitored on a regular basis. Closed risks are removed.

- *Operational/compliance/financial risk frameworks:* This process involves each Executive Committee member and their management teams in the identification, assessment, and ongoing monitoring of risks significant to their function (via the development and review of the Risk Register as appropriate). Risks are reviewed quarterly with new risks added as required and improvement actions and significant risks monitored on a regular basis by the Executive Committee. The frameworks are formally reported upon in the Executive Letters of Assurance to the Chief Executive Officer at 31 December each year prior to reporting results to the parent undertaking. The letters are updated at 31 March for the regulatory year, and informally as required.

- *Reporting to the Board and Executive Committee:* The Executive Committee considers risk issues as they arise and reports to the Board and Audit Committee as appropriate. This includes regular updates throughout the year of the risks currently considered to be key/principal to the ongoing sustainability of the business model.

- *Internal Audit:* This involves periodic reporting by Internal Audit to the Executive Committee and the Audit Committee. The Head of Internal Audit has unfettered direct access to the Audit Committee.

- *External Audit:* External Audit will be kept informed on the status of the risk management process. Any findings in the area of risk management identified during the annual audit process will be communicated to the Board via the Audit Committee. The results of any external audit findings are incorporated into the Internal Audit monitoring process and improvements to the internal control environment are made as required.

- *Ofgem's Data Assurance Guidelines ("DAG")*: Regulatory year 2015/16 saw the full implementation of DAG which requires all relevant regulatory submissions to be risk assessed and proportionate controls put in place to ensure accuracy and completeness of such returns. DAG requires the documentation of methodologies and process to collate and account for information being submitted, and specifies the assurance process around such information. The requirements of DAG extend to the collation of these consolidated regulatory accounts.

The directors have delegated to executive management implementation of the system of internal financial control throughout the Group. This includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records and compliance with accepted accounting principles in order to show a true and fair view.

Processes underpinning the financial reporting systems are managed and monitored by functional line management through regular reporting. Data consolidated into the Group's consolidated regulatory accounts is reconciled to the underlying financial systems.

Internal control (continued)

Internal control review

The Chief Executive and Finance Director have undertaken an annual assessment for the regulatory year under review and up to the date of approval of the consolidated regulatory accounts on the Company's internal control and have considered all significant aspects of internal control for the Company, including financial, operational and compliance controls and risk management functions.

In making the annual assessment, the Chief Executive and Finance Director have: considered and prepared a list of the significant risks which documents how they have been identified, evaluated and managed the Company's ability to respond to changes in its business and the external environment, considered and documented the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and the work of internal audit function and other providers of assurance.

The Chief Executive and Finance Director are satisfied that the Company's internal control systems are effective and adequate. In addition, the Chief Executive and Finance Director are also satisfied with the adequacy of resources, qualifications and experience of the staff of their accounting and financial reporting function, and their training programmes and budget, and also the adequacy of their anti-bribery and anti-corruption policy, procedures and programmes.

In the period of this report, up to the signing of the report management or directors are not aware of any significant control deficiencies which require additional consideration or disclosure

Going concern

The Company's statement on going concern is included within the report of the directors on page 20.

Takeover directive

Information on share structures required by the Takeover directive is given in the report of the directors (page 19) and forms part of this corporate governance statement.

Fair, balanced and understandable

The directors consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the directors have carefully considered the events and trends during the year ended 31 March 2016, and the way in which these matters have been presented in the consolidated regulatory accounts.

External auditor

The external auditor is engaged to express an opinion on the consolidated regulatory accounts.

The Company has a policy in place to monitor and maintain the objectivity and independence of the external auditor. The policy requires prior approval of the Audit Committee for non-audit work above a threshold level of £50,000. In addition to the audit related services, Deloitte LLP provided tax and advisory services during the year. Details of the amounts paid to Deloitte are set out in note 1(c) to the consolidated regulatory accounts.

Directors’ responsibilities for preparing separate consolidated regulatory accounts

The directors are required by the Condition, as amended by consents received from Ofgem, to prepare consolidated regulatory accounts for each financial year. These consolidated regulatory accounts should fairly present the revenues, costs, assets, liabilities, reserves, provisions and cash flows of, or reasonably attributed to, the transportation business, the metering business and the other activities of the Company.

The directors consider that, in preparing the consolidated regulatory accounts, the business has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, all applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors have a responsibility to ensure that:

- the Group keeps accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributed to, each of the businesses are separately identifiable in the books of the Group;

- the consolidated regulatory accounts fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributed to, each business;

- so far as is reasonably practicable, the consolidated regulatory accounts have the same content and format in respect of the businesses to which they relate as the annual consolidated financial statements of the Group and Company, that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board currently in force and that the accounting policies used are as stated; and

- that the consolidated regulatory accounts show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any group Company, or that have been determined by apportionment.

The directors, having prepared the consolidated regulatory accounts, have requested the auditor take whatever steps and to undertake whatever inspections it considers to be appropriate for the purpose of enabling it to give its audit report.

The directors are responsible for ensuring that the consolidated regulatory accounts are published, when they are published on the internet, and for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded, as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

The maintenance and integrity of the Wales & West Utilities Limited web site is the responsibility of the Group’s directors and the maintenance and integrity of the Ofgem web site is the responsibility of the Regulator; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor takes no responsibility for any changes that may have occurred to the consolidated regulatory accounts since they were initially presented on the web sites.

Independent auditor’s report to The Gas and Electricity Markets Authority (the authority, referred to as “the Regulator”) and Wales & West Utilities Limited (“the Group”)

We have audited the consolidated regulatory accounts of Wales & West Utilities Limited (“the Group”) for the year ended 31 March 2016 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in shareholders’ (deficit)/funds, the consolidated balance sheet, the consolidated cash flow statement, the principal accounting policies and the related notes 1 to 27. These consolidated regulatory accounts have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is Standard Special Condition A30 of the Gas Distribution Licence (the “Regulatory Licence”) and the accounting policies set out in the principal accounting policies on pages 39 to 42.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Condition A30 of Wales & West Utilities’ (“the Company”) Regulatory Licence. Our audit work has been undertaken so that we might state to the Group and the Regulator those matters that we have agreed to state to them in an independent auditor’s report, in order (a) to assist the Group to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Regulator, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Regulator, the Directors and auditor

As explained more fully in the Directors’ responsibilities for preparing separate consolidated regulatory accounts statement, the Directors are responsible for preparing the consolidated regulatory accounts and for their fair presentation in accordance with the basis of preparation and accounting policies as set out in the notes to the consolidated regulatory accounts. Our responsibility is to audit and express an opinion on the consolidated regulatory accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the ‘Scope of the audit of the consolidated regulatory accounts’, below, and having regard to the guidance contained in Audit 05/03 ‘Reporting to Regulators of Regulated Entities’. Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the consolidated regulatory accounts

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

We have not assessed whether the accounting policies are appropriate to the circumstances of the Group where these are laid down by Standard Special Condition A30 of the Regulatory Licence. Where Standard Special Condition A30 of the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the consolidated regulatory accounts are consistent with those used in the preparation of the statutory accounts of Wales & West Utilities Limited. Furthermore, as the nature, form and content of consolidated regulatory accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Independent auditor's report to The Gas and Electricity Markets Authority (the authority, referred to as "the Regulator") and Wales & West Utilities Limited ("the Group") (continued)

Opinion on consolidated regulatory accounts

In our opinion the consolidated regulatory accounts:

- present fairly in accordance with Standard Special Condition A30 of the Regulatory Licence, and the accounting policies set out on pages 39 to 40, the financial position of the Group as at 31 March 2016 and its financial performance and cash flows for the year then ended; and
- have been properly prepared in accordance with Standard Special Condition A30 of the Regulatory Licence and the Group's accounting policies.

Other matters

The nature, form and content of consolidated regulatory accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

Our opinion on the consolidated regulatory accounts is separate from our opinion on the consolidated financial statements of the Group on which we reported on 26 July 2016, which are prepared for a different purpose. Our audit report in relation to the financial statements of the Group (our "statutory audit") was made solely to the Group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Group's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Deloitte LLP
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom
28 July 2016

Legislation in the United Kingdom governing the preparation and dissemination of consolidated financial statements and consolidated regulatory accounts may differ from legislation in other jurisdictions.

Consolidated profit and loss account for the year ended 31 March 2016

	Note	2016 Transportation business £m	2016 De-minimis business £m	2016 Metering activities £m	2016 Other activities £m	2016 Total £m	2015 Transportation business £m	2015 De-minimis business £m	2015 Metering activities £m	2015 Other activities £m	2015 Total £m
Turnover - Continuing operations		**397.4**	**0.3**	**5.4**	**1.3**	**404.4**	411.4	0.4	6.8	1.5	420.1
Net operating costs – Continuing operations	1(a)	**(281.2)**	**(0.1)**	**(5.7)**	**0.1**	**(286.9)**	(283.2)	(0.1)	(5.5)	0.3	(288.5)
Operating profit before replacement expenditure, exceptional items and depreciation		**253.7**	**0.2**	**(0.3)**	**1.4**	**255.0**	267.6	0.3	2.6	1.8	272.3
Replacement expenditure		**(78.1)**	**-**	**-**	**-**	**(78.1)**	(78.0)	-	-	-	(78.0)
Exceptional items	1(b)	**(1.1)**	**-**	**-**	**-**	**(1.1)**	(2.8)	-	-	-	(2.8)
Depreciation	5	**(58.3)**	**-**	**-**	**-**	**(58.3)**	(58.6)	-	(1.3)	-	(59.9)
Operating profit		**116.2**	**0.2**	**(0.3)**	**1.4**	**117.5**	128.2	0.3	1.3	1.8	131.6
Operating profit:											
Continuing operations	1	**116.2**	**0.2**	**(0.3)**	**1.4**	**117.5**	128.2	0.3	1.3	1.8	131.6
Interest receivable and similar income	3(a)	**26.6**	-	-	-	**26.6**	26.1	-	-	-	26.1
Interest payable and similar charges	3(b)	**(188.0)**	-	-	-	**(188.0)**	(200.3)	-	-	-	(200.3)
(Loss)/profit on ordinary activities before taxation		**(45.2)**	**0.2**	**(0.3)**	**1.4**	**(43.9)**	(46.0)	0.3	1.3	1.8	(42.6)
Taxation credit/(charge) on (loss)/profit on ordinary activities	4	**10.1**	**(0.1)**	**0.1**	**(0.3)**	**9.8**	8.5	(0.1)	(0.3)	(0.4)	7.7
(Loss)/profit attributable to ordinary shareholders		**(35.1)**	**0.1**	**(0.2)**	**1.1**	**(34.1)**	(37.5)	0.2	1.0	1.4	(34.9)

