HUMBER GATEWAY
OFTO

Registered number
10052538

Humber Gateway OFTO Holdings Limited

Annual Report and Financial Statements

For the period ended 31 March 2017

Humber Gateway OFTO Holdings Limited
Annual Report and financial statements
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Humber Gateway OFTO Holdings Limited
Company Information

Directors
R Collins
S Jones
B Walker
S Rooke

Company Secretary
Sarah Shutt

Auditors
KMPG LLP
15 Canada Square
London
E14 5GL

Bankers
SMBC
99 Queen Victoria Street
London
United Kingdom
EC4V 4EH

Registered office
6th Floor
350 Euston Road
Regents Place
London
United Kingdom
NW1 3AX

Registered number
10052538

HUMBER GATEWAY OFTO

Introduction

Humber Gateway OFTO Holdings Limited ("HGOHL") is an investment holding Company whose sole business is the holdings of investments in its wholly owned subsidiaries, Humber Gateway OFTO Intermediate Limited and Humber Gateway OFTO Limited, which together form the Humber Gateway OFTO Group ("the Group").

HGOHL's subsidiary Humber Gateway OFTO Limited ("the subsidiary" and "the licensee"), is a holder of an Offshore Electricity Transmission License ("the license") granted under the Electricity Act 1989. The license was awarded to the subsidiary on 7 September 2016 by The Gas and Electricity Markets Authority ("the Authority").

The ultimate controlling parties of the Group are Balfour Beatty Plc and Equitix Infrastructure 4 Limited. The Group Companies are registered in England and Wales, United Kingdom.

This Operating and financial review explains the operations of the Subsidiary and the main trends and factors underlying the development and performance of the Subsidiary during the period ended 31 March 2017, as well as those matters which are likely to affect its future development and performance. This is because the subsidiary's activities and performance are the principal contribution to the Group's activities and performance. The Subsidiary's principal activity is to provide an electricity transmission service to National Grid Electricity Transmission plc ("NGET") - the electricity transmission system operator for Great Britain. The Subsidiary owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore transmission system operated by NGET.

Background

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

The Subsidiary holds the License, awarded by the Authority on 7 September 2016. The asset was purchased by the use of secured loans and subordinated debt. This License, amongst other matters, permits and requires the Subsidiary to maintain and operate the Humber Gateway offshore electricity transmission assets in perpetuity with a revenue entitlement period of 20 periods from the date funds were drawn on 14 September 2016. The Subsidiary's offshore electricity transmission system exports the output of the Humber Gateway wind farm owned by Humber Gateway Offshore Wind Farm Limited (HGOWL) to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Subsidiary to be certified as complying with the unbundling requirements of European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). On 14 September 2016, the Subsidiary was issued a certificate pursuant to section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Subsidiary has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

The Subsidiary's offshore electricity transmission system

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

The Humber Gateway offshore wind farm comprises 73 turbines, with a combined capacity of around 219 megawatts ("MW"), and is located approximately 8km from the coast of East Yorkshire. The power that is generated by the wind farm is transported to shore by the Subsidiary and connects into the NGET system at Hedon, near Hull.

The Humber Gateway transmission assets have been operational since first power was exported in October 2014. The Humber Gateway transmission assets are all within UK territorial waters. Grimsby is the nearest port. The transmission assets connect to the National Grid Electricity Transmission system at the Hedon 275kV substation near Hull. The onshore transmission licensee is NGET. The transmission assets for the Humber Gateway wind farm were constructed by Humber Gateway Offshore Wind Ltd ("HGOWL"), a wholly owned subsidiary of E-ON.

The Subsidiary's prime operational objectives are to maximise transmission system availability and to ensure that the quality of electricity at the onshore connection point is compliant with the Security and Quality of Supply Standard ("SQSS") and the System Operator – Transmission Owner Code ("STC") having regard in all respects to the safety of employees, contractors and the general public.

The Subsidiary's long term business objectives

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

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

• meeting its revenue targets by operating the transmission system at availability levels equal to, or higher than, the License target;

• adopting and maintaining a financing structure that is, as a minimum, as efficient as that contemplated by the business plan; and

• controlling costs and seeking efficiency improvements.

The Subsidiary's operating model

The Subsidiary's operating model is to outsource all operational and maintenance ("O&M") activities including asset management capability. O&M activities are outsourced to Balfour Beatty Utility Solutions Limited ("BBUS"). Balfour Beatty Investments Limited ("BBI") provides certain financial and management services to the Subsidiary through a Professional Services Agreement ("PSA"). As part of its general asset management responsibilities BBI ensures that the outsourced O&M services are of the required quality to ensure that the Subsidiary meets its License obligations and complies with good industry practice. The Subsidiary has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

With effect from 14 September 2016 the costs incurred by BBI have been recharged to the Subsidiary in accordance with the PSA.

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The Subsidiary's approach to managing the business

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

• has a relentless focus on transmission system availability;
• recognises that the inherently hazardous nature of the Subsidiary's assets and operations requires a strong focus on Health, Safety and the Environment ("HS&E");
• has the right people working safely to standards using the right processes, technology and systems;
• has implemented a risk management approach that ensures that risks are assessed, managed and reported appropriately; and
• has adopted a governance framework that facilitates compliance with law, regulations and license conditions.

Principal regulatory, industry contracts and industry code matters

The Subsidiary enjoys benefits and is subject to a number of regulatory and contractual obligations arising from and including: the License; the Transmission Owner Construction Agreement ("TOCA") with NGET and the STC. The Subsidiary's operations are also subject to a range of industry specific legal requirements.

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

License obligations

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

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

Regulated revenue and incentives

The License awarded by the Authority to the Subsidiary determines how much the Subsidiary may charge for the OFTO services that it provides to NGET in any relevant charging period in accordance with a regulatory formula. Each charging period is from 1 April to 31 March. The License also provides the Subsidiary with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Subsidiary's transmission system in any given charging period versus the regulatory target. The regulatory target availability is 98.00% of the total megawatt hour capacity of the Subsidiary's electricity transmission system (as determined by the Subsidiary's System Capability Statement) in any given charging period, or part thereof.

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

Transmission charges are based on the target transmission system availability of 98.00%, and increase on 1 April following any given period by reference to the average rate of increase in the UK retail price index ("RPI") in the period to the previous September. The revenue derived from charges based on this target availability represents the Subsidiary's "base revenue". For the avoidance of doubt, the Subsidiary's transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

As previously noted, the License contains mechanisms to incentivise the Subsidiary to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The Subsidiary is incentivised on a monthly basis with higher targets, and higher potential penalties or credits, in the winter months, and lower targets, and lower potential penalties or credits, in the summer months. These incentive mechanisms help drive the management of the Subsidiary to proactively manage the transmission system availability across the period by focusing maintenance activities, which could lower transmission system availability, into those months with the lowest targets and related penalties or credits.

If the achieved transmission system availability is different to the target availability then there is a mechanism contained within the License that could potentially affect the Subsidiary's charges and hence its revenue in future periods. The License provides for adjustments to "base revenue" where the OFTO's system availability performance is different to the target system availability. If transmission system availability in any given period is in excess of the target availability level then credits are "earned" and if availability is less than target then penalties accrue. The Subsidiary is then permitted or required to change its prices to reflect the credits earned or penalties accrued as necessary. The maximum credit which the Subsidiary can "earn" and collect in charges amounts to around 5% of base revenue for that period and the maximum penalty that can be reflected in charges is around 10% of base revenue for that period. The detailed mechanism that is used to adjust charges to reflect these credits and penalties in charges is described below.

