Registered No. 07092596

Wales & West Utilities Holdings Limited

Report and condensed consolidated financial statements
for the six month period ended 30 September 2023

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Business review

The directors present their report and condensed consolidated financial statements to the shareholder of Wales & West Utilities Holdings Limited ("the Group" or "the Company" or "WWUH" as the context requires) for the six month period from 1 April 2023 to 30 September 2023 in accordance with Financial Reporting Standard 102 ("FRS 102") with comparatives in accordance with FRS 102 for the year ended 31 March 2023 and the six month period ended 30 September 2022 (referred to as "2022").

The condensed consolidated financial statements have been prepared in line with FRS 104, Interim Financial Reporting. The Group has prepared these condensed consolidated financial statements to comply with the Information Covenants under clause 1(a)(ii), Part 1, Schedule 4 of the Common Terms Agreement with senior lenders and other parties to that agreement.

Principal activities
The sole purpose of the Company is to act as an intermediate holding company. The Company is a private company limited by shares and does not own any physical assets nor have any employees.

The Group is principally engaged in the management of gas transportation assets through Wales & West Utilities Limited ("WWU"). WWU provides gas distribution and meter work services throughout Wales and the South West of England.

WWU is a regulated gas transportation business owning and operating the principal gas distribution network in Wales and the South West of England consisting of some 33,000 kilometres of mains pipeline and a further 2,400 kilometres of Local Transmission Pipeline. WWU operates under a Gas Transporters' Licence granted by the Gas and Electricity Markets Authority and is responsible for the safety, development, maintenance and daily operation of the GDN which it owns. Gas is transported on behalf of approximately 30 main gas shippers through WWU's distribution pipelines to around 2.5 million consumers.

The Group consolidates the results of Wales & West Utilities Limited, including Wales & West Utilities Finance plc, a wholly owned subsidiary.

Results and operating performance

The Group's profit after taxation for the six months ended 30 September 2023 amounted to £121.4m (2022: £242.5m). The main reasons for the decreased profit are due to a lower fair value gain on the derivative portfolio as explained in Note 2(c), partially offset by a lower corresponding deferred tax charge of £30.3m (2022: £73.0m) explained in Note 3, and a £34.1m material finance credit in relation to the shareholder loan interest in Note 2(d).

Operating profit was £136.8m (2022: £114.8m). The operating performance and movement in operating profit for the two six month periods is explained on pages 2 and 3.

The results of the Group for the six-month period ended 30 September 2023 are set out in the condensed consolidated profit and loss account on page 15.

Results and operating performance (continued)

Operating Performance

The operating performance of the Group for the period ended 30 September 2023, comparatives for the six months ended 30 September 2022 together with the year ended 31 March 2023, is shown in the table below:

	Note	Unaudited Six months ended 30 September 2023 £m	Unaudited Six months ended 30 September 2022 £m	Audited Year ended 31 March 2023 £m
Transportation revenue (excluding exit capacity)	(i)	252.3	219.2	444.3
Exit capacity revenue	(i)	15.8	26.5	53.2
Non-transportation revenue	(ii)	4.2	4.0	8.2
Customer contributions	(iii)	5.9	7.1	12.6
Total revenue		278.2	256.8	518.3
Operating costs	(iv)	(51.3)	(45.1)	(101.0)
Disposal of assets and asset write-down	(v)	1.1	(2.8)	(1.8)
Shrinkage gas	(vii)	(4.6)	(11.2)	(18.5)
Other pass through costs	(viii)	(41.6)	(41.3)	(85.4)
Reported earnings before interest, tax, depreciation and amortisation		**181.8**	**156.4**	**311.6**
Depreciation and amortisation	(ix)	(45.0)	(41.6)	(83.7)
Operating profit		**136.8**	**114.8**	**227.9**

(i) Transportation revenue and exit capacity revenue

Transportation revenue (excluding exit capacity) of £252.3m for the six months ended 30 September 2023 (2022: £219.2m) is split between:

(a) capacity revenue, which represents 96% of total gas distribution network income, is a charge to users in respect of registered/assessed capacity that has been made available in the network to cope with peak day demand; and

(b) commodity revenue, which represents 4% of total gas distribution network income, and is in respect of the estimated total amount of gas transported over, and consumed by users of our network over the year. This value is independent of the wholesale gas price.

For the six month period ended 30 September 2023 transportation revenue (excluding exit capacity) has increased by £33.1m compared to the six months ended 30 September 2022 representing an increase of 15.1%. This increase is largely due to higher CPIH inflation accounting for 11.5%, recovery of under collected revenues in the prior year accounting for 6.8%, AIP adjustment term accounting for -10.5%, and the balance of 7.3% relates to return on RAV (2.1%), revenues allowed for tax (3.7%) and pass through items (1.6%).

Exit capacity revenue of £15.8m for the six months ended 30 September 2023 is £10.7m lower than the £26.5m charged during the six months ended 30 September 2022 due to large decreases in the exit capacity unit rates across all five exit capacity zones. These decreases reflect the cost true-up from previous years.

Results and operating performance (continued)

Operating Performance (continued)

(ii) Non-transportation revenue

Non-transportation revenue includes provision of smart metering installations, metering services to meter asset managers and other services related to the gas infrastructure. Other revenue is principally received from metering services provided to gas Shippers which has remained level compared to the prior period, with the increase being due to one-off specialist network project income.

(iii) Customer contributions

Customer contributions represent amounts received from customers towards gas connections and mains diversions. At 30 September 2023 contributions were £1.2m lower than the six months ended 30 September 2022 reflecting decreased customer-driven domestic connections and major project customer-driven diversion work as a result of the catch-up in 2022 of the deferral of projects due to the Covid-19 restrictions.

(iv) Operating costs

Operating costs for the six months ended 30 September 2023 are £6.2m higher than the six months ended 30 September 2022 due to increased operational workload and inflationary pressures.

(v) Disposal of assets and asset write-down

During the six month period ended 30 September 2023 a profit of £0.4m arose from the sale of land at Dartmouth, as well as a profit of £0.7m from the sale of vehicles and equipment (2022: loss of £2.8m due to £3.7m write-down of IT software (see note 4)), offset by £0.7m following the sale of land at Swindon, and £0.2m miscellaneous plant and equipment).

(vi) Material items

There were no material operating costs or income requiring disclosure for the six month period ended 30 September 2023.

There was a material financing credit in the period of £34.1m, (2022: £nil) see note 2(d). This credit arose as a result of a non-substantial modification of the loans from affiliated companies included in note 16(d) on 25 September 2023, to allow for early repayment at the issuers option. The loans from affiliated companies were repaid on 2 October 2023 as outlined in note 17 explaining post balance sheet events. Under the terms of the instrument, this triggered the cancellation of interest accruals for the final interest payment period prior to repayment, and was supported by a formal deed of release which was executed on 3 October 2023 releasing the Group from any obligation in this respect.

(vii) Shrinkage

Shrinkage costs of £4.6m for the six months ended 30 September 2023 (2022: £11.2m) have decreased considerably due to the reduction in market wholesale gas price. The average price per therm in the six month period to September 2023 was 87p compared to 209p in the same period for 2022.

(viii) Other Pass through costs

Business rates of £18.8m for the six months ended 30 September 2023 (2022: £20.9m) have decreased by £2.1m compared to 2022. This was due to a review of rateable values, with effect from 1 April 2023, 2 years later than planned, postponed as a result of the Covid-19 pandemic.

Exit capacity charges for the period ended 30 September 2023 were £19.9m (2022: £18.6m), 7% higher than the prior period as a result of an increase in the NTS exit capacity charges.

Billing charges from Xoserve for the period ended 30 September 2023 were £1.9m (2022: £1.5m).

NTS pension costs remained at £nil (2022: £nil), but the Ofgem licence fee of £1.4m (2022: £1.1m) increased compared to the prior year. The residual balance for pass through costs comprises a £0.4m bad debt provision release (2022: £0.7m), following recovery of that amount from the Shipper.

The impact of price increases in pass through costs on cash flow has been borne by the Group in the current period and will be recovered in revenue in the 2024/25 regulatory year through the Ofgem licence condition mechanism. All pass-through costs are trued up through Regulatory Allowed Revenue, with an initial true up to reflect revised forecasts in the year the costs are being incurred, and a final true up to reflect actual outturn one year after they are incurred in RIIO-GD2.

Results and operating performance (continued)

Operating Performance (continued)

(ix) Depreciation and amortisation

Depreciation charges on tangible assets for the six month period ended 30 September 2023 are £2.6m higher than the six months ended 30 September 2022 due to the continued expenditure on long life mains replacement, plus the fleet replacement programme.