Consolidated statement of total recognised gains and losses for the year ended 31 March 2016

	2016 Transportation business	**2016** De-minimis business	**2016** Metering activities	**2016** Other activities	**2016** Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
(Loss)/profit for the financial year attributable to ordinary shareholders	**(35.1)**	**0.1**	**(0.2)**	**1.1**	**(34.1)**	(37.5)	0.2	1.0	1.4	(34.9)
Actuarial loss on pension Scheme less deferred tax recognised on pension liability (note 25)	**(7.5)**	**-**	**-**	**-**	**(7.5)**	(36.1)	-	-	-	(36.1)
Total recognised losses and gains relating to the year	**(42.6)**	**0.1**	**(0.2)**	**1.1**	**(41.6)**	(73.6)	0.2	1.0	1.4	(71.0)

Consolidated reconciliation of movements in shareholders' (deficit)/funds for the year ended 31 March 2016

	2016 Transportation business	**2016** De-minimis business	**2016** Metering activities	**2016** Other activities	**2016** Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Total recognised losses and gains relating to the year	**(42.6)**	**0.1**	**(0.2)**	**1.1**	**(41.6)**	(73.6)	0.2	1.0	1.4	(71.0)
Net (decrease)/increase in shareholders' (deficit)/funds	**(42.6)**	**0.1**	**(0.2)**	**1.1**	**(41.6)**	(73.6)	0.2	1.0	1.4	(71.0)
At 1 April	**(1,007.7)**	**1.3**	**5.8**	**8.8**	**(991.8)**	(934.1)	1.1	4.8	7.4	(920.8)
At 31 March	**(1,050.3)**	**1.4**	**5.6**	**9.9**	**(1,033.4)**	(1,007.7)	1.3	5.8	8.8	(991.8)

Consolidated balance sheet at 31 March 2016

	Note	**2016** Transportation business	De-minimis business	Metering activities	Other activities	Total	**2015** Transportation business	De-minimis business	Metering activities	Other activities	Total
		£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Fixed assets											
Tangible assets	5	**1,291.7**	**-**	**-**	**-**	**1,291.7**	1,292.2	-	-	-	1,292.2
Investments	6	**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
		1,291.8	**-**	**-**	**-**	**1,291.8**	1,292.3	-	-	-	1,292.3
Current assets											
Stock	7	**3.4**	**-**	**-**	**-**	**3.4**	3.4	-	-	-	3.4
Debtors	8	**52.4**	**-**	**1.4**	**0.1**	**53.9**	49.9	-	1.9	0.2	52.0
Inter-business unit activity balances		**(15.7)**	**1.4**	**4.4**	**9.9**	**-**	(14.1)	1.3	4.1	8.7	-
Current asset investments	9	**100.0**	**-**	**-**	**-**	**100.0**	-	-	-	-	-
Cash at bank and in hand		**38.3**	**-**	**-**	**-**	**38.3**	50.8	-	-	-	50.8
		178.4	**1.4**	**5.8**	**10.0**	**195.6**	90.0	1.3	6.0	8.9	106.2
Current liabilities											
Creditors: amounts falling due within one year	10	**(973.4)**	**-**	**(0.2)**	**(0.1)**	**(973.7)**	(810.3)	-	(0.2)	(0.1)	(810.6)
Net current (liabilities)/assets		**(795.0)**	**1.4**	**5.6**	**9.9**	**(778.1)**	(720.3)	1.3	5.8	8.8	(704.4)
Total assets less current liabilities		**496.8**	**1.4**	**5.6**	**9.9**	**513.7**	572.0	1.3	5.8	8.8	587.9
Creditors: amounts falling due after more than one year	10	**(1,438.4)**	**-**	**-**	**-**	**(1,438.4)**	(1,468.7)	-	-	-	(1,468.7)
Provisions for liabilities	16	**(34.3)**	**-**	**-**	**-**	**(34.3)**	(33.5)	-	-	-	(33.5)
Net (liabilities)/assets before pension liability		**(975.9)**	**1.4**	**5.6**	**9.9**	**(959.0)**	(930.2)	1.3	5.8	8.8	(914.3)
Pension liability, net of deferred tax asset	25	**(74.4)**	**-**	**-**	**-**	**(74.4)**	(77.5)	-	-	-	(77.5)
Net (liabilities)/assets including pension liability		**(1,050.3)**	**1.4**	**5.6**	**9.9**	**(1,033.4)**	(1,007.7)	1.3	5.8	8.8	(991.8)
Capital and reserves											
Called up share capital	17	**30.7**	**-**	**-**	**-**	**30.7**	30.7	-	-	-	30.7
Profit and loss account	18	**(1,081.0)**	**1.4**	**5.6**	**9.9**	**(1,064.1)**	(1,038.4)	1.3	5.8	8.8	(1,022.5)
Total shareholders' (deficit)/funds		**(1,050.3)**	**1.4**	**5.6**	**9.9**	**(1,033.4)**	(1,007.7)	1.3	5.8	8.8	(991.8)

The consolidated regulatory accounts on pages 35 to 73 inclusive as approved by the Board, were signed on 20 July 2016.

Graham Edwards – Director

Consolidated cash flow statement for the year ended 31 March 2016

	Note	2016 Transportation business £m	2016 De-minimis business £m	2016 Metering activities £m	2016 Other activities £m	2016 Total £m	2015 Transportation business £m	2015 De-minimis business £m	2015 Metering activities £m	2015 Other activities £m	2015 Total £m
Operating activities											
Net cash inflow/(outflow) from continuing operating activities	19	**162.5**	**0.2**	**(0.8)**	**1.0**	**162.9**	185.4	0.3	(0.7)	1.1	186.1
Net cash inflow/(outflow) from operating activities		**162.5**	**0.2**	**(0.8)**	**1.0**	**162.9**	185.4	0.3	(0.7)	1.1	186.1
Returns on investments and servicing of finance											
Dividends received		**0.4**	**-**	**-**	**-**	**0.4**	0.4	-	-	-	0.4
Interest received		**21.5**	**-**	**-**	**-**	**21.5**	21.3	-	-	-	21.3
Interest paid		**(128.5)**	**-**	**-**	**-**	**(128.5)**	(127.3)	-	-	-	(127.3)
Payments in respect of index-linked swap contracts		**(83.6)**	**-**	**-**	**-**	**(83.6)**	-	-	-	-	-
Net cash outflow from returns on investments and servicing of finance		**(190.2)**	**-**	**-**	**-**	**(190.2)**	(105.6)	-	-	-	(105.6)
Taxation											
UK corporation tax received		**0.7**	**-**	**-**	**-**	**0.7**	0.5	-	-	-	0.5
Tax received		**0.7**	**-**	**-**	**-**	**0.7**	0.5	-	-	-	0.5
Investing activities											
Purchase of tangible fixed assets		**(55.0)**	**-**	**-**	**-**	**(55.0)**	(56.6)	-	-	-	(56.6)
Customer contributions towards the construction of fixed assets		**8.7**	**-**	**-**	**-**	**8.7**	11.1	-	-	-	11.1
Proceeds of disposal of tangible fixed assets		**-**	**-**	**-**	**0.4**	**0.4**	-	-	1.3	0.9	2.2
Net cash (outflow)/inflow from investing activities		**(46.3)**	**-**	**-**	**0.4**	**(45.9)**	(45.5)	-	1.3	0.9	(43.3)
Net cash outflow)/inflow before financing		**(73.3)**	**0.2**	**(0.8)**	**1.4**	**(72.5)**	34.8	0.3	0.6	2.0	37.7
Financing											
Cash transferred to current asset investment	9	**(100.0)**	**-**	**-**	**-**	**(100.0)**	-	-	-	-	-
Debt drawn down		**160.0**	**-**	**-**	**-**	**160.0**	-	-	-	-	-
Debt issue costs	20	**-**	**-**	**-**	**-**	**-**	(0.2)	-	-	-	(0.2)
Repayment of borrowings – revolver facilities	23	**-**	**-**	**-**	**-**	**-**	(40.0)	-	-	-	(40.0)
Net cash inflow/(outflow)from financing		**60.0**	**-**	**-**	**-**	**60.0**	(40.2)	-	-	-	(40.2)
(Decrease)/increase in cash at bank and in hand	21	**(13.3)**	**0.2**	**(0.8)**	**1.4**	**(12.5)**	(5.4)	0.3	0.6	2.0	(2.5)
Cash at bank and in hand	21	**38.3**	**-**	**-**	**-**	**38.3**	50.8	-	-	-	50.8
Cash on term deposit	9, 22	**100.0**	**-**	**-**	**-**	**100.0**	-	-	-	-	-
Total cash and cash deposits		**138.3**	**-**	**-**	**-**	**138.3**	50.8	-	-	-	50.8

The net cash generated by the non-regulated activities is managed by the Company within the regulated Transportation business; accordingly there is no cash balance attributed to the non-regulated activities within the consolidated balance sheet.

Principal accounting policies

The consolidated regulatory accounts have been prepared in accordance with Standard Special Condition A30 ("the Condition") of the Gas Transporters' Licence granted under the Gas Act 1986 ("The Gas Act") and have the same content and format as the consolidated financial statements of the Company and conform to Generally Accepted Accounting Practice in the United Kingdom, in so far as is reasonably practicable. A summary of the principal Group and Company accounting policies, which have been consistently applied in both the current year and prior year, is shown below.

For the period commencing 1 April 2016 the Group will present its consolidated regulatory accounts under Financial Reporting Standard 102 (FRS102") as issued by the Financial Reporting Council and comparative balances will be restated accordingly.

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

Basis of accounting
These consolidated regulatory accounts have been prepared in accordance with the historical cost convention as modified for the fair valuation exercise undertaken on the acquisition of the gas distribution business in 2005 and in respect of the valuation of pension assets and liabilities.

The preparation of consolidated regulatory accounts in conformity with UK Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated regulatory accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Going concern
The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of these consolidated regulatory accounts, as set out in the report of the directors on page 20.