The penalties and credits are recorded on a monthly, but notional basis, during each charging period. Individual net monthly penalties are first offset against any brought forward net cumulative credits from the previous charging period. Thereafter, individual monthly net penalties are eligible for offset against credits arising in the current charging period. If at the end of any charging period there is a cumulative net credit, this net credit is eligible for collection in charges as an adjustment to charges at the beginning of the subsequent financial period following the end of the charging period in which the first credit arose.

In respect of net penalties which are outstanding at the end of the charging period then, in principle, the charges in respect of the following financial period are lowered by an amount that would reduce the charges for that financial period by the amount of the net penalty. However, the reduction in charges can never exceed 10% of the base revenue for that period. To the extent that the cumulative net penalty, if applied, to the Subsidiary's charges would result in those charges being reduced by more than 10% of the base revenue for that period, the excess net penalty is carried forward on a cumulative and notional basis and aggregated with additional credits and penalties arising in the subsequent period.

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

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

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

As the end of the 20 year License period approaches the agreed regulatory formula relating to the Subsidiary's ability to collect credits as explained above changes. There is an acceleration of the Subsidiary's ability to collect such credits in its invoicing and the corresponding acceleration in the authority's ability to enforce penalties.

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

Transmission system capability (capacity)

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

Under the terms of the TOCA with NGET, the Subsidiary provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for the period 14 September 2016 to 31 March 2017 was 219 MW. The practical significance of the declared maximum capacity is that the maximum declared capacity of the transmission system determines the maximum MWhr availability of the transmission system for the purpose of comparing with the Subsidiary's actual transmission availability during any performance period – which in turn determines the Subsidiary's performance credits or penalties as described under "Regulated revenue and incentives" earlier in this Operating and Financial Review.

The Subsidiary has provided 100% transmission capacity based on the declared maximum capacity of the transmission system during the performance period 14 September 2016 to 31 March 2017. – see "Transmission System Availability" below.

The Subsidiary minimises the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice.

Transmission system quality of supply

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

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

Key performance indicators ("KPIs")

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

	Objective	**Result**
Financial KPI's		
Profit before taxation	To increase [1] (n/a in first financial period)	Profit of £739k.
Cash available for debt service: Net cash inflow from operating activities plus net cash inflow from investing activities	To increase [2] (n/a in first financial period)	2017 £5,936k.
Non- Financial KPI's		
Maximise transmission availability: Making the transmission system available to transmit electricity over the performance period 14 September 2016 to 31 March 2017	To exceed the License target availability 98%.	Achieved: 2017 100%
Ensure that the quality of electricity at the export connection point is compliant with SQSS and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	Achieved: 2017 compliant during the period.
Health and Safety 1) Zero lost time accidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under HGOWL's Marine Management Organisation ("MMO") License.	To have zero health and safety accidents.	Achieved: 2017 no health and safety accidents and fully compliance with MMO license.

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

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

The Subsidiary's operational performance

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

In February 2014 the International Standards Organisation (ISO) published the Asset Management standard ISO 55000, this international standard has effectively overtaken and replaced PAS 55. Asset management standardisation is voluntary and although compliance with PAS 55 / ISO 55000 is seen as good practice it has not been universally adopted by all asset owners. The Humber Gateway OFTO recognises the value of good asset management and has set BBUS the objective of ensuring that the OFTO is ready to seek ISO 55000 certification by September 2019. BBUS is currently in the process of looking at the essential requirements of ISO 55000 and seeing how these can be applied to the OFTO environment.

Transmission system availability

		Performance Period
MW hours		**Sep 2016 to Mar 2017**
	Note	
Maximum system availability (MWhrs)	(a)	1,040,688
Actual system availability (MWhrs)		1,040,688
Actual system availability (%)		100.00%
Regulatory target system availability		**98%**
Availability credits/(penalties)		
Opening availability credits / (penalties)		-
Net availability (penalties) /credits for the performance period		276,600
Net availability credits at 31 March 2017	**(b)**	**276,600**

a) The maximum system availability of the Subsidiary's transmission system as declared to NGET during the performance period..

b) Net availability credits / (penalties) at 31 March 2017 are paid in the following period.

Quality of supply

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

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

Health, safety, and environmental performance

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

The Board is pleased to report that, during the period under review there were no health or safety incidents that required reporting under applicable legislation and that contractor "lost days" arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 were zero.

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

The Board is pleased to report that during the period under review there were no environmental incidents or matters that required reporting to any relevant competent authority and that it had complied with the Marine license obligations transferred under the Sale and Purchase Agreement ("SPA") by HGOWL when the transmission assets were acquired by the Subsidiary.

Stakeholder relationships

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

Principal risks and uncertainties

The principal risks and uncertainties faced by the Subsidiary have been discussed and referenced in the Strategic Report.

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The Group's financial performance

Summary:
The financial performance of the Group for the period ended 31 March 2017, and its financial position as at 31 March 2017, was satisfactory and is summarised below. In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k.

The Group reports its results in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

	2017
	£'000s
Operating profit	47
Net finance income	692
Profit before taxation	**739**
Taxation	(179)
Profit after taxation	**560**

	2017
	£'000s
Net cash inflow from operating activities and other investing activities	5,936
Cash inflows to finance acquisition of the Transmission owner asset and initial working capital requirements	185,787
Cash flows relating to acquisition of Transmission owner asset	(167,279)
Net cash flows used in financing activities	(7,723)
Net cash flows	**16,721**

Revenue and financial income
Revenue and financial income is derived from the Group's activities as a provider of transmission services. The vast majority of the Subsidiary's income is derived from NGET.

Financial income for the period amounted to £3,159k, and represents the financial income that would have been generated from an efficient stand-alone "transmission owner". The financial income has been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 32.

Revenue for the period amounted to £8,315k, and primarily represents the revenue that would be generated by an efficient provider of operating services to NGET, our principal customer. Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Revenue has been recorded in accordance with the principal accounting policies adopted by the Group.

Cost of sales and administrative expenses
Cost of sales and administrative expenses for the period amounted to £8,268k.

Operating profit
Operating profit being the residual of operating income and operating costs amounted to £47k.

Financial income

Financial income of £3,186k, relates to financial asset interest and interest earned on bank deposits.

Finance costs

Finance costs amounted to £2,494k. Funding was required to acquire the transmission system (Transmission owner asset) from HGOWL and the acquisition of the Transmission owner asset took place on 14 September 2016.

Finance costs relate to the interest cost of servicing senior debt holders £1,630k, short term debt holders £53k, and holders of subordinated debt £811k. Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

Taxation

The net taxation on profit for the period is £179k, and relates solely to deferred taxation. There was no current taxation arising in the period as the Group incurred taxable losses. The taxation charge for the period has been computed at 17%.

A taxation charge of £1,231k, has been recognised in other comprehensive income relating to deferred taxation in respect of pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2017.

Profit after taxation

Profit for the period after taxation amounted to £560k.

Cash flows

Net cash flows generated by operations amounted to £5,909k, primarily reflecting the amounts invoiced to and received from NGET in relation to the provision of transmission services from 14 September 2016 through to 31 March 2017 net of cash outflows relating to operating activities incurred during the period of operation from 14 September 2016 through to 31 March 2017.