Amortisation of intangible assets is £0.8m higher in 2023 due to the capitalisation and subsequent amortisation of the S4 Hana IT system starting in the period.

Capital investment and Replacement expenditure

The Group invested and capitalised £147.1m in the period ended 30 September 2023 (2022: £85.7m), against which customers contributed £5.9m (2022: £7.1m), on expanding and improving the regional gas distribution network.

This replacement work is critical, and was undertaken either because:

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

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

Part of network improvement includes replacement work on gas pipes recorded within capital investment. During the six month period ended 30 September 2023 the Group "laid" and replaced with polyethylene alternatives approximately 225km of gas mains and undertook work on 17,117 associated gas service pipes running from the gas mains to the properties of gas consumers at a gross cost of £74.3m (2022: laid 206km of gas mains and 16,197 associated service pipes at a gross cost of £55.2m).

Mains replacement ("Repex") investment for the six month period ended 30 September 2023 at £74.3m was £19.1m higher than the equivalent period in 2022, due to increased workload and the impact of external market cost pressures caused by recent geopolitical tensions around the world.

Cashflow generation and liquidity resources

Net cash flow from operating activities amounted to £170.1m, an increase of £9.6m over the prior year (2022: £160.5m) largely due to higher regulated revenue.

Investing activities, excluding transfers to and from deposit accounts with maturities greater than 3 months, absorbed net cashflow of £151.6m (2022: £83.0m). This significant increase is largely due to a planned increase in the mains replacement program workload during the year to 31 March 2024, and for deferred consideration payments for easements with development clauses.

Net cash inflow from financing activities amounted to £705.2m (2022: £157.2m net cash outflow). £26.2m of accretion payments were made (2022: £nil) and the level of debt repayment is lower. In September 2023, the Group issued one £1 share to the immediate parent Company for cash consideration £759.3m to finance a repayment of £759.3m of loan note debt with shareholder affiliated entities in October 2023.

Total liquidity resources at 30 September 2023 were £1,098.1m, comprising cash and deposits of £923.1m and undrawn facilities of £175.0m on committed revolver facilities (2022: £378.1m). Cash balances, reflecting net cashflow, excluding deposits and after taking account of financing activities, increased by £742.9m (2022: reduced by £89.7m) due to the reasons given above.

Pension scheme

The net pension accounting deficit at 30 September 2023 was £27.4m (2022: £53.0m surplus). An FRS 102 accounting valuation at 30 September 2023 resulted in an actuarial loss on the pension scheme, from the 31 March 2023 position, and net of deferred tax, of £19.9m within the statement of comprehensive income/(expense) (2022: £22.4m). During the six months ended 30 September 2023 WWU contributed £3.8m of deficit recovery contributions for 2023/24 in line with the defined benefit pension scheme deficit recovery plan (2022: 4.5m of deficit recovery contributions for 2022/23). The DB section of the pension scheme was closed to future accrual in July 2021.

A full actuarial valuation at 31 March 2022 was completed by Lane Clark & Peacock, the Scheme's actuary, which showed a deficit on the technical provisions basis of £49.4m. The next full actuarial valuation will be at 31 March 2025.

Fair value of interest rate and index-linked swaps

At 30 September 2023, the Group held index-linked swap contracts with a notional principal of £1,000.4m (2022: £1,000.4m) and interest rate swaps with a notional principal of £680.4m (2022: £680.4m).

The book value liability of the interest and index-linked swap contracts held by the Group at 30 September 2023 was £791.2m (2022: £770.7m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward interest and RPI rates. (Note 8 - Financial instruments and risk management provides further detail).

On 30 November 2023, index-linked swap contracts expired with a notional principal of £304m with a final payment of accrued inflation and interest of £72.0m.

Debt financing during the period to 30 September 2023

In June 2023, the Company, with consent from the lenders, extended the £125m Class A revolver bank facility for 1 year to June 2026. In June 2023 the £50m Class B bank revolver facility due to expire in June 2024 was replaced with a new £50m Class B sustainability linked bank revolver facility maturing June 2026.

The Company entered into a £200m and £250m Private Placement shelf facility with two separate Private Placement investors. In July 2023, £75m of 20 year PP Notes were priced with New York Life at a coupon of 5.98%. These Notes were issued and funded in October 2023.

Current Energy Market Conditions

During the period the UK energy supply market and the wholesale gas price has remained more stable since last years extreme volatility, largely driven by the war in Ukraine and the economic climate. Following peaks in wholesale gas prices over the summer months of 2022, prices have stabilised, as has the energy supply market. The Group continues to monitor the shippers' liquidity closely including the level of bad debt risk and during the period no suppliers have entered administration.

When a supplier fails, there is a process in place to protect that Suppliers customers, ensuring the customer continues to receive energy, whereby Ofgem appoint a Supplier of Last Resort (SoLR) to take on the failed supplier's customers. However, the additional costs of this process (including any unrecovered wholesale gas purchase costs, inherited domestic customer credit balances and working capital costs) are then recovered through the distribution networks and ultimately passed through to consumer bills.

WWU received 17 SoLR claims in December 2021 totalling £95.9m, representing the Group's share of total claims sent to all gas and electricity distribution networks, of £1,837.3m. Following licence modifications by Ofgem to Standard Special Condition A48 of the Gas Transporters' Licence, WWU was obliged to raise transportation charges to the extent of receipt of SoLR claims up to and including December 2021 (rather than September 2021), and to pay amounts so raised to the SoLRs in 2022/23. The SoLR claims have been recognised from April 2022 onwards and are accounted for on a net basis in the Profit and Loss Account.

In December 2022 WWU received 21 SoLR claims totalling £26.0m which have been included in price setting and recovery in 2023/24 regulatory year prices. Amounts received will be paid across to the appropriate SoLRs during the year to 31 March 2024.

Future Developments

With the exception of the expected Hydrogen blending mentioned on page 6, the Group does not envisage any significant changes in the business operations of the Group in the regulatory control period to 31 March 2026. The Group expects to continue to safely maintain and develop the Gas Distribution Network for the benefit of stakeholders in accordance with the Gas Transporters' Licence granted by the Regulator. The Group has a good record against its key performance measures and aims to maintain this position into the future.

The gearing of the Group is expected to be materially reduced during the year to 31 March 2024 with cash equity investment of £344m from its immediate shareholder Wales & West Gas Network (Holdings) Limited.

Climate Change and its Impact on the Future Role of the Network

This is a critical time for the energy sector, with the current volatility in the energy markets, uncertainty of direction to achieve the government's commitment of net zero by 2050, and the impacts of wars in Ukraine and the Middle East feeding the current cost of living crisis. We will continue to provide the infrastructure to transport the energy and heat that people need, whilst at the same time reducing the carbon impact of our business.

In our GD2 Business Plan we set out how we will deliver for the communities which rely on us, with a large focus being on sustainability and the long-term future of energy. Building on this, in 2023 we published our WWU Sustainability Strategy[1] which aims to set out the overarching, long-term vision for our business and the key milestones we anticipate meeting to deliver it.

Our target is to deliver a "Net Zero-ready" gas network by 2035 in the areas most likely to convert to hydrogen, if sufficiently funded and supported by central and local Government and regulators. On the same basis our ambition is for our whole network to be net zero ready by 2040. This is aligned with UK Government's legislative target for the UK to be net zero in its carbon emissions by 2050, and its strategies for industrial decarbonisation and the future of home heating. Whilst we expect a significant degree of uncertainty to prevail for some years on the final pathways that may emerge, we consider that there will be a long-term role for gas (including some, or all, of methane, hydrogen and biomethane) in the energy system.

The next stages in the UK net zero strategy are likely to be hydrogen injecting into the current networks with up to 20% by volume planned by the UK Government with no detriment to domestic appliance operations; a decision and subsequent pathway on this is expected in late 2023.

In addition to direct investment in network assets, including supporting expansion of the number of biomethane production plants connected to our network, we plan to invest around £18m in innovation and net zero related activity across the current price control, RIIO-GD2, to develop further the role of our assets in the future energy system. This includes:

- working with other Gas Distribution Networks to develop Hydrogen trials alongside evidence on safety and transition management;
- developing plans for Hydrogen rollout and town pilots in different parts of the UK, including WWU's geography; and
- working with major industry to develop decarbonised industrial clusters in South Wales, North Wales and the South West, which could require new or repurposed gas network assets.