Basis of consolidation
All of the trading activity of the Group is performed by Wales & West Utilities Limited, the Company, whereas the external borrowings have been entered into by the Company and its wholly owned subsidiary, Wales & West Utilities Finance plc. Consolidated regulatory accounts have been prepared in order to disclose the external borrowings which the Group has entered into to fund the Company's activities.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Basis of preparation
Regulatory accounting information is provided across the business segments in accordance with the Licence as follows:

- transportation comprises the business of transporting gas through the Company's pipes and related activities as specified in the Licence;
- metering comprises the provision of meter installation and servicing activities;
- other activities comprise activities other than the transportation business carried out under the Licence or with the specific consent of Ofgem including post emergency metering services for independent gas transporter's within the Company's geographic region; and
- de-minimis comprises all other activities not falling within the categories above.

Meter reading activity undertaken by the Company is included within the Metering business segment and amounted to income of £0.1m (2015: £0.1m) and costs of £0.3m (2015: £0.3m).

Related party transactions
The Company is a 100% owned subsidiary of Wales & West Utilities Holdings Limited and is included in the consolidated financial statements of Wales & West Gas Networks (Holdings) Limited. Consequently, under the terms of FRS 8 “Related Party Transactions”, the Company is exempt from disclosing related party transactions with entities that are wholly owned within the Wales & West Gas Networks (Holdings) Limited group.

Turnover
Turnover represents the sales value derived from the distribution of gas together with the sales value derived from the provision of other services to customers during the year. Turnover is billed on a monthly basis and excludes value added tax within the UK.

Turnover from the distribution of gas is partially derived from the value of units supplied during the year and includes an estimate of the value of units supplied between the date of the last meter reading and the year end and from the capacity requested from shippers. No liability is recognised when revenues received or receivable exceed the maximum amount permitted by regulatory agreement and reductions will be made to future prices to reflect this over-recovery.

Tangible fixed assets and depreciation
Tangible fixed assets, which include assets in which the Group’s interest comprises legally protected statutory or contractual rights of use, are included in the consolidated balance sheet at their cost less accumulated depreciation and provision for any impairment. Cost includes the original purchase price of the asset; payroll and other costs incurred which are directly attributable to the construction of tangible fixed assets.

Fixed assets acquired on the acquisition of the Wales & West gas distribution business by the Company in June 2005 are included at fair value. The Company considers this to be cost.

Additions represent the purchase or construction of new assets and extensions or significant increases in the capacity of existing tangible fixed assets. Customer contributions received towards the cost of tangible fixed assets are included in creditors as deferred income, and amortised on a straight line basis to the profit and loss account over the estimated economic lives of the assets.

No depreciation is provided on freehold land or assets in the course of construction. Other tangible fixed assets are depreciated, on a straight line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, shown below.

Freehold buildings	up to 50 years
Leasehold land and buildings	over the period of the lease
Gas distribution network assets:	
Mains, services and regulating equipment	30 to 65 years
Storage	40 years
Meters	5 to 20 years
Vehicles, plant and equipment	3 to 10 years

All assets are depreciated on a straight line basis.

Following a review of asset lives acquired at business acquisition from National Grid in 2005 the useful economic life of certain infrastructure assets has been increased but remains within the range stated above.

Replacement expenditure represents the costs of planned maintenance of mains and services assets by replacing or lining sections of pipe. This expenditure is principally undertaken to repair and to maintain the safety of the network and is therefore expensed as incurred. Expenditure which enhances the performance of the mains and services assets is treated as an addition to tangible fixed assets.

Impairment of fixed assets
Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of the income generating units and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the net amount that can be generated through sale of the assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the income generating unit for which the estimates of future cash flows have not been adjusted.

Impairment reviews are carried out if there is any indication that an impairment may have occurred, or where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the profit and loss account.

Leased assets
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful lives and the lease period.

All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Grants, customer contributions and infrastructure charges
Grants, customer contributions and infrastructure charges relating to gas infrastructure assets and expenditure on other fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Investments
Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect permanent diminutions in value.

Stocks
Stocks are stated at the lower of cost and net realisable value with cost being determined on a weighted average basis which takes account of any provision necessary to recognise damage and obsolescence.

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

Provisions for liabilities
Provisions for liabilities, based on discounted future estimated expenditure, are provided for in full and where appropriate a corresponding tangible fixed asset or regulatory asset is also recognised. The unwinding of the discount is included within the profit and loss account as a financing charge.

Decommissioning and environmental costs
Decommissioning and environmental costs, based on discounted future estimated expenditure, are provided for in full. The unwinding of the discount is included within the profit and loss account as a financing charge.

Financial instruments
Derivative financial instruments ("derivatives") are used by the Group for the management of interest rate and index-linked exposures. The principal derivatives used are nominal interest rate swaps and RPI index-linked swaps.

All transactions are undertaken, or maintained, with a view to providing a commercial hedge of the interest and inflation risks associated with the Group's underlying business activities and the financing of those activities. Amounts payable or receivable in respect of interest rate swaps and index-linked swaps are recognised in the profit and loss account within net interest over the economic lives of the agreements or underlying position being hedged.

Pension costs
The Group operates one pension Scheme which has defined benefit and defined contribution pension sections.

The pension costs in respect of the defined contribution pension section of the pension scheme comprise contributions payable in respect of the period.

The assets of the defined benefit section of the Scheme are measured using closing market values at the balance sheet date. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The increase in the net present value of the liabilities of the defined benefit scheme expected to arise from employee service in the period is charged to operating profit. The net of the expected return on the scheme's assets and the increase during the year in the present value of the Scheme's liabilities, arising from the passage of time, are included in other finance income or costs, as appropriate.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

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

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

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

Deferred tax balances are not discounted.

Exceptional items
These are items of an unusual or non-recurring nature incurred by the Group and include restructuring costs and provision charges or credits through the profit and loss account.

1. Operating profit

(a) Operating profit is stated after charging/(crediting):

	Note	2016 Transportation business £m	2016 De-minimis business £m	2016 Metering activities £m	2016 Other activities £m	2016 Total £m	2015 Transportation business £m	2015 De-minimis business £m	2015 Metering activities £m	2015 Other activities £m	2015 Total £m
Continuing operations:											
Staff costs	2(b)	**72.0**	**-**	**4.7**	**0.1**	**77.1**	70.3	-	4.2	0.1	74.6
Own work capitalised (staff and other costs)		**(18.5)**	**-**	**-**	**-**	**(18.5)**	(17.1)	-	-	-	(17.1)
Depreciation: Own assets	5	**58.3**	**-**	**-**	**-**	**58.3**	58.6	-	1.3	-	59.9
Less amortisation of customer contributions		**(2.6)**	**-**	**-**	**-**	**(2.6)**	(1.9)	-	(0.6)	-	(2.5)
Less amortisation of grants		**(0.1)**	**-**	**-**	**-**	**(0.1)**	(0.1)	-	-	-	(0.1)
Profit on disposal of fixed assets		**-**	**-**	**-**	**(0.3)**	**(0.3)**	-	-	(0.8)	(0.6)	(1.4)
Replacement expenditure		**78.1**	**-**	**-**	**-**	**78.1**	78.0	-	-	-	78.0
Rentals under operating leases:											
Hire of plant and equipment		**2.4**	**-**	**-**	**-**	**2.4**	2.5	-	-	-	2.5
Other		**0.6**	**-**	**-**	**-**	**0.6**	0.6	-	-	-	0.6
Exceptional items – restructuring costs	1(b) (i)	**-**	**-**	**-**	**-**	**-**	4.1	-	-	-	4.1
Exceptional items – net increase/(decrease) in provisions	1(b) (ii)	**1.6**	**-**	**-**	**-**	**1.6**	(2.0)	-	-	-	(2.0)
Exceptional items – holiday pay on overtime	1(b) (iii)	**(0.5)**	**-**	**-**	**-**	**(0.5)**	0.7	-	-	-	0.7

Own work capitalised includes direct labour and ancillary costs.

(b) Exceptional items

The exceptional items relate to:

i) an early retirement programme was announced by WWU on 15 October 2014 which was open to all staff who will be over 55 within less than three years from 30 December 2014. As a result the Company has offered early retirement to 58 people and £4.0m was accrued within the consolidated regulatory accounts as an exceptional item during the year ended 31 March 2015. At 31 March 2016, 34 people had left under the early retirement programme and £2.5m remains accrued for future pension strain liabilities (2015: £3.9m).

A further £0.1m was incurred during the year ended 31 March 2015 in respect of an organisational restructure which commenced in December 2012.

ii) The environmental and holder provision. A review of costs incurred and the timing of work carried out in respect of the environmental and holder demolition provision during the period ended 31 March 2016, giving rise to a £1.6m increase in the provision following the identification of a new site (note 16) (2015: decrease in the provision of £2.0m).

iii) holiday pay due on overtime and other elements of variable pay following an EU ruling in 2014. WWU accrued £0.7m in respect of a potential claim from employees at 30 December 2014, the actual amount paid was £0.2m resulting in an accrual release of £0.5m during the year ended 31 March 2016. At 31 March 2016 £nil was accrued as an exceptional cost for holiday pay on overtime (2015: £0.7m).