Net cash flows used in investing activities amounted to £167,252k. The period ended 31 March 2017 included £167,279k of cash outflows associated with the acquisition of the Transmission owner asset.

Cash available for debt servicing defined as net cash flows from operations less (or add) net cash flows used in (or generated from) investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) and includes interest income received of £27k amounted to £5,934k. Net cash generated from financing activities amounted to £178,064k.

Cash inflows for the period ended 31 March 2017 included: £164,890k from senior debt holders; £20,896k from holders of subordinated debt; and £100 by way of equity share capital. The period ended 31 March 2017 cash inflows were used to finance the acquisition of the Transmission owner asset and to finance the initial working capital requirements of the Group.

Payments to service senior debt holders during the period amounted to £6,128k.

Payments to subordinated debt holders during the period amounted to £nil.

No corporation tax was paid in the period due to the Group incurring taxable losses.

No dividend was paid in the period.

Statement of Financial Position and consideration of financial management

Going concern

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

Statement of Financial Position

The Group's Statement of Financial Position at 31 March 2017 is summarised below:

	Assets	Liabilities	Net assets / (liabilities)
	£'000s	£'000s	£'000s
Non-current Transmission owner asset	162,059	-	162,059
Non-current derivative financial assets	2,551	-	2,551
Non-current deferred taxation	1,052	-	1,052
Current assets and liabilities	20,757	(8,833)	11,924
Total before non-current liabilities	186,419	(8,833)	177,586
Non-current derivative financial liabilities	-	(9,794)	(9,794)
Non-current borrowings	-	(173,244)	(173,244)
Totals at 31 March 2017	**186,419**	**(191,871)**	**(5,452)**

Transmission owner asset and decommissioning

The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Humber Gateway offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Subsidiary. A discussion of the critical accounting policies adopted by the Group that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 32.

The Transmission owner asset was acquired on 14 September 2016 from Humber Gateway Offshore Wind Limited. The total costs of acquisition of this asset amounted to £167,279.

Deferred taxation

The Group has recognised a deferred taxation liability of £179k which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the period, including taxable losses. This is netted off against a deferred tax asset of £1,231k relating to pre-taxation losses arising on marking the Subsidiary's cash flow hedges to market at 31 March 2017.

Net debt

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

At 31 March 2017 net debt stood at £173,631.

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

Current funding structure

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

Senior debt is comprised of Senior Term Loans and one Short Term Loan, borrowed from four different lenders (Sumitomo Mitsui Banking Corporation (SMBC), Sumitomo Mitsui Trust bank (SMTB), Societe Generale Bank and European Investment Bank (EIB)). All senior debt is serviced on a six monthly basis, the Senior Term Loans are expected to amortise over the life of the project through to September 2036, the Short Term Loan was repaid in full during the period. The total carrying value of the Loans outstanding at 31 March 2017 amounted to £160,194k.

The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the Subsidiary and have certain covenants attached.

The subordinated loan ranks behind the senior debt and is held by the Subsidiary's intermediate Group, Humber Gateway OFTO Intermediate Limited ("HGOIL"). The subordinated loan was issued by the Group to shareholders on a commercially priced basis, and carries a indexed linked coupon. At 31 March 2017 the total principal carrying value of the subordinated loan outstanding amounted to £20,896k.

Ordinary equity share capital amounted to £100 at 31 March 2017.

Going concern, liquidity, and treasury management

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

The expected cash in-flows that are likely to accrue to the Subsidiary over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under "Regulated revenue and incentives". In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavors to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is considered to be very low. As at 31 March 2017 there were no sums outstanding from NGET and from 31 March 2017 to the date of this report all amounts due from NGET had been received on time.

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

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

Going concern, liquidity, and treasury management (continued)

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

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

The hedging arrangements are explained in more detail below under "Hedging arrangements". In summary the RPI swaps have the impact of effectively converting a proportion of the RPI variable cash flows arising from the Subsidiary's transmission services activities into a known series of cash flows over the life of the project and the Interest Rate swaps are minimising the risk of changing LIBOR in connection with Senior debt interest payments.

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

Credit rating

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

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

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

On-going funding requirements

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

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

Surplus funds

The Group invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. At 31 March 2017, the Group had £nil on deposit of which £nil was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Cash and cash equivalents include amounts of £13,716k that the Group can only use for special purposes and with the consent of the Group lenders. The Common Terms Agreement ("CTA") defines the requirements to transfer in and withdraw funds from these accounts. If the request is not defined in the CTA the consent of the Group's lenders is required prior to use, but is held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

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

Hedging arrangements

General

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

Interest Rate swaps

The Subsidiary has entered into three arrangements with third parties for the purpose of minimising the risk of changing LIBOR regarding the Senior Term Loan interest payments with the final payment date expected on 14 September 2036. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Subsidiary enjoys exclusive rights to operate the offshore transmission system under the License, and closely reflects the period over which the majority of cash flows from the project are expected to be generated.

RPI swaps

The Subsidiary has entered into three arrangements with third parties for the purpose of exchanging the majority (approximately 74%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows with the final payment date expected on 14 September 2036. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Subsidiary enjoys exclusive rights to operate the offshore transmission system under the License, and closely reflects the period over which the majority of cash flows from the project are expected to be generated.

Hedging arrangements (continued)

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

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

The carrying value of the RPI swaps liability at 31 March 2017 was £9,794k and the Interest Rate swaps asset at 31 March 2017 was £2,551k. A corresponding entry has been recorded in other comprehensive income.

Lending covenants and other restrictions

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

1) The Subsidiary is required to operate on the basis of a financial plan while the lending agreements are in place (20 periods) which the Security Trustee has approved and subject to certain allowances; any deviation from that plan requires the approval of the Security Trustee. The financial plan is refreshed on a six monthly basis and revised on an annual basis as required;

2) The Subsidiary is required to deliver financial and other information at specified intervals (typically six monthly) to the Security Trustee;

3) The lending agreements specify the bank accounts that the Subsidiary is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose. With the exception of one bank account, all withdrawals from bank accounts require the consent of the Security Trustee;

4) The Subsidiary is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments it cannot exceed a specified gearing ratio;

Lending covenants and other restrictions (continued)

5)The Subsidiary is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically this results in the Group investing in term deposits with maturities not exceeding six months;

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

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

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

Since entering into the lending agreements the Subsidiary has met all lending covenants and conditions and has continued to do so through to the date of this report.

Accounting policies

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

Presentation of financial statements

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

Financial Instruments

The Group has elected to apply hedge accounting to its derivative financial instruments, where it is allowable under the relevant standards.

Critical accounting policies

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

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 32.

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

Principal activities and business review
A full description of the Group's principal activities, business, and principal risks, and uncertainties is contained in the Operating and Financial Review on pages 2 to 17, which are incorporated by reference into this report.

As per the Operating and Financial Review the Group's long-term non-financial objectives are to ensure compliance with the License, industry codes and legislation and to operate and maintain the transmission system in accordance with good industry practice. The long-term financial objective is to provide returns to shareholders consistent with, or in excess of, the business plan that supported the tender offer for the Humber Gateway offshore transmission system.

No change in the Group's activities is anticipated.