[1] https://www.wwutilities.co.uk/media/4824/sustainability-strategy-2023.pdf

Business review (continued)

Principal risks and uncertainties
The business, capital structure and the execution of the Group's strategy are subject to a number of risks.

The impact of Covid-19 on our ability to deliver our services has now reduced, with our business adapting to a new way of working. As a result, the risk of Covid-19 on our business, a risk that was separately referenced in last year, has been removed as a principal risk and referenced within other risks where applicable.

Approach to risk
The Group has an established comprehensive approach to risk and has embedded risk management into its business decision-making process. The systems and processes implemented by the Group, together with the recruitment of appropriately qualified staff, are designed to mitigate the risks identified below.

In addition, the Group undertakes regular reviews of its compliance with the requirements of the Gas Transporters' Licence, standards of service and obligations with the HSE. During the year, and subsequently, this included the ongoing review of the risk assessments in light of the impact of the Covid-19 pandemic on home, office and site working practices, their consequential impact on cyber security and GDPR as well as the volatility in the commodity and supply markets caused by the recent geo-political tensions around the world. If more than one principal risk event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Group.

On an annual basis, the Board, as the body with overall responsibility for the Group's system of risk management and internal control and for the monitoring of its effectiveness, undertakes a review of the internal processes, risks and controls with assurance and support provided by one of the Group's sub-committees, the Audit Committee.

A key part of the review is the receipt of a Letter of Assurance from the Chief Executive, which consolidates the key matters of interest raised throughout the year by the management of the Group.

Within the business, the risk management process continues to be based on assessments of operational (including health and safety), regulatory, financial and other business or project risks. Key business departments prepare and maintain risk registers that capture their key risks and the actions being taken to manage them.

These risk registers support the Group's strategic risk register; this incorporates risks that are viewed as important to the Group from an ongoing risk management and mitigation perspective. Senior management is closely involved in the review process, whether that be through discussion at relevant committees or during review and challenge from the Group's internal audit function on a quarterly basis.

The key business risks facing the Group are set out below and have been identified from an inherent risk perspective as having the potential for a material adverse effect on our business operations and results, financial condition or reputation. With appropriate mitigating controls management attempts to reduce the impact of these risks within the business, but some of these risks are not wholly within its control and may still have potential to result in a material adverse impact on the Group and its business activities, as may factors besides those listed.

Further financial related risks are set out after these key business risks; and include inflation and interest rate risk.

Strategic Risk 1 : Network Asset Management Systems

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E *Trend: Stable*

Risk : Failure in the design, implementation and maintenance of each of the Group's asset management systems, including asset health, physical security and integrity (e.g. asset data records), may result in major incidents leading to loss of life, adverse impact on the environment, loss of assets, prosecution under relevant legislation, or failure to meet the relevant applicable licence conditions.

Risk Mitigation : The Group's asset management systems have been certified to ISO 55001 by an external assessor. The Asset Management team oversees a process of asset integrity and risk based management, which is subject to regular audit.

The WWU gas control centre manages gas flows on a day to day and intra-day basis within our gas distribution network and regular emergency exercises and testing are conducted in conjunction with the National Gas Control Centre as part of WWU's crisis management arrangements. Capital spending and maintenance programmes are maintained by the Group with internal oversight and guidance.

Principal risks and uncertainties (continued)

Strategic Risk 2 : Health and Safety Incidents

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E *Trend: Stable*

Risk : There are significant risks associated with failure in the network assets which could result in loss of supply of gas to customers or a fatality or serious injury involving a colleague, a contractor, a member of the public or a third party. Customer service and continuity/quality of supply are important regulatory requirements and poor performance in these areas can result in financial penalties. Any significant incident could cause adverse publicity and impact negatively on the reputation of the Group.

There is a risk that the Health and Safety Executive's ("HSE") 30:30 Mains Replacement Programme, applicable to all GDNs, may not be achieved. Non-compliance with the HSE 30:30 Mains Replacement Programme could result in financial penalties and could cause adverse publicity and impact negatively on the reputation of the Group. A major third-party project within or close to our geography could result in a loss of skilled labour; or a major incident could result in the workforce being diverted away from the replacement programme for a period of time.

Risk Mitigation : WWU has a well-established risk based asset intervention programme which is designed to limit the risk of failure resulting in loss of supply, injuries and fatalities. WWU measure customer service at the highest level in the organisation and we have a senior level focus on improvement plans within our Customer and Communities Steering Group. The mains replacement programme is designed at least one year ahead; progress against the targets is shared quarterly with the HSE. The Group implemented a direct labour delivery model from Summer 2021 to give us greater control over programme delivery and against the potential risks of losing labour to third parties; this has led to a strengthened workforce and we are on track to meet our RIIO-GD2 Mains Replacement targets.

Strategic Risk 3 : Regulation and RIIO-GD2 Price Control

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E *Trend: Stable*

Risk : The gas industry is subject to extensive regulatory and reporting obligations with which the regulated business must comply. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of WWU or, in the case of financial or workload misreporting, a potential fine and a negative reputational impact. The prices which can be charged for the use of the Group's gas distribution network are determined in accordance with the Regulator approved price controls. The outcome of each price control review base-lines the revenues that will be allowed over a pre-determined period (5 years from 2021). In addition, targeted incentive schemes have been introduced by the Regulator whereby the Group has the opportunity to perform against agreed targets and thereby increase revenues or incur penalties if performance is below the targets.

Risk Mitigation : WWU remains fully engaged with Ofgem at all levels of seniority, and the wider industry, to ensure that the RIIO framework remains balanced, sustainable and one that will support investment and customers. WWU has a regulation team and a RIIO steering group to support the RIIO-GD2 price control, understand future plans and the potential impacts on the business.

See the regulatory environment section on page 13 for further information. The Group responds to all potential changes which impact on the business and seeks to mitigate any adverse impacts. The Group has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations, including a robust assurance process for the annual regulatory reporting.

Strategic Risk 4 : Supply Chain

Risk Responsible Officer : Chief Operating Officer *Trend: Stable*

Risk : An interruption to the supply of critical materials or services could have a significant impact on the Group's ability to repair, maintain, develop and reinforce the network.

Risk Mitigation : Since Brexit and during Covid-19 WWU has maintained a critical spares stock holding of repair clamps and other essential material to support the maintenance of the network in the event of an outage. WWU's Procurement department also monitors supplier shortages and in key areas (e.g. PPE and PE Pipe) have support suppliers in place to step in, in the event of failure. There has been minimal impact on the business and corresponding financial statements due to Brexit and the situation is constantly under review.

Principal risks and uncertainties (continued)

Strategic Risk 5 : Labour Availability and Employee Relations

Risk Responsible Officer : Chief Operating Officer *Trend: Decreasing*

Risk : WWU depends on the continued services and performance of a skilled workforce, its ability to retain suitably qualified individuals and recruit individuals with the right experience and skills or in training them, to replace those who leave or retire. The loss of qualified staff, or the inability to attract, retain or assimilate suitably qualified staff in the future, or the delay in hiring any such required personnel, could have an adverse effect on the Group's ability to manage its assets adequately. Turnover remains low comparative to national trends but has been steadily increasing.

Risk Mitigation : The Group has a comprehensive range of employment policies which taken together are designed, inter alia, to foster a stable, positive working environment and relationships, and there is a focused recruitment and retention strategy. There can be no assurance that the financial condition and performance would not be adversely affected by the threat of, or taking of, industrial action by employees, the majority of whom are members of union organisations.

Strategic Risk 6 : Cyber Security Risk and IT Service Failure

Risk Responsible Officer : Director of Finance and IT *Trend: Stable*

Risk : In an increasingly complex environment, with the advent of new technologies, cloud services, mobile working and increased geopolitical situation, traditional security tactics are struggling to combat growing numbers of cyber threats; some of which are unknown and difficult to predict. As an operator of essential services and part of the UK critical national infrastructure, we play a vital role in society, ensuring the supply of energy to domestic and industrial customers across our region. The reliability and security of supply are essential to our customer's everyday activities.

Risk Mitigation : The Head of Cyber Resilience has outlined a multi-year Improvement Plan which will see the cyber resilience and maturity of WWU continue to grow, and risk exposure reduce. Phase 1 of this Improvement Plan included a tightened access control policy and the introduction of privileged access management, together with End Point Protection deployed to the whole estate, and a full suite of ISO27001 Cyber Security Policies. WWU Executive Leadership is regularly updated on the overall state of cyber security and the plans and investment in place to improve the current position.