1. **Operating profit (continued)**

(c) Auditor remuneration
Services provided by the Group's auditor

During the year the Group obtained the following services from the Group's auditor:

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Fees payable to Group's auditor for the audit of parent entities and the consolidated financial statements:	**50.4**	**-**	**-**	**-**	**50.4**	47.9	-	-	-	47.9
Fees payable to the Group's auditor and its associates for other services:										
The audit of the Company's subsidiaries pursuant to legislation	**9.0**	**-**	**-**	**-**	**9.0**	9.2	-	-	-	9.2
Assurance services related to group reporting	**72.6**	**-**	**-**	**-**	**72.6**	37.7	-	-	-	37.7
Assurance services related to regulatory reporting	**67.7**	**-**	**-**	**-**	**67.7**	66.3	-	-	-	66.3
Other assurance services	**22.9**	**-**	**-**	**-**	**22.9**	25.1	-	-	-	25.1
Tax compliance services	**30.3**	**-**	**-**	**-**	**30.3**	31.5	-	-	-	31.5
Tax advisory services	**172.8**	**-**	**-**	**-**	**172.8**	223.7	-	-	-	223.7
	425.7	**-**	**-**	**-**	**425.7**	441.4	-	-	-	441.4
Fees in respect of the pension Scheme										
Audit of the pension Scheme	**15.9**	**-**	**-**	**-**	**15.9**	15.9	-	-	-	15.9
	15.9	**-**	**-**	**-**	**15.9**	15.9	-	-	-	15.9

2. Directors and employees

(a) Directors' emoluments and interests

Directors' emoluments:

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Fees	**85.0**	**-**	**-**	**-**	**85.0**	85.6	-	-	-	85.6
Salary payments (including benefits in kind)	**433.9**	**-**	**-**	**-**	**433.9**	418.5	-	-	-	418.5
Performance related bonus (see below)	**428.8**	**-**	**-**	**-**	**428.8**	399.3	-	-	-	399.3
Pension contributions	**18.7**	**-**	**-**	**-**	**18.7**	31.6	-	-	-	31.6
Contributions in lieu of pension	**102.5**	**-**	**-**	**-**	**102.5**	99.7	-	-	-	99.7
	1,068.9	**-**	**-**	**-**	**1,068.9**	1,034.7	-	-	-	1,034.7

One director is a member of the defined contribution section of the Group pension Scheme (2015: one). All other directors make their own pension arrangements.

Performance related bonuses in respect of service by the directors and senior employees for the year will be payable. Bonuses are payable subject to the achievement of certain targets. These include safety, standards of service, customer satisfaction and financial.

The amount disclosed in respect of the year ended 31 March 2016 represents the bonus approved by the Remuneration Committee in respect of services for the year ended 31 December 2015. No bonus has been proposed for the three months to March 2016 as bonuses are awarded annually to 31 December in arrears.

The performance bonus disclosed for the accounting year ended 31 December 2015 is apportioned between an amount due and paid in February 2016 and the balance held under a long term incentive plan, payable three years after the period that it arose on the achievement of defined long term targets and dependent on the director remaining in office on the payment date.

No director had any interest over shares in the Company.

Six of the directors receive no remuneration from the Company. These directors are employees of the parent companies they represent and are remunerated by them in their operational country.

2. Directors and employees (continued)

(a) Directors' emoluments and interests (continued)

Highest paid director:

	2016 Transportation business	2016 De-minimis business	2016 Metering activities	2016 Other activities	2016 Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
	£000	**£000**	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000
Salary payments (including benefits in kind)	**433.9**	**-**	**-**	**-**	**433.9**	418.5	-	-	-	418.5
Performance related bonus (see above)	**428.8**	**-**	**-**	**-**	**428.8**	399.3	-	-	-	399.3
Pension contributions	**18.7**	**-**	**-**	**-**	**18.7**	31.6	-	-	-	31.6
Contributions in lieu of pension	**102.5**	**-**	**-**	**-**	**102.5**	99.7	-	-	-	99.7
	983.9	**-**	**-**	**-**	**983.9**	949.1	-	-	-	949.1
Accrued company pension (Defined contribution)	**139.9**	**-**	**-**	**-**	**139.9**	79.9	-	-	-	79.9

(b) Staff costs (including directors)

	2016 Transportation business	2016 De-minimis business	2016 Metering activities	2016 Other activities	2016 Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Wages and salaries	**53.3**	**-**	**4.2**	**0.1**	**57.6**	52.7	-	3.7	0.1	56.5
Social security costs	**5.5**	**-**	**0.5**	**-**	**6.0**	5.4	-	0.5	-	5.9
Pension costs (note 25)	**13.4**	**-**	**-**	**-**	**13.4**	12.2	-	-	-	12.2
	72.2	**-**	**4.7**	**0.1**	**77.0**	70.3	-	4.2	0.1	74.6

Of the above, £14.1m (2015: £13.5m) has been capitalised as part of tangible fixed assets.

2. Directors and employees (continued)

(c) Average monthly number of employees during the year (excluding directors)

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	Number	**Number**	**Number**	**Number**	**Number**	Number	Number	Number	Number	Number
Regulated gas distribution activities	**1,260**	**0**	**82**	**2**	**1,344**	1,244	2	63	6	1,315
Other activities	**-**	**-**	**2**	**-**	**2**	-	-	2	-	2
	1,260	**0**	**84**	**2**	**1,346**	1,244	2	65	6	1,317

The above allocations, to arrive at full time equivalents, represent an estimate of the time spent by employees on each activity and not the employees specifically employed within each activity.

3. Interest

(a) Interest receivable and similar income

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Income from fixed asset investments	**0.4**	**-**	**-**	**-**	**0.4**	0.4	-	-	-	0.4
On index-linked swaps	**14.1**	**-**	**-**	**-**	**14.1**	14.4	-	-	-	14.4
On interest rate swaps	**6.5**	**-**	**-**	**-**	**6.5**	6.6	-	-	-	6.6
On current asset investments	**0.6**	**-**	**-**	**-**	**0.6**	-	-	-	-	-
Other interest receivable	**0.7**	**-**	**-**	**-**	**0.7**	0.2	-	-	-	0.2
Other finance income – net pensions (note 25)	**4.3**	**-**	**-**	**-**	**4.3**	4.5	-	-	-	4.5
	26.6	**-**	**-**	**-**	**26.6**	26.1	-	-	-	26.1

3. Interest (continued)

(b) Interest payable and similar charges

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
On external debt	**75.8**	**-**	**-**	**-**	**75.8**	74.9	-	-	-	74.9
On index-linked derivative contracts – inflation accrual	**9.7**	**-**	**-**	**-**	**9.7**	29.7	-	-	-	29.7
On index-linked swaps	**1.2**	**-**	**-**	**-**	**1.2**	1.2	-	-	-	1.2
On interest rate swaps	**1.8**	**-**	**-**	**-**	**1.8**	1.8	-	-	-	1.8
On loans from parent undertaking	**94.1**	**-**	**-**	**-**	**94.1**	88.7	-	-	-	88.7
Amortised debt issue costs and discount (note 20)	**2.1**	**-**	**-**	**-**	**2.1**	2.2	-	-	-	2.2
On unwinding discount on provisions (note 16)	**3.1**	**-**	**-**	**-**	**3.1**	1.6	-	-	-	1.6
Other	**0.2**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	0.2
	188.0	**-**	**-**	**-**	**188.0**	200.3	-	-	-	200.3

4. Tax on (loss)/profit on ordinary activities

(a) Analysis of (credit)/charge in the year

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
The (credit)/charge for taxation is made up as follows:										
Current tax										
UK corporation tax (credit)/charge on (loss)/profit of the year	**(7.5)**	**0.1**	**(0.1)**	**0.3**	**(7.2)**	(7.8)	0.1	0.3	0.4	(7.0)
Adjustments in respect of prior years	**-**	**-**	**-**	**-**	**-**	(0.7)	-	-	-	(0.7)
Total current tax (note 4(b))	**(7.5)**	**0.1**	**(0.1)**	**0.3**	**(7.2)**	(8.5)	0.1	0.3	0.4	(7.7)
Deferred tax										
Origination and reversal of timing differences	**(2.6)**	**-**	**-**	**-**	**(2.6)**	-	-	-	-	-
Total deferred tax	**(2.6)**	**-**	**-**	**-**	**(2.6)**	-	-	-	-	-
Total tax on (loss)/profit on ordinary activities	**(10.1)**	**0.1**	**(0.1)**	**0.3**	**(9.8)**	(8.5)	0.1	0.3	0.4	(7.7)

The £7.2m (2015: £7.0m) tax credit reflects amounts due from Group undertakings in respect of allocation of disallowed interest to the Company under the debt cap rules. The £2.6m deferred tax credit is in respect of tax relief to be claimed in the next accounting period to 31 March 2017 largely in relation to capital allowances on plant expenditure prior to 31 March 2016 (2015: £nil).

4. Tax on (loss)/profit on ordinary activities (continued)

(b) Factors affecting the current tax (credit)/charge for the year

The current tax assessed for the year is different to the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
(Loss)/profit on ordinary activities before tax	**(45.2)**	**0.2**	**(0.3)**	**1.4**	**(43.9)**	(46.0)	0.3	1.3	1.8	(42.6)
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 21%)	**(9.0)**	**-**	**(0.1)**	**0.3**	**(8.8)**	(9.8)	0.1	0.1	0.4	(9.0)
Effects of:										
Adjustments in respect of prior year	**-**	**-**	**-**	**-**	**-**	(0.7)	-	-	-	(0.7)
Tax effect of expenses that are not deductible in determining taxable (loss)/profit	**15.6**	**-**	**-**	**-**	**15.6**	15.4	-	-	-	15.4
Non taxable income	**(0.1)**	**-**	**-**	**-**	**(0.1)**	(0.1)	-	-	-	(0.1)
Utilisation of tax losses	**(8.8)**	**-**	**-**	**-**	**(8.8)**	(7.2)	-	-	-	(7.2)
Accelerated capital allowances	**(2.8)**	**-**	**-**	**-**	**(2.8)**	(2.9)	-	-	-	(2.9)
Short term timing differences	**-**	**-**	**-**	**-**	**-**	(0.6)	-	-	-	(0.6)
Short term timing differences in respect of pension Scheme	**(1.6)**	**-**	**-**	**-**	**(1.6)**	(2.6)	-	-	-	(2.6)
Current tax (credit)/charge for year (note 4(a))	**(7.5)**	**0.1**	**(0.1)**	**0.3**	**(7.2)**	(8.5)	0.1	0.3	0.6	(7.7)

A deferred tax asset has not been recognised in respect of tax losses with a value of £12.8m (2015: accelerated capital allowances and tax losses of £22.2m) as there is insufficient evidence that the asset will be recoverable.

As announced at Budget 2016, the corporation tax main rate will be reduced by an additional 1% for the Financial Year beginning 1 April 2020. Legislation in Finance Bill 2016 will set the rate at 17%, replacing the rate set for Financial Year 2020 in the Finance (No. 2) Act 2015. This change in the corporation tax rate will not materially affect the future tax charge.