Material interests in shares
Humber Gateway OFTO Holdings Limited is an investment holding company whose sole business is the holdings of investments in its wholly owned subsidiaries, Humber Gateway OFTO Intermediate Limited and Humber Gateway OFTO Limited, which together form the Humber Gateway OFTO Group ("the Group").

Review of the business
The results for the period are set out on page 27. The Directors expect the Group to continue its operations for the foreseeable future.

The financial position at year-end is in-line with the Directors' expectations and can be found page 29.

Key Performance Indicators
The Group has set specific business objectives, which are monitored using key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below and in the Operating and Strategic report on page 7.

	31/03/2017
	£'000
Profit before taxation	739
Cash available for debt service (1)	5,936

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

1 Cash available for debt service defined as net cash generated from operating activities plus interest received.

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

Principal risks and uncertainties (continued)

Financial risks

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

Contractual relationships

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

Liquidity risk

The Group adopts a prudent approach to liquidity management by maintaining sufficient liquid resources to meet its obligations. Due to the nature of the project, cash flows are reasonably predictable and so this is not a major risk area for the Group.

Interest rate risk

The financial risk management objective of the Group is to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2016 and 2036 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

This report was approved by the board on 27 July 2017 and signed by its order.

S. L. Shutt

S L Shutt
Company Secretary

HUMBER GATEWAY OFTO

The Directors present their Report together with the audited financial statements for the period ended 31 March 2017.

The following information has been disclosed in the Group strategic report:

- Principal activities and business review
- Indication of likely future developments in the business
- Key performance indicators
- Principal risks and uncertainties
- the use of financial instruments

Returns and dividends
The Group recorded a profit for the period after taxation of £560k.

No dividend was paid during the period.

Share Capital
The issued share capital of the Group at 31 March 2017 was £100 consisting of 100 ordinary shares of £1 each.

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

R Collins
S L Jones
B R Walker
S Rooke

No Director has any interest in the issued share capital of the Group or the Group's parent undertaking.

Donations and research and development
No charitable or political donations were made during the period and expenditure on research and development activities was £nil.

Financial instruments
Details on the use of financial instruments and financial risk management are included on pages 12 to 17 in the Operating and financial review.

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

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

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

Employee involvement

The Group does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Subsidiary's Operating Model" in the Operating and financial review on page 3.

Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Group at 31 March 2017 were equivalent to 30 days' purchases, based on the average daily amount invoiced by suppliers during the period.

Company Information

Humber Gateway OFTO Holdings Limited is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

Company Secretary and Registered Office

The Group Secretary is S L Shutt. The registered address is 6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX.

Audit information

Each of the persons who is a Director at the date of approval of this report confirms that:

(i) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(ii) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

KPMG LLP have indicated their willingness to be appointed for the period and appropriate arrangements have been put in place for them to be deemed appointed as auditor in the absence of an Annual General Meeting.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on 27 July 2017 and signed by its order.

S. L. Shutt

S L Shutt
Company Secretary

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

Appointments to the Board of Directors of HGOHL and its subsidiary undertakings are governed by a shareholders' agreement ("the Agreement") between the two shareholders of HGOHL that jointly control this Group through a common class of ordinary shares, Balfour Beatty OFTO Holdco Limited and Equitix Transmission 4 Limited. The Agreement requires that all Boards within the Group must comprise four Directors, with two Directors appointed by each shareholder.

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

HGOHL

Meetings of the Board of HGOHL

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

Audit committee

The Company does not have an internal audit function or Audit Committee as the Directors have concluded that the cost of such a functions would be disproportionate to the benefits. Duties normally fulfilled by an Audit Committee are fulfilled by the board and include the following.

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

b) reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;

c) reviewing and approving the internal control and risk management policies applicable to the Group;

d) maintaining an appropriate relationship with the external auditor; and

e) ensuring that audit objectivity and independence is maintained.

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The Group

Board and management meetings

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

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

Directors and their attendance at Group Board meetings

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

R Collins	2 of 2
S Jones	2 of 2
B Walker	0 of 2
S Rooke	2 of 2

Compliance committee

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

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

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

R Colins	1 of 1
S Rooke	1 of 1

The compliance committee met in July 2017 to receive the compliance report for the period ended 31 March 2017 from the compliance officer and in turn produced a report approved by the Board.

Humber Gateway OFTO Holdings Limited
Registered number: 10052538
Corporate governance statement

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Compliance statement

The Subsidiary has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from http://hgofto.co.uk) that addresses how the Group has addressed its License obligations.

Health, Safety and Environment

The Board recognises that the nature of the Group's business requires an exceptional focus on health, safety and the environment (HSE). The OFTO General Manager provides the Board with a monthly report that shows HSE performance through the month and period to date. In addition, the monitoring of HSE issues relating to the OFTO has been kept under routine review as part of the monthly Economic Infrastructure Support Services meetings, chaired by B Walker, the OFTO's HSE Director.

The OFTO is also part of an HSE forum with some other OFTOs to provide a mechanism for sharing and learning. The HSE Forum meets quarterly.

This report was approved by the board on 27 July 2017 and signed by its order.

Simon Rooke
Director

HUMBER GATEWAY OFTO

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Humber Gateway OFTO Holdings Limited
Independent auditors' report
to the members of Humber Gateway OFTO Holdings Limited

We have audited the financial statements of Humber Gateway OFTO Holdings Limited for the year ended 31 March 2017 set out on pages 27 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

Tom Eve (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
27 July 2017

Humber Gateway OFTO Holdings Limited
Group Income Statement
for the period ended 31 March 2017

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	Notes	2017 £'000s
Revenue	3	8,315
Cost of sales		(7,782)
Gross profit		533
Administrative expenses		(486)
Operating profit		**47**
Financial income	5	3,186
Financial expenses	5	(2,494)
Profit before taxation		**739**
Taxation	6 a	(179)
Profit attributable to equity shareholders		**560**

The notes on pages 32 to 57 form part of these financial statements.

The results reported above relate to continuing operations.

HUMBER GATEWAY OFTO

Humber Gateway OFTO Holdings Limited
Group statement of comprehensive income
for the period ended 31 March 2017

	Notes	2017 £'000s
Profit for the financial period		560
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in FV of cash flow hedges	13	(7,243)
Deferred taxation arising on cash flow hedges	6 b	1,231
Total other comprehensive (loss)		**(6,012)**
Total comprehensive (loss) for the period attributable to equity shareholders		**(5,452)**

HUMBER GATEWAY OFTO

Humber Gateway OFTO Holdings Limited
Statement of Financial Position
as at 31 March 2017

	Notes	GROUP 2017 £'000s	COMPANY 2017 £'000s
Non-current assets			
Investment	7	-	-
Transmission owner asset	8	162,059	-
Derivative financial assets	13	2,551	
Deferred taxation asset	9	1,052	-
Total non-current assets		**165,662**	-
Current assets			
Prepayments		1,020	-
Transmission owner asset	8	3,016	-
Cash and cash equivalents	10	16,721	-
Total Current Assets		**20,757**	-
Total Assets		**186,419**	-
Current Liabilities			
Borrowings	11	(7,314)	-
Trade and other payables	12	(1,519)	-
Total current liabilities		**(8,833)**	-
Non-current liabilities			
Borrowings	11	(173,244)	-
Derivative financial liabilities	13	(9,794)	-
Total non-current liabilities		**(183,038)**	-
Total Liabilities		**(191,871)**	-
Net Liabilities		**(5,452)**	-
Equity			
Called up share capital	14	-	-
Cash flow hedge reserve		(6,012)	-
Retained earnings		560	-
Total equity		**(5,452)**	-