In line with requirements set out in the Cyber Assessment Framework (CAF) the Cyber Resilience Team have put in place a robust assurance model that blends in-house security testing and assurance skills with external third party exercises. This allows for a much more agile and iterative approach to assurance. Under this model, we have undertaken a number of exercises, including:

- Internal and external reviews of the 'Business Applications' system used in System Operations
- An internal review of Active Directory, and internal penetration test and code review of the Priority Services Register (PSR) Portal
- An internal review of our Active Directory estate
- An internal review of our current email and messaging security
- An external review of our current Incident Response capability, and associated roadmap

In addition to the above, the cyber security team also work closely with Internal Audit to facilitate additional assurance exercises. Findings from these exercises are all logged and assigned action owners, and progress of all internal audit exercises are presented to the Audit Committee on a regular basis.

Strategic Risk 7 : Environment and Climate Change

Risk Responsible Officer : Director of Regulation, Asset Strategy & HS&E *Trend: Stable*

Risk : There is a climate change decarbonisation risk that a full electrification energy scenario in the UK would lead to the stranding of distribution system assets and loss of value / business. Climate change is a substantial risk and our roadmap is to reduce the risk to the business by adopting both an internal and external strategic approach.

Principal risks and uncertainties (continued)

Risk Mitigation : The Group is delivering or supporting many innovative projects that build the case for Hydrogen both for industrial and domestic use. These are discussed on page 5 and form part of this report by cross-reference.

The Group has a unique role to play in the de-carbonisation of our network and are working with our partners to connect more sustainable sources of renewable gas (currently there are 20 renewable sources of gas connected to our network which is equivalent to heating 157,000 homes).

Internally the Group is constantly striving to reduce our operational emissions through numerous cost and waste reduction initiatives, in many cases linked to regulatory outputs which support government policy.

The Group completed a GAP analysis and benchmarking review of our climate related financial disclosures and have started to develop our reporting strategy and ambitions in relation to climate change. An ESG management group has been established to monitor, control and report to the Executive Team and also to the Board through a new ESG Board Committee. The Group is continuing to consider the impact of climate change on other aspects of the business such as the physical impact on the network, both above and below ground.

Financial risks

The Group's operations and capital structure expose it to a range of ongoing risks outlined below.

The Directors have delegated the responsibility of monitoring financial risk management to a sub-committee of the Board, the Treasury Committee. Key decisions of the Treasury Committee are referred back to the Board for ratification. The policies set by the Board are implemented by the Group's finance department through the Treasury Committee.

Liquidity risk

Liquidity risk is the risk that any payment obligation is not met, or is not expected to be met, when due. The Group has significant payment obligations represented by secured debt obligations to third parties.

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

The Group's Treasury policy requires an adequate level of liquidity to be maintained, but there can be no absolute assurance that the Group will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on senior secured debt or any other maturing indebtedness will be capable of being so paid when due.

The Group is compliant with the financial ratios reported semi-annually to our senior lenders.

Gearing risk

The Group has significant secured debt obligations to third parties. Excessive gearing, principally represented by high levels of net debt to RAV, can impair credit strength, ability to raise capital efficiently, invest in the network and maintain shareholder value. To manage this risk the Group maintains a policy to comply with senior lender contractual undertakings including financial ratios, and to achieve strong and stable investment grade credit ratings. In the year to 31 March 2024, the Group's gearing is expected to improve by cash equity injections of £344m from its immediate shareholder, Wales & West Gas Network (Holdings) Limited, of which £147m was made on 9 October 2023. The Group expects to maintain gearing below the Regulator's threshold gearing levels throughout the remainder of the control period to 31 March 2026.

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Volatility in interest rates, real and/or nominal, could result in uncertainty over future cash flows, compliance with interest cover ratios with senior lenders and rating agencies. This volatility is reduced by a policy of maintaining a fixed nominal and/or real rate on at least 85% of liabilities on a rolling 5 year basis, 75% of liabilities thereafter.

Business review (continued)

Principal risks and uncertainties (continued)

Interest rate risk

Index-linked swap and interest rate swap contracts are used to achieve the target interest risk profile. As at 30 September 2023, the Company held index-linked swap contracts with a notional principal of £1,000.4m (2022: £1,000.4m) and interest rate swaps with a notional principal of £680.4m (2022: £680.4m). At 30 September 2023 the net fair value liability of the interest and index-linked swap contracts held by the Company was £853.2m (2022: £841.2m). This liability may differ materially from the ultimate cost of settling these contracts and remains sensitive to movements in forward interest and RPI rates. £304m notional of the RPI swaps and £605.4m notional of the interest rate swaps are due to expire on 30 November 2023. Note 14 - Financial instruments and risk management provides further detail.

Inflation risk

Inflation risk exists because CPIH inflation allowed in regulated revenues and RAV does not perfectly offset inflation cost changes within the business (affecting operating costs and investments) and capital structure combined, leading to (i) cash flow risk due to timing mismatches between inflation cash inflows and outflows and (ii) basis risk due to different measures of inflation involved – i.e. CPIH to revenues and RAV but RPI in the cost of debt finance with the use of RPI linked swaps and RPI linked debt.

From 1 April 2021, Ofgem changed the inflationary index from RPI to CPIH for the determination of regulated nominal revenues and RAV and considered this change to be value neutral to investors and consumers in the long run. This change is likely to accelerate revenues into control period RIIO-GD2 and RIIO-GD3 from revenues in subsequent control periods, but likely to result in slower nominal growth in RAV.

The Group has, and continues to use, a significant amount of RPI linked inflation swaps to achieve a fixed real cost on a significant amount of debt in its capital structure and this significant position remains. Since 2010, periodic swap accretion payments due under these RPI swaps create significant cashflow timing differences because they are not offset by inflation cash inflows from future regulated nominal revenues. In addition, the regulatory change to CPIH from 1 April 2021 gives rise to a new basis risk between this RPI linked debt base and the CPIH linked regulated revenues and RAV.

These two risks create pressures on liquidity, gearing, and credit rating profile, and ultimately on shareholder value, and are managed within the Group's policies on liquidity, leverage and credit rating. At 30 September 2023, a 0.01% increase to the forward break even RPI curve would result in a £2.3m increase to the RPI index-linked swap liability and a 0.01% increase to forward nominal interest rates would result in a £1.3m decrease to the RPI index-linked swap liability. Higher inflation, however, pressurises credit metrics, notably with rating agencies, who include accrued accretion expense on RPI contracts in their coverage ratios. However, the size of the Group's RPI swap portfolio will reduce in November 2023 when £304 million of the £1,004 million will expire and Net debt to RAV gearing will materially reduce following cash equity investment of £344m in October and November 2023. The Group intends to reduce the exposure to RPI further by moving to a CPI basis using derivatives, once market conditions are suitable. For our senior lenders, detailed forward looking financial ratios are published at the same time as our financial statements are published and we expect to maintain adequate headroom. Copies of rating agency reports and financial ratio certificates for senior lenders are contained in our investor website (https://www.wwufinanceplc.co.uk). However, there can be no absolute assurance that these policies will be effective in preventing impairment to liquidity, credit profile and shareholder value.

Pension deficit risk

The Group operates the Wales & West Utilities Pension Scheme ("the Scheme"). The defined benefit section of the Scheme was closed to new entrants in 2005 and to future accrual in July 2021. Therefore 100% (2022: 100%) of members are either retired or have deferred benefits at 30 September 2023. Since 2005 new employees are entitled to enrol into the defined contribution section of the Scheme.

There are risks of increasing deficit pension contributions associated with the financial performance of the assets within the defined benefit section of the Scheme and with the estimate of the liabilities of the Scheme including the longevity of members. Currently, deficit repair costs in respect of service earned to 31 March 2013 are separately funded within regulated revenue. Deficit repair costs in respect of service post 31 March 2013 and ongoing service costs are funded out of the overall controllable cost allowance through regulated revenue.

See note 10 for consideration of the details of the criteria for the recognition of the pension liability at 30 September 2023. In order to further minimise the risks of the fluctuating values of liabilities in the defined benefit section of the pension scheme, the scheme was closed to future accruals from July 2021.

Business review (continued)

Principal risks and uncertainties (continued)

Commodity risk

Shrinkage gas is the gas which leaks from the distribution network and also includes gas used by the Group and gas stolen from the network. The cost of gas that leaks through the network and stolen is a passed through in revenues.

The total gross cost of gas purchased for the six month period ended 30 September 2023 was £4.6m (2022: £11.2m). The gas is purchased through contracts renewed every three years and these contracts typically fix the price of gas a day ahead of purchase. Price risk is allowed for under both the RIIO-GD1 and RIIO-GD2 regimes and treated as a cost pass through using day ahead prices and is therefore substantially mitigated. The volume risk is closely monitored and is also mitigated to a certain extent given the relatively stable flows of gas through the network and consequent consumption volumes. The large decrease in gas prices compared to the prior year is due to reduced volatility in commodity prices such as oil which has had a significant impact on supplier costs.