5. Tangible fixed assets

Total	**Freehold land and buildings £m**	**Leasehold land and buildings £m**	**Gas distribution network assets £m**	**Vehicles, plant and equipment £m**	**Assets under construction £m**	**Total £m**
Cost or valuation						
At 1 April 2015	16.6	5.8	1,691.8	171.9	11.7	**1,897.8**
Additions	-	-	-	-	57.9	**57.9**
Disposals	-	-	(1.2)	(3.0)	-	**(4.2)**
Transfers in year	0.7	0.4	31.3	16.0	(48.4)	**-**
At 31 March 2016	**17.3**	**6.2**	**1,721.9**	**184.9**	**21.2**	**1,951.5**
Accumulated depreciation						
At 1 April 2015	0.8	3.7	490.2	110.9	-	**605.6**
Charge for the year	0.5	0.2	42.0	15.6	-	**58.3**
Disposals	-	-	(1.2)	(2.9)	-	**(4.1)**
At 31 March 2016	**1.3**	**3.9**	**531.0**	**123.6**	**-**	**659.8**
Net book amount						
At 31 March 2016	**16.0**	**2.3**	**1,190.9**	**61.3**	**21.2**	**1,291.7**
At 31 March 2015	15.8	2.1	1,201.6	61.0	11.7	**1,292.2**

All tangible fixed assets are associated with the Transportation Business.

6. Fixed asset investment

Unlisted investments	Transportation business £m	De-minimis business £m	Metering activities £m	Other activities £m	Total £m
Cost					
At 31 March 2016 and 31 March 2015	**0.1**	**-**	**-**	**-**	**0.1**
Amounts written off					
At 31 March 2016 and 31 March 2015	**-**	**-**	**-**	**-**	**-**
Net book amount					
At 31 March 2016 and 31 March 2015	**0.1**	**-**	**-**	**-**	**0.1**

The unlisted fixed asset investment of £0.1m (2015: £0.1m) represents the Company's shareholding in Xoserve Limited. The Company's shareholding represents 10% (2015: 10%) of the issued share capital of Xoserve Limited.

The principal activity of Xoserve Limited, a company incorporated in England and Wales, is as the Gas Transporters' Agent providing centralised information and data services for Gas Transporters and Gas Shippers in Great Britain.

7. Stock

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Raw materials and consumables	**3.4**	**-**	**-**	**-**	**3.4**	3.4	-	-	-	3.4

The replacement cost of stock is not materially different from its carrying value.

8. Debtors

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Amounts falling due within one year:										
Trade debtors	**37.9**	**-**	**1.4**	**0.1**	**39.4**	39.4	-	1.9	0.2	41.5
Prepayments and accrued income	**11.9**	**-**	**-**	**-**	**11.9**	9.9	-	-	-	9.9
Deferred tax asset (note 4a)	**2.6**	**-**	**-**	**-**	**2.6**	-	-	-	-	-
Corporation tax recoverable	**-**	**-**	**-**	**-**	**-**	0.6	-	-	-	0.6
	52.4	**-**	**1.4**	**0.1**	**53.9**	49.9	-	1.9	0.2	52.0

9. Current asset investments

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Cash held on term deposit	**100.0**	**-**	**-**	**-**	**100.0**	-	-	-	-	-
	100.0	**-**	**-**	**-**	**100.0**	-	-	-	-	-

The cash held on term deposit is due to mature on 22 August 2016. The term deposits are interest bearing and held with approved “A” rated counterparty banks.

10. Creditors

	Note	2016 Transportation business	2016 De-minimis business	2016 Metering activities	2016 Other activities	2016 Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
(a) Amounts falling due within one year:											
Borrowings	11	**199.7**	**-**	**-**	**-**	**199.7**	-	-	-	-	-
Liability for index-linked swaps	13(d)	**-**	**-**	**-**	**-**	**-**	74.0	-	-	-	74.0
Payments received on account		**12.5**	**-**	**-**	**-**	**12.5**	12.2	-	-	-	12.2
Trade creditors		**5.4**	**-**	**-**	**-**	**5.4**	6.6	-	-	-	6.6
Other taxation and social security		**10.0**	**-**	**-**	**-**	**10.0**	12.6	-	-	-	12.6
Other creditors		**4.6**	**-**	**-**	**-**	**4.6**	2.6	-	-	-	2.6
Customer contributions towards the construction of fixed assets		**2.1**	**-**	**-**	**-**	**2.1**	1.9	-	-	-	1.9
Accruals and deferred income		**67.9**	**-**	**0.2**	**0.1**	**68.2**	65.2	-	0.2	0.1	65.5
Capital grant		**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
Amounts owed to group undertakings		**671.1**	**-**	**-**	**-**	**671.1**	635.1	-	-	-	635.1
		973.4	**-**	**0.2**	**0.1**	**973.7**	810.3	-	0.2	0.1	810.6
(b) Amounts falling due after more than one year:											
Borrowings	11	**1,331.5**	**-**	**-**	**-**	**1,331.5**	1,367.7	-	-	-	1,367.7
Liability for index-linked swaps	13(d)	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Trade creditors		**0.2**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	0.2
Capital grant		**0.6**	**-**	**-**	**-**	**0.6**	0.7	-	-	-	0.7
Customer contributions towards the construction of fixed assets		**106.1**	**-**	**-**	**-**	**106.1**	100.1	-	-	-	100.1
		1,438.4	**-**	**-**	**-**	**1,438.4**	1,468.7	-	-	-	1,468.7

11. Borrowings

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Repayable as follows:										
In less than one year	**199.7**	**-**	**-**	**-**	**199.7**	-	-	-	-	-
In more than one year but not more than two years	**-**	**-**	**-**	**-**	**-**	199.1	-	-	-	199.1
In more than two years but not more than five years	**113.5**	**-**	**-**	**-**	**113.5**	113.2	-	-	-	113.2
In more than five years	**1,218.0**	**-**	**-**	**-**	**1,218.0**	1,055.4	-	-	-	1,055.4
	1,531.2	**-**	**-**	**-**	**1,531.2**	1,367.7	-	-	-	1,367.7

(a) At 31 March 2016 Wales & West Utilities Finance plc had in issue guaranteed bonds with a nominal value of £1,365.0m (2015: £1,365.0m) and a book value of £1,371.9m (2015: £1,368.8m). Included in the book value is £19.7m (2015: £18.3m) of accrued inflation on the index-linked bond. The guaranteed bonds have legal maturities ranging between December 2016 and December 2036, as outlined in the following table:

Nominal value	Coupon	Class	Issue date	Redemption date	Book value
£250m	6.25%	A	10 July 2009	30 November 2021	£248.3m
£200m	5.125%	A	2 December 2009	2 December 2016	£199.7m
£300m	5.75%	A	31 March 2010	29 March 2030	£294.5m
£100m	2.496% Index-linked	A	31 March 2010	22 August 2035	£119.2m
£115m	6.75%*	B	31 March 2010	17 December 2018/2036*	£114.1m
£250m	4.625%	A	4 November 2011	13 December 2023	£248.2m
£150m	5.00%	A	4 November 2011	7 March 2028	£147.9m
£1,365m					£1,371.9m

* Legal maturity of the bond is 2036; however, the bond can be redeemed at the Group's sole option in 2018. If not redeemed in December 2018, the coupon for the bond increases to three month LIBOR + 9.4%, therefore management intends to refinance these borrowings by 2018 and as a result borrowings are disclosed as maturing within less than five years.

All of the bonds are unconditionally and irrevocably guaranteed by the Company and its immediate parent, Wales & West Utilities Holdings Limited, pursuant to a guarantee and security agreement entered into over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transporters' Licence.

11. Borrowings (continued)

(b) On 4 December 2014, the Company signed a £160.0m European Investment Bank ("EIB") term loan capex facility of which £60m is due for repayment on 31 March 2026 and £100m is due for repayment on 31 March 2027. The book value at 31 March 2016 of £159.9m (2015: £nil) represents a drawdown of £100.0m and £60.0m on 21 August 2015 less unamortised debt fees of £0.1m (2015: £0.2m debit - unamortised debt fees). The interest rate on this loan is calculated on a LIBOR + spread basis. The interest rates at 31 March 2016 on the amounts drawn down of £60m and £100m were 1.182% and 1.179% respectively.

(c) At 31 March 2016, the Group had borrowed £nil (2015: £nil) under its revolving credit facilities which mature in December 2018, with a book value at 31 March 2016 of £0.6m debit representing unamortised credit facility fees (2015: £0.7m debit). The floating interest rates on drawings under these facilities ranged from LIBOR + 0.60% to LIBOR + 1.65% (2015: ranged from LIBOR + 0.60% to LIBOR + 1.65%).

12. Gross borrowings

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Gross value of loans	**1,525.0**	**-**	**-**	**-**	**1,525.0**	1,365.0	-	-	-	1,365.0

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

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
In less than one year	**200.0**	**-**	**-**	**-**	**200.0**	-	-	-	-	-
In more than one year but not more than two years	**-**	**-**	**-**	**-**	**-**	200.0	-	-	-	200.0
In more than two years but not more than five years	**115.0**	**-**	**-**	**-**	**115.0**	155.0	-	-	-	155.0
In more than five years	**1,210.0**	**-**	**-**	**-**	**1,210.0**	1,050.0	-	-	-	1,050.0
	1,525.0	**-**	**-**	**-**	**1,525.0**	1,365.0	-	-	-	1,365.0

The difference between gross borrowings as disclosed above and net borrowings as disclosed in notes 11 and 12 reflect the unamortised element of the debt arrangement fees of £13.5m (2015: £15.6m) and the accrued inflation on the index-linked bond of £19.7m (2015: £18.3m). The gross borrowings do not include the £671.1m (2015: £605.2m) of intra-group indebtedness to the immediate parent undertaking.

13. Financial instruments and risk management

(a) Interest rate and index-linked swaps

The Group has entered into interest rate swap arrangements in order to manage the interest rate exposure of the Group and not for trading or speculative purposes.

The Group has entered into index-linked interest rate swaps primarily to mitigate the impact of volatility from the index-linked regulated revenues which the Company/Group receives as part of its license obligation under the price control settlement.

Interest rate swaps

As at 31 March 2016, the Group held interest rate swaps with a notional principal of £234.4m (2015: £234.4m), which offset the floating LIBOR receive legs on the index-linked swaps. The interest rate on the pay legs of these swaps at 31 March 2016 is floating LIBOR (2015: floating LIBOR). The maturity date of these swaps range between November 2018 and March 2030 (2015: between November 2018 and March 2030).