These financial statements (Company registration number: 10052538), comprising the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash flow Statement, accounting policies, and notes to the financial statements, on pages 27 to 57 were approved by the Board of Directors on 27 July 2017 and were signed on its behalf by:

Simon Rooke
Director
Approved by the board on 27 July 2017

HUMBER GATEWAY OFTO

Humber Gateway OFTO Holdings Limited
Statement of Changes in Equity
for the period ended 31 March 2017

GROUP	Share capital £'000s	Cash flow Hedge Reserve £'000s	Retained Earnings £'000s	Total Equity £'000s
At 9 March 2016	-	-	-	-
Profit or loss	-	-	560	560
Other comprehensive income/(loss)	-	(6,012)	-	(6,012)
Total comprehensive income (loss)	**-**	**(6,012)**	**560**	**(5,452)**
Shares issued	-	-	-	-
At 31 March 2017	**-**	**(6,012)**	**560**	**(5,452)**
Notes	14			

COMPANY	Share capital £'000s	Cash flow Hedge Reserve £'000s	Retained Earnings £'000s	Total Equity £'000s
At 9 March 2016	-	-	-	-
Issue of ordinary shares	-	-	-	-
Total comprehensive loss	-	-	-	-
At 31 March 2017	**-**	**-**	**-**	**-**
Notes	14			

No dividend was paid during the period.

Humber Gateway OFTO Holdings Limited
Consolidated Statement of Cash Flows
for the period ended 31 March 2017

HUMBER GATEWAY OFTO

	Notes	GROUP 2017 £'000s
Cash flows from operating activities		
Profit for the period		560
Adjustments for:		
Taxation		179
Financial income		(3,186)
Financial expense		2,494
		(513)
Income recognised in respect of financial asset		5,363
Increase in trade and other receivables		(1,020)
Increase in trade and other payables		1,519
		5,862
Net cash inflow from operating activities		**5,909**
Cash flows from investing activities		
Acquisition of transmission owner asset including day one transaction costs		(167,279)
Interest received		27
Net cash outflow from investing activities		**(167,252)**
Cash flows from financing activities		
Proceeds from senior debt received		164,890
Proceeds of subordinated loans received		20,897
Interest Paid		(1,595)
Repayment of senior debt		(6,128)
Net cash inflow from financing activities		**178,064**
Net increase in cash and cash equivalents		16,721
Net cash		**16,721**
Cash and cash equivalents at 9 March 2016		-
Cash and cash equivalents at 31 March 2017	15	**16,721**

1 Summary of significant accounting policies

A *Basis of preparation*

As this is the first reporting period, the Directors have elected to prepare the Financial Statements under the historical cost convention except for derivative financial instruments stated at fair value and in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union. They include the result of the activities described in the Group Strategic Report, all of which are continuing. The financial statements are presented in pounds sterling, which is the functional currency of the Group and are rounded to the nearest £1,000. The reporting period is 9 March 2016 to 31 March 2017.

The Group Financial Statements consolidate the Financial Statements of Humber Gateway OFTO Holdings Limited and its subsidiaries Humber Gateway OFTO Limited and Humber Gateway OFTO Intermediate Limited drawn up to 31 March 2017. All inter-Company balances, transactions and profits are eliminated on consolidation. No profit and loss account is presented for the parent Company, as permitted by section 408 of the Companies Act 2006. The parent Company recorded a result for the period after taxation of £nil.

B *Going Concern*

The current economic conditions create some general uncertainty. The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the Authorities to continue to pay unitary fees due under the concession contract to the Company's subsidiary and do not consider this to be a material risk. The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

The Company is in a net liabilities position as at 31 March 2017 due to the fair value of the interest rate swaps. The directors have reviewed the companys forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the Company can continue to meet its debts as they fall due.

C *Transmission availability arrangements*

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

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

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

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

1 **Summary of significant accounting policies (continued)**

C ***Transmission availability arrangements (continued)***

A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12. The Transmission owner asset includes: the cost of acquiring the Transmission network asset from the constructor of the network; and those costs incurred that are directly attributable to the acquisition of the transmission network. Decommissioning costs will be a service provided at the end of the contract under the terms of the contract and were factored into the pricing of the contract, as such they have been treated as a revenue generating activity under IFRIC 12 and costs will therefore be recognised as incurred, as opposed to being under the scope of IAS 37. The Transmission Owner asset has been classified as a financial asset and is accounted for as described below – see D – Financial Instruments.

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

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

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

D ***Financial instruments***

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

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

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

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

1 Summary of significant accounting policies (continued)

D Financial instruments (continued)

Borrowings, which include fixed interest-bearing debt, are recorded at their carrying value which reflects the proceeds received, net of direct issue costs. Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. Gains and losses arising from the changes in fair value are included in other comprehensive income in the period they arise.

E Hedge accounting

The Group has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps) and to minimise the risk of changing LIBOR in connection with the Senior Term loan interest payments (Interest Rate swaps). The Group has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Group's net cash flows.

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

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

F Impairment of assets

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

G Income taxation

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

Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

1 Summary of significant accounting policies (continued)

G Income taxation (continued)

Deferred Taxation

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

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

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

Unrecognised deferred taxation assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred taxation asset to be recovered.

H Operating and finance income

General

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

Operating income

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

Finance income

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

I Cash and cash equivalents

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

J Investments

Investments as detailed in note 7 are stated at cost less impairment (if any).

1 Summary of significant accounting policies (continued)

K Critical accounting judgements, key assumptions and sources of estimation uncertainty

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

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

i) Transmission availability arrangements – income and related asset recognition

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

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

a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12; and

b. In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset.

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

The Subsidiary has determined that the Transmission owner asset will be recovered over a period of 20 periods from the date of License grant (14 September 2016) – being the principal period over which the Subsidiary is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one period over the life of the project.

ii) Operating and finance income

Operating income

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

1 Summary of significant accounting policies (continued)

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

ii) Operating and finance income (continued)

Finance income

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

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

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

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

The Group's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the Income Statement. As referred to above, the Group carries its derivative financial instruments in its Statement of Financial Position at fair value. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by a third party that is independent of the Group, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments.

iv) Income taxation

Current taxation

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

1 Summary of significant accounting policies (continued)

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

iv) Income taxation (continued)

Deferred taxation

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

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

L Accounting developments

i) Accounting standards as applied to these financial statements

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

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

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

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

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

Amendments to the following standards

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

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

HUMBER GATEWAY OFTO

1 *Summary of significant accounting policies (continued)*

L *Accounting developments (continued)*

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

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

2 Operating segment

The Board of Directors is the Group's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment - electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities1). The Group and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and cash flow statement on pages 27, 29 and 31 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 39 to 57.

The electricity transmission operation of the Subsidiary comprises the transmission of electricity from a wind farm located approximately 8km from the coast of East Yorkshire. The wind farm comprises 73 wind turbine generators and associated transmission assets. There is one offshore substation platform. The substation is connected onshore by two c.9km subsea export cables. The onshore cables, at c.30km length, connect to the onshore substation at Hedon, near Hull.

All of the Group's sales and operations take place in the UK and its territorial waters.

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

1 After adjustment for the initial cash acquisition cost of the Transmission owner asset (excluding bid costs) of £163,245k.