Credit risk

The Group is exposed to the risk that its counterparties, including shippers, may default on the terms of their agreements. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis. Exposure against credit limits is monitored daily and credit limits are reviewed at least annually in the case of credit checks and when any security document expires, an Investment Grade Rating changes or trading levels increase.

The amount of credit given to gas shippers is governed by the Uniform Network Code ("UNC") regulations and guideline. These provide for defined levels of unsecured credit with Gas Shippers based on Investment Grade Ratings ("IGRs") with any excess credit amounts being secured by Letters of Credit, Parent Group Guarantees or by way of prepayment. The UNC criteria allow a maximum credit limit usage of 100% (2022: 100%) which, if exceeded, allows the Group to apply sanctions.

If any of the Group's shipper customers default on their payment to the Group or become insolvent, and provided that WWU has followed and implemented the relevant procedures under the UNC, WWU can make an application to Ofgem for the costs and losses incurred from such events to be passed on to consumers and recovered by the Group.

Credit risk also arises with counterparties such as banks and other financial institutions with whom cash and deposits are placed. WWU's Treasury policy requires independently rated financial counterparties to have a minimum short term rating of A2 with Standard and Poor's, F2 with Fitch or P-2 with Moody's; and a minimum long term rating A- with Standard and Poor's and Fitch or A3 with Moody's. In relation to financial obligations that may arise under derivative contracts, counterparties with such obligations are required to maintain minimum rating thresholds and are subject to collateral posting obligations.

Regulatory Environment

The gas distribution business of the Group is regulated by the Office of Gas and Electricity Markets ("Ofgem"). Ofgem operates under the direction and governance of The Gas and Electricity Markets Authority ("GEMA" or "The Regulator"), which makes all major decisions and sets policy priorities for Ofgem. The mechanism for regulation of the Group's activities in gas distribution and metering is derived from:

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

As a regulated business the Group is subject to price controls set by Ofgem which define its allowed revenues. For the year ended 31 March 2023, the Group operated under Ofgem's RIIO (Revenue = Incentives, Innovation and Outputs) principles (the RIIO-GD2 price control) a 5 year price control which commenced on 1 April 2021 and ends on 31 March 2026. This price control defines allowed revenue in respect of operating expenditure, capital expenditure, replacement expenditure and a return on the Group's investment in the gas infrastructure asset. This is the second price control under the RIIO regime. In addition to the regulated revenues permitted by Ofgem, the Group earns non-regulated revenues, predominantly through gas meter work, smart meter installations and third party maintenance contracts. The Group aims to continue undertaking this work where it is of benefit to the Group. The Group is also regulated by the Health and Safety Executive and other statutory regulations. The Group submits specified annual returns and a regulatory reporting pack to Ofgem annually following the 31 March regulatory year end.

RIIO-GD2 Framework

The RIIO framework introduced in RIIO-GD1 remains in place in RIIO-GD2 with some significant differences. These include Price Control Deliverables (specific outputs) for mains replacement, cyber security and a large capital pipeline rebuild project; any non-delivery or change of specification could result in a hand back of cost allowances (which are more prescriptive than the outputs previously reported on in RIIO-GD1).

New mechanisms called 'use it or lose it' allowances for investment in net zero and vulnerable customers have been introduced; we will hand back any allowances unspent in the RIIO-GD2 close out process in 2026.

There is also a considerable increase in the number of 'uncertainty mechanisms' we can utilise if we do not have the costs and workload covered in our base allowances; these require applications to Ofgem for re-imbursement of material spend areas outside of our base allowances.

There is a significant increase in the information required by Ofgem in respect of this price control ("regulatory returns") compared to RIIO-GD1.

Revenue allowances for cost of capital are lower, and inflation is compensated, by reference to CPIH.

Competition and Markets Authority ('CMA') appeal

The Group has appealed certain aspects of the RIIO-GD2 price control in relation to the CMA's determination in 2021. On the 22 March 2023 the Court of Appeal granted permission to apply for judicial review, with the Rt. Hon. Judge agreeing that the application should be reviewed at a full judicial review. We will now proceed with the hearing, expected in 2024.

Future regulatory price controls

Ofgem has made the decision not to have an extension to RIIO-GD2 and so the current price control will end in 2026 as initially planned. We anticipate being required to submit our GD3 Business Plan to Ofgem by December 2024, post further direction on what Ofgem expect to be included. This will include Ofgem issuing Sector Specific Methodology Decisions and taking a view on any impact of the Government's latest thinking and any decisions on Net Zero Carbon. Ofgem is expected to issue a Sector Specific Methodology Consultation for GD3 in December 2023.

Going Concern

The Group's report and condensed consolidated financial statements for the period have been prepared on the basis that the Group and Group is a going concern. The business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business review. The risks that the business faces in the coming year are set out on pages 7 to 10. The financial position of the Group, its cash flows and liquidity position are set out on pages 17 to 19.

In arriving at their decision to prepare the consolidated financial statements on a going concern basis the directors have reviewed the Group's and Group's budgets and forecasts to March 2025, medium-term business plans and projections to the end of RIIO-GD2 at March 2026 and longer term projections spanning multiple control periods. The levels of headroom under key financial ratios, liquidity headroom, investment grade credit rating levels and ability to access debt capital markets were assessed in the context of the principal risks and uncertainties faced by the Group, the shareholders' deficit, and any material term debt expiries to March 2025. The directors concluded that the Group and Group were in a position to meet their liabilities as they fall due during the period to March 2025.

Directors' responsibilities statement

The directors confirm to the best of their knowledge that:

- the report and condensed consolidated financial statements have been prepared in accordance with FRS 104: Interim Financial Reporting issued by the Financial Reporting Council and give a true and fair view of the assets, liabilities, financial position and loss of the group;

- the report includes a fair review of the important events during the period and includes a description of the principal risks and uncertainties for the remaining months of the financial period; and

- the report includes the disclosure of related parties' transactions.

By order of the Board

P Millar
Company Secretary

7 December 2023

Condensed consolidated profit and loss account for the six month period ended 30 September 2023

	Note	Unaudited Six months ended 30 September 2023 £m	Unaudited Six months ended 30 September 2022 £m	Audited Year ended 31 March 2023 £m
Turnover		**278.2**	256.8	518.3
Net operating costs		**(141.4)**	(142.0)	(290.4)
Operating profit before depreciation, amortisation, and certain material items		**181.8**	156.4	311.6
Depreciation and amortisation		**(45.0)**	(41.6)	(83.7)
Operating profit		**136.8**	114.8	227.9
Operating profit		**136.8**	114.8	227.9
Interest receivable and similar income	2(a)	**5.4**	1.5	5.1
Interest payable and similar charges	2(b)	**(78.0)**	(69.9)	(141.5)
Material financing credit	2(d)	**34.1**	-	-
Fair value swap movements	2(c)	**65.0**	285.8	171.6
Profit before taxation		**163.3**	332.2	263.1
Tax on profit	3	**(41.9)**	(89.7)	(69.9)
Profit for the financial period/year		**121.4**	242.5	193.2

All operations are continuing.