As at 31 March 2016, the Group also held an interest rate swap with a notional principal of £40.0m (2015: £40.0m) which fixes the interest rate of floating liabilities held by the Group. The interest rate on this swap at 31 March 2016 was 5.19% (2015: 5.19%). The maturity date of this swap is in November 2018 (2015: November 2018).

Index-linked swaps

As at 31 March 2016, the Group held index-linked swaps with a notional principal of £1,003.8m (2015: £1,004.0m). These swaps enable mitigation of volatility from index-linked regulated revenues and interest rates on the pay leg of these swaps at 31 March 2016 ranged between 0.87% and 2.23% (fixed) plus RPI (2015: 0.87% and 2.23% (fixed) plus RPI). The maturity dates of these swaps range between November 2023 and November 2039 (2015: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,003.8m, £700.0m (2015: £700.0m) of these swaps have self-executing break dates and are phased over time with £140.0m notional breaking every two years from 2020 to 2028 (2015: £140m notional breaking every two years from 31 March 2018 to 31 March 2026), except in 2025 when £23.6m is subject to break clause and 2028 when £116.4m is subject to break clause. The Group intends to continue to extend break dates well in advance of the due dates. The remaining £303.8m (2015: £304.0m) of index-linked swaps do not have any such break clauses.

(b) Interest rate composition of gross borrowings

After taking account of the interest rate swaps entered into by the Group, the fixed and floating interest rate profile of the Group's gross borrowings, excluding intra-group indebtedness, was:

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Fixed rate	**261.0**	**-**	**-**	**-**	**261.0**	261.0	-	-	-	261.0
Fixed real rate	**1,104.0**	**-**	**-**	**-**	**1,104.0**	1,104.0	-	-	-	1,104.0
Floating rate	**160.0**	**-**	**-**	**-**	**160.0**	-	-	-	-	-
Total	**1,525.0**	**-**	**-**	**-**	**1,525.0**	1,365.0	-	-	-	1,365.0

Borrowings with a fixed real rate comprise £100.0m of 2.496% index-linked bonds (2015: £100.0m) and £1,004.0m of fixed nominal rate borrowings (2015: £1,004.0m) matched with index-linked swaps which together mitigate RPI volatility from regulated revenues.

13. Financial instruments and risk management (continued)

(c) Interest rate profile of fixed rate borrowings

After taking account of the interest rate swaps entered into by the Group, the weighted average interest rate profile of the Group's gross borrowings at 31 March 2016, excluding intra-group indebtedness, together with the weighted average period for which the rate is fixed, was:

	Weighted average interest rate									
	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
Currency	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Sterling: Fixed rate	**4.84**	**-**	**-**	**-**	**4.84**	4.84	-	-	-	4.84
Fixed real rate	**3.75**	**-**	**-**	**-**	**3.75**	3.61	-	-	-	3.61

The fixed real rates exclude the indexation charge applicable to the index-linked bonds and index-linked swaps. The index-linked swap arrangements fix the real interest rate cost and create an index-linked nominal pay leg which mitigates RPI volatility from index-linked regulated revenues. The variable inflation is charged to interest payable and is accrued during the year.

(d) Maturity profile of financial instruments

			Weighted average period until maturity	
	2016	2015	**2016**	2015
	£m	£m	**Years**	Years
Accrual for inflation on index-linked swap contracts	**-**	74.0	**-**	1.0
Accrual for inflation on index-linked bonds	**19.7**	18.3	**19.4**	20.4
	19.7	92.3		

The accrual for inflation for index-linked swap contracts represents the accrued inflation on the notional amount of those instruments. At 31 March 2016 the accrued inflation on all index-linked swaps held by the Group was £nil; due to the payment on 31 March 2016 of £83.6m in respect of the period from 1 April 2013 to 31 March 2016. The contracted payment date for accrued inflation on index-linked swaps for the three year period ended 31 March 2019 is 31 March 2019 (2015: 31 March 2016).

The liability for index-linked bonds represents the accrued inflation and is repayable at maturity in August 2035.

13. Financial instruments and risk management (continued)

(e) Borrowing facilities

Undrawn committed borrowing facilities were:

	2016	2015
	£m	£m
Committed bank borrowing facilities	**310.0**	310.0
Drawn	**(160.0)**	-
Undrawn committed facilities as at 31 March	**150.0**	310.0

The £150m of undrawn facilities at 31 March 2016 comprised revolver facilities for £150m (2015: £150m revolver facilities and £160m EIB term loan capex facility). In addition there are standby liquidity facilities of £90.0m (2015: £90.0m) which may be drawn following an event of default. These standby liquidity facilities are not regarded as part of the Group's ongoing liquidity facilities for general corporate purposes.

(f) Fair values of financial instruments

In the table below, the fair value of short term borrowings, current asset investments, cash at bank and in hand and bank loans approximates to book values due to the short maturity of these instruments after reflecting £0.7m (2015: £0.9m) of unamortised debt fees.

All of the guaranteed bonds are listed on the London Stock Exchange. The fair value of the guaranteed bonds has been calculated using the 31 March 2016 quoted prices.

The fair values of the derivative financial instruments represent the present value of expected future cash flows from those instruments, discounted at LIBOR. These fair values are expected to convert to cash over the life of the instruments, although earlier termination would accelerate cash flow settlement. The fair values do not represent a termination cost as at 31 March 2016.

	At 31 March 2016		At 31 March 2015	
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	£m
Primary financial instruments held or issued to finance the Group's operations:				
Guaranteed bonds	**(1,371.9)**	**(1,624.0)**	(1,368.6)	(1,670.2)
Bank debt	**(159.3)**	**(160.0)**	0.9	-
Cash held on term deposit	**100.0**	**100.0**	-	-
Cash at bank and in hand	**38.3**	**38.3**	50.8	50.8
	(1,392.9)	**(1,645.7)**	(1,316.9)	(1,619.4)
Derivative financial instruments held to manage the interest rate profile and matched by primary financial instruments:				
Index-linked swaps	**(10.2)**	**(793.8)**	(89.0)	(651.6)
Interest rate swaps	**1.5**	**36.8**	-	(7.5)
	(8.7)	**(757.0)**	(89.0)	(659.1)
	(1,401.6)	**(2,402.7)**	(1,405.9)	(2,278.5)

13. Financial instruments and risk management (continued)

(f) Fair values of financial instruments (continued)

The fair value of derivative financial instruments matched to primary financial instruments relates to long term borrowings with a book value of £1,531.2m (2015: £1,369.5m) which have been included within the primary financial instruments issued to finance the Group's operations at a fair value of £1,784.0m (2015: £1,670.2m), which is the redemption value of those borrowings.

The difference between the book value of primary financial instruments as disclosed above and gross borrowings as disclosed in note 13 reflect the unamortised element of the debt arrangement fees of £13.5m (2015: £15.6m), the accrued inflation on the index-linked bond of £19.7m (2015: £18.3m) and cash and current asset investments of £138.3m (2015: cash of £50.8m).

(g) Unrealised losses on derivative financial instruments

Whilst accrued inflation and other accruals in respect of these instruments are recorded within the financial statements the fair value of unrealised losses on derivative financial instruments is not recognised in the financial statements. These instruments are primarily held to manage the Group's inflation exposures principally arising from index-linked regulated revenues. The table below analyses the composition of the unrealised fair value losses (note 13(f)).

	Total losses £m
At 1 April 2015	**(796.4)**
Movement in fair value	**39.4**
At 31 March 2016	**(757.0)**
Of which:	
Losses not expected to be included in 2016/2017 or later years	**(748.3)**
	(748.3)

The difference between the total losses and the losses relating to 2016 or later years is the net amount accrued in the consolidated regulatory accounts of £8.7m (2015: £74.0m) in respect of liability for index-linked and interest rate swap contracts.

The total fair value of £748.3m may differ materially from the ultimate cost of settling the derivative instruments in cash and remains sensitive to movements in forward LIBOR and RPI rates.

14. Capital commitments

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Capital purchases contracted for but not provided in the consolidated regulatory accounts	**21.9**	**-**	**-**	**-**	**21.9**	8.9	-	-	-	8.9

In order to meet regulatory and service standards, the Group and Company has other longer term capital expenditure obligations within the regulated gas distribution business, which include investments to meet shortfalls in performance and condition, and to provide for new demands and growth.

The determination for the eight year regulatory period which commenced 1 April 2013 and ends 31 March 2021 includes capital and replacement investment of £1,006.0m (in 2009/10 prices).

15. Leasing commitments

At 31 March 2016 and 31 March 2015 there were commitments, in the ordinary course of business in the next year to the payment of rentals on non-cancellable operating leases expiring:

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Land and buildings										
Within one year	**0.1**	**-**	**-**	**-**	**0.1**	0.1	-	-	-	0.1
Between two and five years	**0.2**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	0.2
After five years	**0.1**	**-**	**-**	**-**	**0.1**	0.2	-	-	-	0.2
	0.4	**-**	**-**	**-**	**0.4**	0.5	-	-	-	0.5
Others										
Within one year	**0.5**	**-**	**-**	**-**	**0.5**	0.3	-	-	-	0.3
Between two and five years	**0.7**	**-**	**-**	**-**	**0.7**	0.9	-	-	-	0.9
	1.2	**-**	**-**	**-**	**1.2**	1.2	-	-	-	1.2

16. Provisions for liabilities

	Note	2016 Transportation business £m	2016 De-minimis business £m	2016 Metering activities £m	2016 Other activities £m	2016 Total £m	2015 Transportation business £m	2015 De-minimis business £m	2015 Metering activities £m	2015 Other activities £m	2015 Total £m
Insurance provision	(a)	**1.5**	**-**	**-**	**-**	**1.5**	1.6	-	-	-	1.6
Environmental and holder demolition provision	(b)	**12.4**	**-**	**-**	**-**	**12.4**	11.5	-	-	-	11.5
Onerous interest rate swap contracts provision	(c)	**14.3**	**-**	**-**	**-**	**14.3**	14.9	-	-	-	14.9
Wayleaves provision	(d)	**6.1**	**-**	**-**	**-**	**6.1**	5.5	-	-	-	5.5
		34.3	**-**	**-**	**-**	**34.3**	33.5	-	-	-	33.5

(a) Insurance provision

	2016 Transportation business £m	2016 De-minimis business £m	2016 Metering activities £m	2016 Other activities £m	2016 Total £m	2015 Transportation business £m	2015 De-minimis business £m	2015 Metering activities £m	2015 Other activities £m	2015 Total £m
At 1 April	**1.6**	**-**	**-**	**-**	**1.6**	1.8	-	-	-	1.8
Unwinding of discount (note 3(b))	**0.1**	**-**	**-**	**-**	**0.1**	0.2	-	-	-	0.2
Utilised in the year	**(0.2)**	**-**	**-**	**-**	**(0.2)**	(0.4)	-	-	-	(0.4)
At 31 March	**1.5**	**-**	**-**	**-**	**1.5**	1.6	-	-	-	1.6

The insurance provision is the estimate of liabilities in respect of past events incurred by the business. In accordance with insurance industry practice, these estimates were based on experience from previous years and there was, therefore, no identifiable payment date.