3 Revenue

Revenue of £8,315k, relates primarily to the Subsidiary's activity as a provider of electricity transmission services to the Subsidiary's principal customer - NGET. The vast majority of the Subsidiary's income is derived from NGET.

4 Operating Costs

	period from 09/03/16 to 31/03/17
	£'000s
Operations and maintenance	7,330
Non-domestic rates	452
Total	**7,782**
Auditor remuneration comprises:	
Auditor remuneration (1)	16
Audit-related assurance services (2)	14
Total	30

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

2. These represent fees payable for services in relation to engagements to be performed as per the License.

Fees payable for the audit of these Financial Statements were £1,861 to KPMG LLP. Fees payable to the Company's auditor in respect of the audits of subsidiary undertakings were £14,422 to KPMG LLP. Fees payable to the Company's auditor in respect of services in relation to engagements performed as per the License were £14,000 to KPMG LLP.

The Directors received no salary, fees or other benefits in the performance of their duties during the current period. There were no fees paid to other companies in respect of director fees. The Group had no employees in the current period. All costs of the Directors and other staff are borne by the shareholders who second their employees to the Group.

5 Net interest income

Net interest income and expense is as tabulated below:

	period from 09/03/16 to 31/03/17
	£'000s
Interest income	
Interest on bank accounts and deposits	27
Financial income	3,159
	3,186
Interest expense and other financial costs	
Interest on senior debt	(1,683)
Interest on subordinated debt	(811)
Other financial costs	-
	(2,494)
	692

6 Taxation

a) Taxation on items included in the Income Statement

The net taxation for the period is £179k, and the composition of that charge is shown in the table below.

The taxation charge on current period profits arising in the period represents deferred taxation, and has been computed at 17%. There is no current taxation included in the Income Statement.

The taxation charge for the period differs from the standard rate of corporation tax in the UK of 20% for the reasons outlined below:

	period from 09/03/16 to 31/03/17
	£'000s
Profit before taxation	739
Taxation at 20%	148
Effects of:	
partial exemption financial asset revenue	53
effect of change of tax rate	(22)
Total tax charge	**179**

b) Taxation on items included in other comprehensive income

The net taxation charge on items included in other comprehensive income for the period is £1,231k on losses of £7,243k. The taxation charge on items arising in the current period represents deferred taxation. There is no current taxation included in other comprehensive income.

7 Investments - Company

	2017
	£
At 9 March 2016	-
Additions	100
At 31 March 2017	**100**

HGOHL has 100% investments in the following subsidiary undertakings:

	Activity	Country of Operation	Shareholding of ordinary shares
Humber Gateway OFTO Limited	Concession Company	England	100%
Humber Gateway OFTO Intermediate Limited	Financing Company	England	100%

Both Humber Gateway OFTO Limited and Humber Gateway OFTO Intermediate Limited were incorporated in the United Kingdom and registered in England and Wales. The registered address of the subsidiaries is 6th Floor, 350 Euston Road, London, NW13AX.

8 Transmission owner asset

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

	2017 £'000s
Opening Balance	-
Additions	167,279
Income recognised in the income statement:	
Interest income	3,159
Other Movements	
Cash expenditure	1,033
Cash received	(6,396)
Closing Balance	**165,075**
Comprising:	
Amounts falling due within one year	3,016
Amounts falling due after more than one year	162,059
	165,075

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2017 was £168,550. The basis for estimating the fair value of the Transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate of 3.60% per year.

9 Deferred taxation asset

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

	Fair value losses on derivatives £'000s	Accelerated capital allowances £'000s	Tax losses £'000s	Total £'000s
At 9 March 2016	-	-	-	-
Additions	1,231	(1,032)	853	1,052
Effect of change in tax rate	-	-	-	-
to 31 March 2017	**1,231**	**(1,032)**	**853**	**1,052**

The deferred tax asset is expected to be recoverable over the asset's life and utilised on future taxable profits.

The fair value losses on derivatives are recognised in the statement of comprehensive income. Accelerated capital allowances and tax losses are recognised in the income statement.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

The deferred tax balances in the financial statements are measured at the future rate of 17%.

10 Cash and cash equivalents

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

Cash and cash equivalents include amounts of £13,716k that the Group can only use for specific purposes and with the consent of the Group's lenders. Of the remaining cash and cash equivalents £3,005k require the consent of the Group's lenders prior to use, but are held for general corporate purposes.

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

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11 Borrowings

	Nominal Interest Rate	Year of Maturity	2017 Face value	2017 Carrying amount
			£'000s	£'000s
Sumitomo Mitsui Banking Corporation (Agent Bank)	1.959%	2036	80,302	79,542
European Investment Bank	1.514%	2035	79,892	79,308
Subordinated debt	7.140%	2037	20,897	21,708
			181,091	**180,558**

The following table analyses borrowings:

	2017 £'000s
Current	
Loans	4,934
Loan interest	88
Subordinated debt loans	1,481
Subordinated debt interest	811
	7,314
Non-current	
Loans	155,260
Less Arrangement Fees	(1,431)
Subordinated debt loans	19,415
	173,244
Total borrowings	**180,558**

Total borrowings are repayable as follows:	2017 £'000s
In one year or less	7,314
In more than one year, but not more than two years	5,412
In more than two years, but not more than three years	5,772
In more than three years, but not more than four years	6,270
In more than four years, but not more than five years	6,538
In more than five years other than by instalments	150,683
Less Arrangement Fees	(1,431)
	180,558

Loans comprise of Senior Term Loans and a Short Term Loan which bear interest at a margin over LIBOR. The secured subordinated loan stock has been subscribed by equity holders, Balfour Beatty OFTO Holdings Limited and Equitix Infrastructure 4 Limited. The loan stock bears interest at 5.50% plus the higher of 1% and change in inflation per annum and is repayable in instalments between 2017 and 2037.

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

There have been no instances of default or other breaches of the terms of the financing agreements during the period in respect of all borrowings outstanding at 31 March 2017.

12 Trade and other payables

Trade and other payables are as tabulated below.

	2017
	£'000s
Trade payables	774
Other taxes	510
Accrued expenses	235
	1,519

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value. All trade and other payables are recorded at amortised cost.

13 Derivative financial instruments

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

RPI swaps
The Subsidiary has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 74%) of variable cash inflows arising from the operation of the Subsidiary's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Subsidiary entered into these derivative arrangements on 14 September 2016 with a forward start date for the calculation of the relevant rates commencing on 31 March 2017 and ending on 06 March 2036.

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

Interest Rate swaps
The Group has entered into arrangements with third parties for the purpose of exchanging the interest rate cash flows, based on the notional amount of the Senior Term Loan from a floating rate of 6M LIBOR to a fixed rate of 1.959% for the period from 14 September 2016 to 6 March 2036. The Directors believe that the use of these swaps is consistent with the Group's risk management objective and strategy for undertaking these hedges. The vast majority of the Group's cash outflows relate to borrowings that carry a fixed coupon so that both the principal repayments, and coupon payments are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Group can meet its obligations under the terms of its borrowing arrangements.

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

13 Derivative financial instruments (continued)

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments are carried at market value. The carrying value of derivative financial assets and derivative financial liabilities at 31 March 2017 was £2,551k and £9,794k respectively. All of the movement in the fair value of these derivative instruments has been recorded in the cash flow hedge reserve amounting to a net charge of £6,012k, after a taxation credit of £1,231k.