Condensed consolidated statement of comprehensive income for the six month period ended 30 September 2023

	Unaudited		Audited
	Six months ended 30 September 2023	**Six months ended 30 September 2022**	**Year ended 31 March 2023**
	£m	**£m**	**£m**
Profit for the financial period/year attributable to the ordinary shareholder	**121.4**	242.5	193.2
Actuarial loss on pension scheme (note 10)	**(26.5)**	(29.8)	(93.2)
Deferred tax credit on actuarial loss on pension surplus/deficit	**6.6**	7.4	23.3
Total comprehensive income relating to the period/year	**101.5**	220.1	123.3

Condensed consolidated balance sheet as at 30 September 2023

	Note	Unaudited 30 September 2023 £m	Unaudited 30 September 2022 £m (As restated see note 9)	Audited 31 March 2023 £m
Fixed assets				
Intangible assets	4	**188.1**	187.4	187.9
Tangible assets	5	**2,976.4**	2,811.5	2,876.7
Investments		**0.1**	0.1	0.1
Pension asset	10	**-**	53.0	-
		3,164.6	3,052.0	3,064.7
Current assets				
Derivative asset				
– due after more than one year	8	**8.4**	36.6	40.5
Stocks		**4.5**	4.8	4.2
Debtors		**51.3**	59.3	58.5
Cash at bank	13	**807.3**	45.1	64.4
Cash on deposit	13	**115.8**	158.0	135.0
		987.3	303.8	302.6
Current liabilities				
Creditors: amounts falling due within one year	6(a)	**(426.4)**	(204.3)	(443.4)
Net current assets/(liabilities)		**560.9**	99.5	(140.8)
Total assets less current liabilities		**3,725.5**	3,151.5	2,923.9
Creditors: amounts falling due after more than one year	6(b)	**(3,084.3)**	(3,285.2)	(3,182.6)
Provisions for liabilities	9	**(442.6)**	(459.1)	(426.2)
Pension liability	10	**(27.4)**	-	(4.7)
Net assets		**171.2**	(592.8)	(689.6)
Capital and reserves				
Called up share capital	11	**-**	-	-
Share premium	12	**868.4**	109.1	109.1
Profit and loss account		**(697.2)**	(701.9)	(798.7)
Total shareholders' funds		**171.2**	(592.8)	(689.6)

Condensed consolidated statement of changes in equity for the six month period ended 30 September 2023

	Note	Called up share capital £m	Share Premium £m	Profit and Loss account £m	Total £m
Total equity attributable to owners at 1 April 2022 (as reported)		**-**	**109.1**	**(914.5)**	**(805.4)**
Restatement (net provisions discount rate adjustment)		-	-	(7.5)	(7.5)
Total equity attributable to owners at 31 March 2022 (Audited as restated)		**-**	**109.1**	**(922.0)**	**(812.9)**
Profit for the six month period		-	-	242.5	**242.5**
Re-measurement of net defined benefit surplus	10	-	-	(29.8)	**(29.8)**
Deferred tax on defined benefit surplus		-	-	7.4	**7.4**
Total comprehensive income		**-**	**-**	**220.1**	**220.1**
Total equity attributable to owners at 30 September 2022 (Unaudited as restated)		**-**	**109.1**	**(701.9)**	**(592.8)**
Loss for the six month period		-	-	(49.3)	**(49.3)**
Re-measurement of net defined benefit deficit	10	-	-	(63.4)	**(63.4)**
Deferred tax on defined benefit surplus		-	-	15.9	**15.9**
Total comprehensive expense		**-**	**-**	**(96.8)**	**(96.8)**
Total equity attributable to owners at 31 March 2023 (Audited)		**-**	**109.1**	**(798.7)**	**(689.6)**
Profit for the six month period		-	-	121.4	**121.4**
Re-measurement of net defined benefit deficit	10	-	-	(26.5)	**(26.5)**
Deferred tax on defined benefit deficit		-	-	6.6	**6.6**
Total comprehensive income		**-**	**-**	**101.5**	**101.5**
Share issued to immediate parent	12	-	759.3	-	759.3
Total equity attributable to owners at 30 September 2023 (Unaudited)		**-**	**868.4**	**(697.2)**	**171.2**

Condensed consolidated cash flow statement
for the six month period ended 30 September 2023

	Note	Unaudited Six months ended 30 September 2023 £m	Unaudited Six months ended 30 September 2022 £m	Audited Year ended 31 March 2023 £m
Operating activities				
Net cash inflow from operating activities	13	**179.8**	165.3	308.7
Taxation		**(5.9)**	0.6	0.5
Pension deficit contributions		**(3.8)**	(5.4)	(9.9)
Net cash inflow from operating activities		**170.1**	160.5	299.3
Cash flows from investing activities				
Purchase of intangible assets		**(7.4)**	(2.9)	(6.5)
Purchase of tangible assets		**(145.3)**	(77.3)	(173.1)
Intangible asset write-down costs		**-**	-	(3.7)
Proceeds from disposal of tangible fixed assets		**1.1**	0.9	2.1
Intangible asset write-down costs	4	**-**	(3.7)	-
Reclassification from deposit accounts		**19.2**	(10.0)	13.0
Net cash outflow from investing activities		**(132.4)**	(93.0)	(168.2)
Cash flows from financing activities				
Interest received in respect of index-linked swap contracts		**8.7**	1.2	4.4
Interest received in respect of interest rate swaps		**-**	2.4	3.1
Interest received – other		**4.7**	0.5	3.5
Interest paid in respect of index-linked swaps		**(5.6)**	(77.7)	(8.6)
Interest paid – other external debt		**(24.4)**	(22.3)	(63.4)
Interest paid on subordinated loan from affiliates		**(10.5)**	(10.5)	(10.5)
Index linked swap accretion payments		**(26.2)**	-	(78.5)
Payments in respect of finance lease obligations		**(0.8)**	(0.8)	(1.5)
Proceeds from the issue of shares	12	**759.3**	-	-
Net bank and bond debt repaid		**-**	(50.0)	(50.0)
Net cash inflow/(outflow) from financing activities		**705.2**	(157.2)	(201.5)
Net increase/(decrease) in cash and cash equivalents		**742.9**	(89.7)	(70.4)
Cash and cash equivalents at beginning of period	14	**64.4**	134.8	134.8
Cash and cash equivalents at end of period	14	**807.3**	45.1	64.4
Net decrease in cash and cash equivalents	14	**742.9**	(89.7)	(70.4)
Analysis of cash and cash equivalents				
Cash at bank and in hand	14	**807.3**	45.1	64.4
Cash and cash equivalents	14	**807.3**	45.1	64.4
Analysis of cash on deposit				
Cash on deposit at beginning of period	14	**135.0**	148.0	148.0
Cash on deposit at end of period	14	**115.8**	158.0	135.0
Reclassification to/(from) deposit accounts per above	14	**19.2**	10.0	(13.0)

1. Basis of preparation

The report and condensed consolidated financial statements cover the six month period from 1 April 2023 to 30 September 2023 and comparatives included for the six months ended 30 September 2022 and the year ended 31 March 2023 have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102"). The consolidated results include the results of its wholly owned subsidiary Wales & West Utilities Limited ("WWU").

The condensed consolidated financial statements have been prepared in line with FRS 104, Interim Financial Reporting. The Group has prepared these condensed consolidated financial statements to comply with the Information Covenants under clause 1(a)(ii), Part 1, Schedule 4 of the Common Terms Agreement with senior lenders and other parties to that agreement.

The report and condensed consolidated financial statements are unaudited.

The report and condensed consolidated financial statements do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006. They should be read in conjunction with the consolidated financial statements for the year ended 31 March 2023, which were prepared in accordance with UK Generally Accepted Accounting Principles and have been filed with the Registrar of Companies. The auditor's report on those consolidated financial statements was unqualified and did not contain a statement under Section 498 (2) or 498 (3) of the Companies Act 2006.

This report and condensed consolidated financial statements have been prepared on the basis of the accounting policies expected to be applicable for the year ending 31 March 2024 and are consistent with those that were applied in the preparation of the consolidated financial statements for the year ended 31 March 2023 except that taxes on income in the interim accounting periods are accrued using the tax rate that would be applicable to the expected total earnings for the full financial period.

The directors are satisfied that the Group/Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in the preparation of the report and condensed consolidated financial statements, as set out in the business review on page 13.

Related party transactions

The Company is a 100% owned subsidiary of Wales & West Gas Networks (Holdings) Limited and was included in the consolidated financial statements of Wales & West Gas Networks (Holdings) Limited at 31 March 2023. Consequently, under the terms of Section 33 of FRS 102 "Related Parties", the Company is exempt from disclosing related party transactions with entities that are wholly owned within the Wales & West Gas Networks (Holdings) Limited group.

The report and condensed consolidated financial statements were approved by the Board of Directors on 7 December 2023.

Material Items

There were no material operating costs or income requiring disclosure for the six month period ended 30 September 2023. There was a material financing credit in the period of £34.1m, (2022: £nil) see note 2(d).

When assessing whether an event should be classified as an exceptional item management considers the nature, frequency, materiality and the facts and circumstances of each event. Management considers whether there is any precedent and ensures consistent treatment for both favourable and unfavourable transactions. Items of income or expense considered as exceptional are separately disclosed as a material item in the profit and loss account; such examples include significant restructuring and the associated costs (for example fees associated with closure of the Defined Benefit scheme), impairment of non-current assets and costs associated with the Group's appeal to the CMA and subsequent judicial review, which are considered to be one off and material over time.