16. Provisions for liabilities (continued)

(b) Environmental and holder demolition provision

	2016 Transportation business	**2016** De-minimis business	**2016** Metering activities	**2016** Other activities	**2016** Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
At 1 April	**11.5**	**-**	**-**	**-**	**11.5**	16.0	-	-	-	16.0
Unwinding of discount (note 3(b))	**0.8**	**-**	**-**	**-**	**0.8**	1.0	-	-	-	1.0
Change in discount rate in the year	**1.1**	**-**	**-**	**-**	**1.1**	-	-	-	-	-
Charged/(released) in the year	**1.6**	**-**	**-**	**-**	**1.6**	(2.0)	-	-	-	(2.0)
Utilised in the year	**(2.6)**	**-**	**-**	**-**	**(2.6)**	(3.5)	-	-	-	(3.5)
At 31 March	**12.4**	**-**	**-**	**-**	**12.4**	11.5	-	-	-	11.5

The environmental and holder demolition provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. During the year the Group has reassessed the provision. The provision has been discounted to its estimated net present value. The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but it is expected to be incurred over the period until 2050.

(c) Onerous interest rate swap contracts provision

	2016 Transportation business	**2016** De-minimis business	**2016** Metering activities	**2016** Other activities	**2016** Total	2015 Transportation business	2015 De-minimis business	2015 Metering activities	2015 Other activities	2015 Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
At 1 April	**14.9**	**-**	**-**	**-**	**14.9**	15.6	-	-	-	15.6
Utilised in the year	**(0.6)**	**-**	**-**	**-**	**(0.6)**	(0.7)	-	-	-	(0.7)
At 31 March	**14.3**	**-**	**-**	**-**	**14.3**	14.9	-	-	-	14.9

As part of the Group's hedging strategy, during the period ended 31 March 2006 the Group acquired from Wales & West Gas Networks (Senior Finance) Limited an interest rate swap contract with a notional value of £924m. This contract was recorded in the financial statements of the Group at its negative fair value on transfer of £50.4m and was offset by an equivalent reduction in the amount that the Group owed Wales & West Gas Networks (Senior Finance) Limited through its intercompany account. The provision is being amortised on a straight line basis over the contract life.

16. Provisions for liabilities (continued)

(d) Wayleaves provision

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
At 1 April	**5.5**	**-**	**-**	**-**	**5.5**	5.4	-	-	-	5.4
Unwinding of discount (note 3(b))	**0.4**	**-**	**-**	**-**	**0.4**	0.4	-	-	-	0.4
Change in discount rate in the year	**0.5**	**-**	**-**	**-**	**0.5**	-	-	-	-	-
Utilised in the year	**(0.3)**	**-**	**-**	**-**	**(0.3)**	(0.3)	-	-	-	(0.3)
At 31 March	**6.1**	**-**	**-**	**-**	**6.1**	5.5	-	-	-	5.5

The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves. The provision is expected to be utilised over the period until 2020.

17. Called up share capital

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Authorised:										
30,675,000 Ordinary shares of £1 each	**30.7**	**-**	**-**	**-**	**30.7**	30.7	-	-	-	30.7
Allotted and fully paid:										
30,675,000 Ordinary shares of £1 each	**30.7**	**-**	**-**	**-**	**30.7**	30.7	-	-	-	30.7

18. Profit and loss account

	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	£m	£m	£m	£m
At 1 April 2015	(1,038.4)	1.3	5.8	8.8	**(1,022.5)**
(Loss)/profit for the financial year	(35.1)	0.1	(0.2)	1.1	**(34.1)**
Actuarial loss on pension scheme – net (note 25)	(7.5)	-	-	-	**(7.5)**
At 31 March 2016	(1,081.0)	1.4	5.6	9.9	**(1,064.1)**
Actuarial losses recorded in reserves	150.7	-	-	-	**150.7**
Profit and loss reserves excluding actuarial losses	(930.3)	1.4	5.6	9.9	**(913.4)**

19. Net cash inflow/(outflow) from operating activities

	2016					2015				
	Transportation business	**De-minimis business**	**Metering activities**	**Other activities**	**Total**	Transportation business	De-minimis business	Metering activities	Other activities	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Continuing operations:										
Operating profit	**116.2**	**0.2**	**(0.3)**	**1.4**	**117.5**	128.2	0.3	1.3	1.8	131.6
Depreciation of tangible fixed assets	**58.3**	**-**	**-**	**-**	**58.3**	58.6	-	1.3	-	59.9
Amortisation of customer contributions	**(2.6)**	**-**	**-**	**-**	**(2.6)**	(1.9)	-	(0.6)	-	(2.5)
Amortisation of grants	**(0.1)**	**-**	**-**	**-**	**(0.1)**	(0.1)	-	-	-	(0.1)
Profit on disposal of fixed assets	**-**	**-**	**-**	**(0.3)**	**(0.3)**	-	-	(0.8)	(0.6)	(1.4)
Net decease/(increase) in stocks	**-**	**-**	**-**	**-**	**-**	0.2	-	-	-	0.2
Net (decrease)increase in debtors	**0.9**	**-**	**(0.5)**	**(0.1)**	**0.3**	(3.4)	-	(0.3)	(0.1)	(3.8)
Net increase/(decrease) in creditors	**1.3**	**-**	**-**	**-**	**1.3**	16.6	-	(1.6)	-	15.0
Restructuring payments	**(1.6)**	**-**	**-**	**-**	**(1.6)**	(0.2)	-	-	-	(0.2)
Difference between pension charge and cash contributions	**(6.3)**	**-**	**-**	**-**	**(6.3)**	(7.9)	-	-	-	(7.9)
Movement in provisions for liabilities	**(3.6)**	**-**	**-**	**-**	**(3.6)**	(4.7)	-	-	-	(4.7)
Net cash inflow/(outflow) from operating activities	**162.5**	**0.2**	**(0.8)**	**1.0**	**162.9**	185.4	0.3	(0.7)	1.1	186.1

20. Analysis of changes in financing in the year

	Share capital		Long term loans	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
At 1 April	**30.7**	30.7	**1,349.4**	1,387.4
Debt drawn/(repaid)	**-**	-	**160.0**	(40.0)
Debt issue costs	**-**	-	**-**	(0.2)
Amortisation of debt issue costs and bond discount	**-**	-	**2.1**	2.2
At 31 March	**30.7**	30.7	**1,511.5**	1,349.4

21. Analysis of changes in cash in the year

	2016	2015
	£m	£m
At 1 April	**50.8**	53.3
Net cash (outflow)/inflow	**(12.5)**	(2.5)
At 31 March	**38.3**	50.8

22. Analysis of cash and cash deposits

	Note	**2016**	2015	**2016 Change in year**	2015 Change in year
		£m	£m	**£m**	£m
Cash at bank and in hand	21	**38.3**	50.8	**(12.5)**	(2.5)
Current asset investments - cash on term deposit	9	**100.0**	-	**100.0**	-
		138.3	50.8	**87.5**	(2.5)

23. Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
(Decrease)/Increase in cash as per cash flow statement	**(12.5)**	(2.5)
Debt issue costs	**-**	0.2
Amortisation of debt issue costs and discount	**(2.1)**	(2.2)
Cash transferred to term deposit	**100.0**	-
Bank debt (drawn)/repaid	**(160.0)**	40.0
(Increase)/decrease in net debt	**(74.6)**	35.5
At 1 April	**(1,298.6)**	(1,334.1)
At 31 March	**(1,373.2)**	(1,298.6)

	Note	2016 £m	2015 £m
Gross debt	20	**(1,511.5)**	(1,349.4)
Current asset investments		**100.0**	-
Cash and cash equivalents	21	**38.3**	50.8
Net debt		**(1,373.2)**	(1,298.6)

24. Directors' and officers' loans and transactions

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

The only transactions with directors during the year were payments of directors' remuneration, as disclosed in note 2.

25. Pension Scheme

The Group operates one pension Scheme which has defined benefit and defined contribution sections.

Defined benefit section
The Group operates a funded defined benefit pension Scheme, the Wales & West Utilities Pension Scheme ("the Scheme"). The Scheme funds are administered by trustees and are independent of the Group's finances. Contributions are paid to the Scheme in accordance with the Schedule of Contributions agreed between the Trustees and the Group. The scheme is a Registered Scheme under the Provisions of Schedule 36 of the Finance Act 2004.

A full actuarial valuation as at 31 March 2013 was completed by Lane Clark & Peacock and showed a deficit of £92.1m. The calculations carried out to produce the results of that valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method.

The next triennial valuation of the Scheme is due as at 31 March 2016, and remains in progress.

The key FRS17 assumptions used for the Scheme are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS17 liabilities and the net deficit of assets below the FRS17 liabilities (which equals the gross pension liability).

Financial Assumptions	**2016**	2015
Inflation assumption	**3.05% pa**	3.05% pa
Discount rate	**3.50% pa**	3.30% pa
Rate of increase in pensions in payment	**3.05% pa**	3.05% pa
Rate of increase in salaries	**3.80% pa**	3.80% pa
Mortality Assumptions		
Life expectancy of a male aged 60	**28**	28
Life expectancy of a male currently age 40 from age 60	**30**	30

25. Pension Scheme (continued)

The assets in the Scheme (excluding the Defined Contribution Section of the Scheme and the members' AVC funds) and the expected rates of return at 31 March 2016 and 31 March 2015 were:

Asset distribution and expected return

	2016		2015	
	Expected return % pa	**Fair value £m**	Expected return % pa	Fair value £m
Equities	**6.70**	**128.8**	6.75	162.3
Government Bonds	**2.20**	**45.3**	2.25	157.1
Direct lending	**5.90**	**25.5**	-	-
Property	**4.50**	**21.4**	4.75	19.4
LDI Funds	**2.20**	**102.6**	-	-
Diversified Growth Fund	**5.70**	**100.0**	5.75	100.5
Cash	**0.50**	**23.6**	0.50	3.4
Total market value of assets		**447.2**		442.7

The expected long term rate of return on net assets has been derived so as to be consistent with market yields at the accounting date and previous periods accounting disclosures.