Ineffective portion of cash flow hedge recognised in the income statement was £nil.

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

14 Called-up share capital

Share capital is as analysed below.

	GROUP 2017 No. £'s	COMPANY 2017 No. £'s
Authorised, allotted, called-up and fully paid		
Opening balance	-	-
Shares issued	100	100
Closing balance	**100**	**100**

The Company has one class of Ordinary Share with a nominal value of £1 which carries no right to fixed income. The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

15 Cash flow statement

a) Analysis of changes in net debt

	Cash and cash equivalents	Borrowings	Derivatives	Total
	£'000s	£'000s	£'000s	£'000s
At 9 March 2016	-	-	-	-
Cash flow	16,721	(179,659)	-	(162,938)
Change in fair values	-	-	(7,243)	(7,243)
Non-cash net interest	-	(899)	-	(899)
At 31 March 2017	**16,721**	**(180,558)**	**(7,243)**	**(171,080)**

16 Related party transactions

The following information relates to all transactions with related parties during the period. These transactions were carried out in the normal course of business.

	Equity Holders 2017 £'000s	Other 2017 £'000s	Total 2017 £'000s
Expenditure			
Interest Balfour Beatty OFTO Holdings Limited (1 including indexation)	162	-	162
Interest Equitix Infrastructure 4 Limited (1 including indexation)	649	-	649
Services received (2,3)	4,244	589	4,833
	5,055	**589**	**5,644**

	Equity Holders 2017 £'000s	Other 2017 £'000s	Total 2017 £'000s
Outstanding balances at 31 March:			
Borrowings payable Balfour Beatty OFTO Holdings Limited [1]	4,162	-	4,162
Borrowings payable Equitix Infrastructure 4 Limited [1]	16,735	-	16,735
Interest accrual Balfour Beatty OFTO Holdings Limited [1]	162	-	162
Interest accrual Equitix Infrastructure 4 Limited [1]	649	-	649
Other	-	111	111
	21,708	**111**	**21,819**

Amounts paid to Balfour Beatty Investments Limited for management services and bid costs amounted to £2,506k, of which £12k was outstanding at balance date.

Amounts paid to Equitix Infrastructure 4 Limited for bid costs amounted to £1,818k. Nil outstanding at balance date.

Amounts paid to Balfour Beatty Utility Solutions Limited for O & M Services amounted to £509k, of which £99k was outstanding at balance date.

1 Relates to funding related transactions and balances with the equity holders. All interest has been directly attributed to the Group.

2 Services received from Parent undertakings relate to transactions with the parent undertakings (Balfour Beatty OFTO Holdings Limited ("BBOHL"), Equitix Infrastructure 4 Limited.). Services amounting to £4,244 were in respect of services that were directly attributable to the Group.

3 The other services rendered at 31 March 2017 of £589k relates to amounts due to Balfour Beatty Investments Limited and Balfour Beatty Utility Solutions Limited.

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16 Related party transactions (continued)

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

	2017
	£'000s
Borrowings from Equity Holders (principal)	
Opening balance	-
Advances	20,897
Non-cash interest	162
Closing balance	**21,059**

Borrowings from the equity holders were negotiated on normal commercial terms and are repayable in accordance with the terms of the secured 6.50% loan notes ("the notes"). No repayments of interest were made during the period. Absent any non-compulsory repayment of the notes, the notes are contractually repayable in installments from 2017 to 2037.

BBI was a related party of the Group during the period ended 31 March 2017 by virtue of it being a related party in BBOHL through to 31 March 2017. The services provided to the Group by BBI were under normal commercial terms and related to professional management and financial services as described in the PSA.

Equitix Infrastructure 4 Limited (Equitix) was a related party of the Group during the period ended 31 March 2017 by virtue of it being a related party of a Group that held 80% of the equity shareholding in Humber Gateway OFTO Holdings Limited through to 31 March 2016. The services provided to the Group by Equitix were under normal commercial terms and related to professional management and financial services.

Balfour Beatty Utility Solutions Limited (BBUS) was a related party of the Group during the period ended 31 March 2017 by virtue of it being a related party in BBOHL through to 31 March 2017. The services provided to the Group by BBUS were under normal commercial terms and related to operator services as detailed in the Operating and Maintenance Agreement.

No amounts have been provided at 31 March 2017, and no expense was recognised during the period in respect of bad or doubtful debts for any related party transactions.

17 Information relating to financial instruments and the management of risk

The Group has the following financial instruments:

	2017 £'000s
Financial assets measured at fair value:	
Derivative financial instruments	2,551
Financial assets that are debt instruments measured at amortised cost:	
Trade and other receivables	1,020
Financial Asset	165,075
Cash and cash equivalents	16,721
	185,367
Financial liabilities measured at fair value:	
Derivative financial instruments	9,794
Financial liabilities measured at amortised cost:	
Senior secured loan	158,851
Subordinated loan	21,707
Trade and other payables	1,519
	191,871

a) Fair value disclosures

The following is an analysis of the Group's financial instruments at the Statement of Financial Position date comparing the carrying value included in the Statement of Financial Position with the fair value of those instruments at that date. None of the Group's financial instruments have quoted prices. Consequently, the following techniques have been used to determine fair values as follows:

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset – based on the net present value of net discounted cash flows, using a discount rate of 3.60%;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the carrying amount in respect of Senior Debt and subordinated debt;
- Derivative financial instruments – based on the net present value of discounted cash flows; and
- Financial instrument receivables and payables - approximates to the carrying value because of the short maturity of these instruments.

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

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

a) Fair value disclosures (continued)

	Valuation Method	Carrying value 2017 £'000s	Fair Value 2017 £'000s
Assets			
Non-current			
Transmission owner asset	Level 3	165,075	169,261
Derivative financial instruments	Level 2	2,551	2,551
		167,626	171,812
Liabilities			
Non-current			
Fixed rate Senior Debt	Level 2	158,763	138,809
Loan notes 2035	Level 2	21,708	36,320
Derivative financial instruments	Level 2	9,794	9,794
		190,265	184,923

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

With the exception of the Transmission owner asset, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Group's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data. Fair value of interest rate swaps has been calculated using the RBS toolkit taking into consideration loan repayment profiles. RPI swaps have been valued by management by discounting future cashflows from the Group's financial model, with reference to bank valuations from three banks, Sumitomo Mitsui Banking Corporation (SMBC), Sumitomo Mitsui Trust Bank (SMTB) and Societe Generale Bank. Management have benchmarked the individual bank valuations against each other to verify the valuations

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

a) Fair value disclosures (continued)

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

The Transmission asset has been valued using a discount rate of 3.60%. At a discount rate of 3.10% the fair value of the asset is £176,756k and at a discount rate of 4.10% the fair value of the asset is £162,254k.

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

Cash flow hedges: Interest Rate Swaps

	2017 Average contract fixed interest rate	2017 Notional principal value	2017 Fair value
	%	£'000s	£'000s
Less than 1 year	0.959%	2,488	1,005
1 to 2 years	0.959%	2,727	6,800
2 to 5 years	0.959%	9,349	417
More than 5 years	0.959%	65,737	(5,671)
		80,301	**2,551**

b) Management of risk

The Board has overall responsibility for the Group's risk management framework. This risk framework is discussed further in the Operating and financial review.