2. Interest

(a) Interest receivable and similar income

	Unaudited		Audited
	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m	Year ended 31 March 2023 £m
Interest receivable on bank deposits	**5.4**	1.5	5.1

(b) Interest payable and similar charges

	Unaudited		Audited
	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m	Year ended 31 March 2023 £m
On external debt	**41.0**	42.6	84.2
On loans with affiliates	**38.5**	30.5	65.1
Amortised debt issue costs and bond discount	**0.5**	0.5	1.7
On unwinding of discounts on provisions (note 9)	**0.6**	0.7	1.6
On change of provisions discount rate (note 9)	**(2.7)**	(3.5)	(9.1)
Pension finance (income)/charge – (note 10)	**-**	(1.0)	(2.2)
Finance lease interest	**0.1**	0.1	0.2
	78.0	69.9	141.5

Interest on external debt for the six months ended 30 September 2023 includes a charge of £6.7m (2022: £11.8m) for accrued inflation on the RPI (“Retail Price Index”) linked bond.

(c) Fair value swap movements

	Unaudited		Audited
	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m	Year ended 31 March 2023 £m
Fair value (gain)/loss on index-linked swaps	**(70.6)**	(273.6)	(188.8)
Fair value (gain)/loss on interest rate swaps	**5.6**	(12.2)	17.2
Net swap portfolio movements	**(65.0)**	(285.8)	(171.6)

The fair value gain on RPI linked swaps for the six months ended 30 September 2023 of £70.6m arose from an increase in the forward interest rate (2022: £273.6m arose from a decrease in the forward RPI and an increase in the forward interest rate) as reflected by their respective market observable forward curves.

2. Interest (continued)

(d) Material financing credit

The material financing credit of £34.1m arose as a result of a non-substantial modification of the loans from affiliated companies included in note 16.d) on 25 September 2023 to allow for early repayment at the issuers option. The loans from affiliated companies were repaid on 2 October 2023 as outlined in note 17 explaining post balance sheet events. Under the terms of the instrument, this triggered the cancellation of interest accruals for the final interest payment period prior to repayment and was supported by a formal deed of release which was executed on 3 October 2023 releasing the Group from any obligation in this respect.

3. Tax on profit

Taxes on the profit in the period are accrued using the tax rate that would be applicable to the expected total profit for the year ending 31 March 2024.

The total tax charge for the six months ended 30 September 2023 is based on the estimated effective tax rate for the year ended 31 March 2024 before exceptional one-off items, mark to market movements on the derivative portfolio and adjustments in respect of prior periods.

(a) Analysis of tax charge in the period/year

	Unaudited		Audited
	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m	Year ended 31 March 2023 £m
The charge for taxation is made up as follows:			
Current tax			
UK corporation tax on profit	**11.6**	16.7	6.2
Adjustment in respect of prior period	**-**	-	-
Total current tax	**11.6**	16.7	6.2
Deferred tax			
Origination and reversal of timing differences	**30.1**	62.8	54.2
Deferred tax relating to change of tax rate	**-**	10.2	10.9
Adjustment in respect of prior period	**0.2**	0.0	(1.4)
Total deferred tax	**30.3**	73.0	63.7
Total tax charge on profit	**41.9**	89.7	69.9

For the six month period ended 30 September 2023, the current tax charge in the period of £11.6m reflects the residual taxable profits remaining after the utilisation of brought forward losses (2022: £16.7m as a result of the residual taxable profits remaining after the utilisation of brought forward losses and Corporate Interest Restriction disallowances reactivated).

For the six month period ended 30 September 2023, the deferred tax charge arising in the period of £30.3m reflects the excess utilisation of deferred tax assets over reversals of deferred tax liabilities (2022: charge of £73.0m reflects the excess utilisation of deferred tax assets over reversals of deferred tax liabilities).

The deferred tax assets and labilities that make up the closing net deferred tax liability of £399.7m are set out in note 9.

3. Tax on profit (continued)

(b) Factors affecting the tax charge in the period/year

The difference between the total tax charge and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Unaudited		Audited
	Six months ended 30 September 2023 £m	**Six months ended 30 September 2022 £m**	**Year ended 31 March 2023 £m**
Profit/(loss) before tax	**163.3**	332.2	263.1
Profit/(loss) before tax multiplied by weighted average rate of corporation tax in the UK of 25% (2022: 19%)	**40.8**	63.1	50.0
Effect of:			
Expenses not deductible for tax purposes	**1.2**	17.1	12.1
Income not taxable in determining taxable profit	**(0.4)**	(0.7)	(1.7)
Effect of change in tax rate	**-**	10.2	10.9
Adjustment to deferred tax in respect of prior period	**0.3**	-	(1.4)
Total tax charge for the period/year	**41.9**	89.7	69.9

The total tax charge for the six month period ended 30 September 2023 is higher than implied by the statutory tax rate of 25% (2022: 19%) largely as a result of the tax impact of the disallowable shareholder loan note interest of £0.5m offset by the impact of discrete items £0.5m (2022: largely as a result of the substantive enactment of the 25% tax rate giving rise to an incremental deferred tax charge of £10.2m, the tax impact of disallowable shareholder loan note interest of £5.8m and the impact of discrete items £11.5m).

The effective tax rate for the six months ended 30 September 2023 is 25.7% (2022: 27.0%).

Net utilisations of recognised deferred tax assets are expected to exceed net reversals of recognised deferred tax liabilities by £34.4m in the year to 31 March 2024 (2022: £16.9m in the year to 31 March 2023). This relates mainly to the reversal of deferred tax assets relating to the fair value of derivatives recognised on balance sheet with effect from 1 April 2016 and the utilisation of brought forward tax losses and corporate interest restriction disallowances, in excess of the reduction in deferred tax liabilities in respect of fixed assets.

4. Intangible assets

	Unaudited		Audited
	30 September 2023 £m	**30 September 2022 £m**	**31 March 2023 £m**
Opening net book amount	**187.9**	189.5	189.5
Additions	**4.6**	6.6	10.3
Retirements and disposals	**-**	-	(0.1)
Write-down	**-**	(3.7)	(3.7)
Balance reclassification from tangibles	**1.4**	-	-
Amortisation	**(5.8)**	(5.0)	(8.1)
Closing net book amount	**188.1**	187.4	187.9

At 30 September 2023 the Group held an intangible fixed asset of £134.8m (30 September 2022: £139.9m; 31 March 2023: £137.4m) in respect of The Gas Transporters' Licence which is being amortised over 45 years. The other intangible fixed assets held are IT software and assets under construction. During the prior period a £3.7m charge to operating expenditure has been recognised following the Group's decision to terminate the development of an IT software solution.

As part of the SAP S4Hana fixed asset data migration exercise, £1.4m book value of assets were reclassified from tangible to intangible assets.

At 30 September 2023 the Group had capital commitments for IT software of £0.9m (30 September 2022: £3.1m; 31 March 2023: £4.9m) in respect of its capital programme.

5. Tangible assets

	Unaudited		Audited
	30 September 2023 £m	**30 September 2022 £m**	**31 March 2023 £m**
Opening net book amount	**2,876.7**	2,767.4	2,767.4
Additions	**142.5**	82.8	189.1
Disposals (net)	**(0.1)**	-	(0.1)
Balance reclassification to intangibles	**(1.4)**	-	-
Depreciation	**(41.3)**	(38.7)	(79.7)
Closing net book amount	**2,976.4**	2,811.5	2,876.7

The depreciation charge in the year for tangible fixed assets was £41.3m (2022: £38.7m), however, £2.1m (2022: £2.1m) of this was directly attributable to capital works and was subsequently capitalised. The net depreciation charge to the income statement was therefore £39.2m (2022: £36.6m).

The Group operates company cars on leases which meet the definition of finance leases and are accounted for accordingly.

	£m	**£m**	**£m**
Included within the net book amount above			
Assets held under finance leases	**3.3**	3.0	3.5
Closing net book amount	**3.3**	3.0	3.5

At 30 September 2023 the Group had capital commitments of £18.0m (30 September 2022: £25.0m; 31 March 2023: £21.3m) in respect of its capital programme.