Equities – As at 31 March 2016 it is assumed that equities will return 4.5% above the return on long duration Government bonds.

Government bonds – As at 31 March 2016 it is assumed that Government bonds will achieve a return in line with the annualised gross redemption yield on UK Gilts all stocks over 15 year index.

Direct lending – As at 31 March 2016 it is assumed that the Direct lending will achieve a return 3.7% above the return on long duration Government bonds.

Property – As at 31 March 2016 it is assumed that property will return 2.5% above the return on long duration Government bonds.

LDI fund – As at 31 March 2016 it is assumed that the LDI fund will achieve a return in line with long duration Government bonds.

Diversified Growth fund – As at 31 March 2016 it is assumed that the diversified growth fund will achieve a return 3.5% above the return on long duration Government bonds.

Cash – As at 31 March 2016 it is assumed that cash will achieve a return equal to the Bank of England Base Rate.

25. Pension Scheme (continued)

The following amounts at 31 March 2016 and 31 March 2015 were measured in accordance with the requirements of FRS17:

Balance sheet	**2016 £m**	2015 £m
Total fair value of assets	**447.2**	442.7
FRS17 value of liabilities	**(524.4)**	(520.2)
Deficit in the Scheme	**(77.2)**	(77.5)
Deferred tax asset	**2.8**	-
Deficit in Scheme – post tax	**(74.4)**	(77.5)

The Scheme is represented on the balance sheet at 31 March 2016 as a liability under FRS17 which amounts to £74.4m (2015: £77.5m) net of a deferred tax asset of £2.8m (2015: £nil).

During the year ended 31 March 2016, contributions by the Company of £19.1m (2015: £18.5m), which included £10.1m (2015: £10.1m) in respect of the agreed 15 year deficit recovery plan and a £1.4m (2015: £nil) additional contribution in respect of the early retirement programme, were made in respect of members of the defined benefit section.

Scheme expenses are met by the Scheme with the Company reimbursing the Scheme. The Company has set aside £0.7m outside of the Scheme for the period ended 31 March 2016 in order to meet the Scheme's expenses (2015: £0.6m). At 31 March 2016 £0.3m was accrued in respect of contributions due to the defined benefit section which were paid in April 2016 (2015: £nil).

A deferred tax asset in respect of pension deficit contributions of £14.0m in the year to 31 March 2017 with a tax value of £2.8m (2015: £nil) has been recognised as there is insufficient evidence that the asset it is expected to be recoverable against taxable profits in the year to 31 March 2017. No deferred tax asset has been recognised for the remainder of the pension liability of £63.2m as there is insufficient evidence that the asset will be recoverable against future profits.

It has been agreed that the ongoing employer contribution will be at a rate of 51% (2015: 37.7%) of pensionable salary plus an allowance for expenses. In addition, the Group has agreed to a 15 year deficit recovery plan following the 31 March 2013 actuarial valuation with contributions of £10.1m per annum for the three years ending 31 March 2016, £12.5m per annum until 31 March 2020 and £5.6m per annum until 31 March 2028.

The following amounts have been recognised in the performance statements in the year to 31 March 2016 and 31 March 2015 under the requirements of FRS17:

Profit and loss account	**2016 £m**	2015 £m
Analysis of amounts charged to operating costs:		
Current service cost (employer's part only)	**(11.7)**	(10.5)
Past service cost (exceptional item)	**(1.4)**	-
Total operating charge	**(13.1)**	(10.5)

	2016 £m	2015 £m
Analysis of amounts charged/(credited) to other finance costs:		
Expected return on pension Scheme assets	**21.5**	23.0
Interest on post retirement liabilities	**(17.2)**	(18.5)
Net income to other finance costs	**4.3**	4.5

25. Pension scheme (continued)

Profit and loss account (continued)

Pension costs of £13.4m shown in note 2b comprise £11.7m of current service cost and £1.7m of defined contribution costs (2015: Pension costs of £12.2m; £10.5m of current service cost and £1.7m of defined contribution costs).

The Scheme is now closed to new entrants and, under the method used to calculate pension costs in accordance with FRS17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

The following amounts have been recognised within the statement of total recognised gains and losses under FRS17:

	2016 £m	2015 £m
Actual return less expected return on Scheme assets	**(25.6)**	34.0
Changes in assumptions underlying the present value of the obligation	**15.3**	(70.1)
Actuarial loss recognised in the statement of total recognised gains and losses – pre tax	**(10.3)**	(36.1)
Deferred tax asset on pension liability	**2.8**	-
Actuarial loss recognised in the statement of total recognised gains and losses – net	**(7.5)**	(36.1)
Cumulative actuarial loss recognised in the statement of total recognised gains and losses - net	**(150.7)**	(143.2)

Changes in the present value of the defined benefit obligations are as follows:

	2016 £m	2015 £m
Opening defined benefit obligations	**520.2**	428.6
Past service cost (exceptional item)	**1.4**	-
Current service cost	**11.7**	10.5
Interest cost	**17.2**	18.5
Employee contributions	**0.7**	0.7
Benefits paid	**(11.0)**	(8.5)
Actuarial loss	**(15.5)**	70.4
Closing defined benefit obligations	**524.4**	520.2

25. Pension Scheme (continued)

Changes in the fair value of the Scheme assets are as follows:

	2016 £m	2015 £m
Opening fair value of Scheme assets	**442.7**	375.0
Expected return on assets	**21.5**	23.0
Employer contributions	**19.1**	18.5
Employee contributions	**0.7**	0.7
Benefits paid	**(11.0)**	(8.5)
Actual less expected return on assets	**(25.6)**	34.0
Closing fair value of Scheme assets	**447.2**	442.7

Amounts for the five years ended 31 March are as follows:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Defined benefit obligations	**(524.4)**	(520.2)	(428.6)	(413.9)	(329.1)
Total assets	**447.2**	442.7	375.0	363.8	297.0
Deficit	**(77.2)**	(77.5)	(53.6)	(50.1)	(32.1)
Experience adjustments on the obligation	**-**	-	4.2	(3.4)	0.4
Experience adjustments on Scheme assets	**(25.6)**	34.0	(10.2)	20.8	2.8

Defined contribution section

The Group also operates a defined contribution section of the Scheme for staff.
The employer paid £1.7m (2015: £1.7m) during the regulatory year ended 31 March 2016 in respect of defined contribution members.

26. Immediate and ultimate parent companies

The immediate parent Company is Wales & West Utilities Holdings Limited, incorporated in England and Wales and the ultimate parent Company and controlling party is Wales & West Gas Networks (Holdings) Limited incorporated in England and Wales. Wales & West Gas Networks (Holdings) Limited is the parent undertaking of the largest group of undertakings. Wales & West Utilities Holdings Limited is the parent undertaking of the smallest group of undertakings to consolidate Wales & West Utilities Limited. Consolidated financial statements are prepared by both the immediate and ultimate parent undertakings up to the accounting reference date each year, being the statutory year end. Copies of the annual financial statements of Wales & West Gas Networks (Holdings) Limited and Wales & West Utilities Holdings Limited may be obtained from the Company Secretary, Wales & West Gas Networks (Holdings) Limited, Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ.

The shares in the ultimate parent Company, Wales & West Gas Networks (Holdings) Limited, are owned equally by West Gas Networks Limited incorporated in England and Wales and Western Gas Networks Limited incorporated in England and Wales. These two companies are ultimately owned by a consortium comprising Cheung Kong (Holdings) Limited (Hong Kong) (30%), Cheung Kong Infrastructure Holdings Limited (Bermuda) (30%), Power Assets Holdings Limited (Hong Kong) (30%) and Li Ka Shing Foundation (Hong Kong) (10%).

27. Related party transactions

(a) Xoserve Limited

The Group owns 10% (2015: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid group as owner of the gas transmission business in the UK.

Xoserve provides gas throughput (meter reading) and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas transporters. The cost to the Group of Xoserve providing these services was £6.1m (2015: £5.2m) in respect of the year ended 31 March 2016, of which £2.0m (2015: £1.0m) was charged to capital.

(b) Seabank Power Limited

The Group provides Seabank Power Limited ("Seabank Power") with an emergency callout, pipeline inspection and maintenance service. Seabank Power is 25% owned by Cheung Kong Infrastructure Holdings Limited (Hong Kong) and 25% owned by Power Assets Holdings Limited (Hong Kong). Both companies hold a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited. These services are provided on normal commercial terms. The income to the Group in respect of services to Seabank Power was £0.1m for the year ended 31 March 2016 (2015: £0.1m).

(c) Hutchison Whampoa Limited

Cheung Kong (Holdings) Limited (Hong Kong), a company which holds a 30% interest in the Company's ultimate parent company Wales & West Gas Networks (Holdings) Limited, owns 49.97% of Hutchison Whampoa Limited ("HWL"). HWL owns 78.16% of Cheung Kong Infrastructure Holdings Limited (Bermuda), a company which holds 30% of the shares of Wales and West Gas Networks (Holdings) Group. During the year ended 31 March 2016 the Group has been invoiced by Hutchison International Limited for the following services negotiated by HWL.

Oracle Unlimited Deployment Programs Licencing agreement - cost to the Group £0.1m for the year ended 31 March 2016 (2015: £0.2m). The contract is for 5 years from 1 April 2016.

Microsoft EA Licencing agreement - cost to the Group £0.2m for the year ended 31 March 2016 (2015: £nil). The contract is for 3 years from 1 April 2015.

(d) Wales & West Utilities Holdings Limited

The Company is a 100% owned subsidiary of Wales & West Utilities Holdings Limited and is included in the consolidated financial statements of Wales & West Gas Networks (Holdings) Limited. Consequently, under the terms of FRS 8 "Related Party Transactions", the Company is exempt from disclosing related party transactions with entities that are part of the Wales & West Gas Networks (Holdings) Limited group.

END