The Group's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Group by using financial instruments, including the use of derivative financial instruments – being the RPI swaps and interest rate swaps described in note 13 that are appropriate to the circumstances and economic environment within which the Group operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period are explained below.

i) Market risk

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

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

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

b) Management of risk (continued)

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

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

The Group's borrowings have been issued at either variable or fixed rates. Where the borrowings are at a variable rate, there are interest rate swaps in place which fixes the rate. All borrowings are carried at amortised cost, and therefore changes in interest rates, in respect of those borrowings, do not impact the Income Statement or Statement of Financial Position.

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

The cash flows arising from the Transmission owner financial asset fluctuate with positive changes in RPI. The Group has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in note 13.

For the reasons outlined in note 13, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the Statement of Financial Position. The RPI swaps are considered to be effective cash flow hedges.

ii) Credit risk

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

Credit risk primarily arises from the Group's normal commercial operations that actually, or potentially, arises from the Group's exposure to: a) NGET in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps and interest rate swaps described in note 13; and c) short term deposits. There are no other significant credit exposures to which the Group is exposed. The maximum exposure to credit risk at 31 March 2017 is the fair value of all financial assets held by the Group. Information relating to the fair value of all financial assets is given above – note 17 (a). None of the Group's financial assets are past due or impaired.

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

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

b) Management of risk (continued)

Having considered the credit risks arising in respect of the exposures to NGET as detailed above, the Directors consider that those risks are extremely low. At 31 March 2017 amounts due from NGET amounted to £nil.

In respect of the counterparties to the cash flow derivative hedges (RPI swaps and Interest Rate swaps) these arrangements have been entered into with banks. At 31 March 2017, the fair values attributable to these positions were liabilities amounting to £7,243k, and as a consequence there is no credit risk to the Group at this date.

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

iii) Liquidity risk and Going Concern

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

As a result of the regulatory environment under which the Group operates; the credit worthiness of the Group's principal customer (NGET); and the RPI swaps that has been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, all of the Group's senior debt carries a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole period of the project. During the period ending 31 March 2017, senior debt-service costs amounted to £1,683k. There is no contractual obligation for the Group to service the secured borrowing until 31 March 2037, although it is the Group's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the secured borrowings amounted to £6,128k during the period.

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

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

b) Management of risk (continued)

iii) Liquidity risk and Going Concern (continued)

At 31 March 2017, cash and cash equivalents included £13,716k that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £3,005k which requires the consent of the Group's lenders but are available for general corporate purposes.

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

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

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

The contractual cash flows shown in the table on this page are the contractual undiscounted cash flows relating to the relevant financial instruments. Where the contractual cash flows are variable based on a price or index in the future, the contractual cash flows in the table have been determined with reference to the relevant price, interest rate or index as at the Statement of Financial Position date.

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

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

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

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

b) Management of risk (continued)

	2017 0-1 years £'000s	2017 1-2 years £'000s	2017 2-5 years £'000s	2017 > 5 years £'000s
Liquidity risk				
Non-derivative financial assets				
Transmission owner asset	8,388	9,787	31,187	186,650
Cash and cash equivalents	16,721	-	-	-
	25,109	9,787	31,187	186,650
Derivative financial assets				
Interest Rate swaps	179	281	1,234	4,120
Non-derivative financial liabilities				
Senior Loan	(7,695)	(8,085)	(17,100)	(158,263)
Subordinated debt	(3,344)	(1,533)	(3,048)	(46,790)
Trade and other non-interest bearing liabilities	(1,519)	-	-	-
	(12,558)	(9,618)	(20,148)	(205,053)
Derivative financial liabilities				
RPI swaps	60	9	(307)	(10,966)
Net total	**12,790**	**459**	**11,966**	**(25,249)**

	Total Contractual Cash flows 2017 Total £'000s
Liquidity risk	
Non-derivative financial assets	
Transmission owner asset	236,012
Cash and cash equivalents	16,721
	252,733
Derivative financial assets	
Interest Rate swaps	5,814
Non-derivative financial liabilities	
Senior Loan	(191,143)
Subordinated debt	(54,715)
Trade and other non-interest bearing liabilities	(1,519)
	(247,377)
Derivative financial liabilities	
RPI swaps	(11,204)
Net total	**(34)**

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

b) Management of risk (continued)

iv) Sensitivities

Changes in RPI and LIBOR affect the carrying value of those financial instruments that are recorded in the Statement of Financial Position at fair value. Two financial instruments that are carried in the Statement of Financial Position at fair value are the stand-alone derivative financial instruments - RPI and Interest Rate swaps as described in note 13 above. As explained in note 13, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the Income Statement. Changes in the fair value of RPI and Interest Rate swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged - in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner asset are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Group has no substantive economic impact on the Group because of the corresponding economic impact on the underlying derivative financial instruments it is hedging.

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

Swap liability fair value sensitivity

	SWAPS 2017 £'000s
At fair value	2,551
Interest Rate + 0.05%	3,327
Interest Rate - 0.05%	1,764

Swap liability fair value sensitivity analysis only impacts equity and not profit and loss on the assumption that the hedging relationship remains 100% effective, as per the latest financial model forecasts.

RPI asset fair value sensitivity

	RPI 2017 £'000s
At fair value	(9,794)
RPI + 0.05%	(10,594)
RPI - 0.05%	(8,997)

RPI fair value sensitivity analysis only impacts equity and not profit and loss on the assumption that the hedging relationship remains 100% effective, as per the latest financial model forecasts.

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

b) Management of risk (continued)

v) Capital management

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

Senior debt is comprised of one swapped Senior Term Loan, one fixed Senior Term Loan and a Short Term Loan. The Senior Term Loans are borrowed in equal amounts from three different lenders (Sumitomo Mitsui Banking Corporation (SMBC), Sumitomo Mitsui Trust Bank (SMTB) and Societe Generale Bank at a LIBOR+0.959% rate. All senior debt is serviced on a six monthly basis. The Senior Term Loans are expected to amortise over the life of the project through to March 2036. The Short Term Loan was repaid in full during the period. The total carrying value of the Loans outstanding at 31 March 2017 amounted to £160,194k. Cover ratios are managed by way of calculating any impact shareholder distributions may have on ratios prior to any distribution taking place.

The subordinated loan ranks behind the senior debt and is held by the Group's intermediate Group, Humber Gateway Intermediate Limited ("HGOIL"). The subordinated loan was issued by HGOIL on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2017 the total principal carrying value of the subordinated loan outstanding amounted to £20,897k.

Ordinary equity share capital issued during the period amounted to £100.

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

18 Ultimate parent companies and controlling parties

Humber Gateway OFTO Holdings Limited is the largest Group in which the results of the Company are consolidated. Copies of the financial statements are available from the registered address; Level 6, 350 Euston Road, London, United Kingdom, NW1 3AX.

The Group's ultimate parent companies and controlling parties are Balfour Beatty plc and Equitix Infrastructure 4 Limited which are incorporated in The United Kingdom and registered in England and Wales. Copies of the financial statements for Balfour Beatty Plc are available from the registered address; 5 Churchill Place, Canary Wharf, London, United Kingdom, E14 5HU. Copies of the financial statements for Equitix Infrastructure 4 Limited are available from the registered address; Welken House, 10-11 Charterhouse Square, London, United Kingdom, EC1M 6EH.