6. Creditors

	Note	Unaudited 30 September 2023 £m	Unaudited 30 September 2022 £m	Audited 31 March 2023 £m
(a) Amounts falling due within one year:				
External borrowings	7	**149.9**	-	149.9
Obligations under finance leases	7	**0.7**	0.7	0.7
Payments received on account		**27.8**	31.8	27.4
Trade creditors		**3.8**	9.3	9.5
Other taxation and social security		**14.8**	22.5	18.7
Corporation tax liability		**13.3**	18.4	7.6
Other creditors		**2.2**	1.8	2.2
Accruals interest	8(a)	**77.8**	68.0	85.3
Accruals other		**55.2**	51.8	57.6
Swap fair value liability		**80.9**	-	84.5
		426.4	204.3	443.4
(b) Amounts falling due after more than one year:				
External borrowings	7	**1,579.9**	1,729.5	1,579.7
Loan notes with affiliates	8(a)	**709.5**	687.0	697.8
Derivative liability (excluding accretion)	8(a)	**718.7**	807.3	835.4
Accrual for index-linked bond accretion	7	**73.1**	58.3	66.4
Obligations under finance leases	7, 8(a)	**2.5**	1.5	2.2
Trade creditors		**0.6**	0.6	0.6
Other creditors		**-**	1.0	0.5
		3,084.3	3,285.2	3,182.6

The movement in the loan notes with affiliates balance represents accrued interest that does not fall due within one year.

7. External borrowings

	Unaudited 30 September 2023 £m	Unaudited 30 September 2022 £m	Audited 31 March 2023 £m
Repayable as follows:			
Within one year (note 6)	**150.6**	0.7	150.6
In more than one year but not more than two years	**1.1**	0.8	1.4
In more than two years but not more than five years	**559.4**	560.0	559.3
In more than five years	**1,731.4**	1,857.2	1,719.0
(note 14)	**2,442.5**	2,418.7	2,430.3
Accrual for index-linked bond accretion (note 6)	**73.1**	58.3	66.4
	2,515.6	2,477.0	2,496.7
Less: amounts owed to affiliates (note 16)	**(709.5)**	(687.0)	(697.8)
	1,806.1	1,790.0	1,798.9

At 30 September 2023 the £1,806.1m (2022: £1,790.0m) of external borrowings comprises listed bonds of £1,393.7m (2022: £1,378.1m), EIB term loans of £309.9m (2022: £309.9m), private placement notes of £99.5m (2022: £99.8m) – note 8(a); , obligations held under finance leases of £3.2m (2022: £2.2m) partly offset by deferred private placement fees (see note 17.3) of £0.2m (2022: £nil).

7. External borrowings (continued)

a) Wales & West Utilities Finance plc ("WWUF") has in issue guaranteed listed bonds with a nominal value of £1,325.0m (2022: £1,325.0m) and a book value at 30 September 2023 of £1,393.7m (2022: £1,378.1m). At 30 September 2023, the bonds had legal maturities ranging between December 2023 and May 2041 (2022: between December 2023 and May 2041), as outlined in the following table:

Guaranteed bonds						Unaudited		Audited
						Book value at		
Nominal value £m	**Coupon**	**Class**	**Issue date**	**Redemption date**	**Note**	**30 September 2023 £m**	**30 September 2022 £m**	**31 March 2023 £m**
300	5.75%	A	31 March 2010	29 March 2030		**297.3**	297.0	296.9
100	2.496% Index-linked	A	31 March 2010	22 August 2035	(i)	**172.9**	158.0	166.2
150	4.625%	A	4 November 2011	13 December 2023		**149.9**	149.7	149.9
150	5.00%	A	4 November 2011	7 March 2028		**149.2**	149.0	149.2
300	3.00%	A	3 August 2018	3 August 2038		**297.5**	297.4	297.4
75	3.00%	A	3 September 2019	3 August 2038		**83.3**	83.8	83.6
250	1.875%	A	28 February 2020	28 May 2041		**243.6**	243.2	243.5
1,325						**1,393.7**	1,378.1	1,386.7

(i) The movement in the index-linked bond represents accrued inflation of £6.7m on the index-linked bond for the six month period (2022: £11.8m) and £0.2m (2022: £0.1m) in respect of amortised discount and bond fees. Included within the book value of the index-linked bond is £73.1m (2022: £58.3m) of accrued inflation.

All of the bonds are unconditionally and irrevocably guaranteed by WWU and the Company, pursuant to a guarantee and security agreement entered into with senior creditors over the entire property, assets, rights and undertakings of each guarantor, in the case of the Company to the extent permitted by the Gas Act and its Gas Transporters' Licence.

7. External borrowings (continued)

b) At 30 September 2023 the Group had borrowed funds with a nominal value of £310.0m (2022: £310.0m); under its European Investment Bank ("EIB") term loan facilities. . The book value of the debt at 30 September 2023 is £309.9m (2022: £309.9m) after deducting unamortised debt fees of £0.1m offset by amortised cost of £0.1m (2022: £0.1m of unamortised debt fees offset by £0.1m of amortised cost).

The following table details the tranches of European Investment Bank drawn:

							Unaudited		**Audited**
							Book value at		
Nominal value £m	**Bank**	**Fixed/ floating**	**Coupon**	**Class**	**Drawdown date**	**Maturity date**	**30 September 2023 £m**	**30 September 2022 £m**	**31 March 2023 £m**
60.0	EIB	Floating	0.455% + SONIA + CAS	A	21 August 2015	31 March 2026	**60.0**	60.0	60.0
100.0	EIB	Floating	0.452% + SONIA + CAS	A	30 November 2015	31 March 2027	**100.0**	100.0	100.0
100.0	EIB	Fixed	2.10%	A	27 January 2017	31 March 2026	**99.9**	99.9	99.9
50.0	EIB	Fixed	1.99%	A	22 March 2017	31 March 2027	**50.0**	50.0	50.0
310.0							**309.9**	309.9	309.9

"SONIA" is the Sterling Overnight Index Average, "LIBOR" is the London Interbank Offer Rate and CAS is the Credit Adjustment Spread

(c) On 6 July 2022, WWU cancelled the £100m Class A and £25m Class B revolving credit facilities due to expire in February 2023 and replaced them with a three year £125m Class sustainability linked revolving credit facility. At 30 September 2023, the Group had borrowed £nil (2022: £nil) under its £125m of revolving credit facilities with four core banks. The floating interest rates on drawings under these facilities range from SONIA (plus a fixed Credit Adjustment Spread) + 0.40% to SONIA (plus a fixed Credit Adjustment Spread)+ 0.85% (2022: range from SONIA + 0.40% to SONIA + 0.85%). The interest rate margin under the new facility agreement is adjusted to reflect performance against three ESG linked KPI's.

(d) At 30 September 2023 held a private placement of Class B loan notes. These loan notes have a nominal value of £50.0m (2022: £50.0m) maturing 31 March 2026 and £50.0m (2022: £50.0m) maturing 30 September 2026. These loan notes have a fixed coupon of 3.06% paid annually and a book value at 30 September 2023 of £99.5m (2022: £99.8m).

(e) The finance lease obligation in respect of company cars is included within borrowings above. The amortised liability of obligations held under finance lease at 30 September 2023 was £3.2m (2022: £2.2m).

8. Financial instruments and risk management

The Group's funding, liquidity and exposure to interest rate and credit risks are managed within a framework of policies authorised by the Board of Directors. In accordance with these policies financial derivatives are used to manage financial exposures within policy parameters and are not undertaken for speculative or trading purposes.

The Group's Treasury function is governed by policies determined by the Board and reports periodically to the Treasury Committee and the Board.

(a) Categories of financial instruments

The categories of financial assets and liabilities held by the Group were as follows:

		Unaudited		Audited
	Note	30 September 2023 £m	30 September 2022 £m	31 March 2023 £m
Financial assets held at amortised cost				
Trade and other debtors		**51.3**	59.3	58.5
Cash at bank		**807.3**	45.1	64.4
Cash on deposit		**115.8**	158.0	135.0
Total financial assets at amortised cost		**974.4**	262.4	257.9
Fair value assets				
Derivative financial assets	8(b)	**8.4**	36.6	40.5
Total financial assets		**982.8**	299.0	298.4

	Note	30 September 2023 £m	30 September 2022 £m	31 March 2023 £m
Financial liabilities held at amortised cost				
Trade and other creditors	6(a) & (b)	**6.6**	12.7	12.8
Accrued interest	6(a)	**111.9**	68.0	85.3
Obligations under finance leases	6(a) & (b)	**3.2**	2.2	2.9
External borrowings - guaranteed bonds	7	**1,393.7**	1,378.1	1,386.7
External borrowings – bank loans and private placement fees	7	**309.7**	309.9	309.9
External borrowings – other loan notes	7	**99.5**	99.8	99.4
Loan notes with affiliates (i)	6(b), 16	**709.5**	687.0	697.8
Total financial liabilities at amortised cost		**2,634.1**	2,557.7	2,594.8
Financial liabilities at fair value				
Derivative financial liabilities	6(b)	**799.6**	807.3	919.9
Total financial liabilities		**3,433.7**	3,365.0	3,514.7

(i) Loans with affiliates represents a par amount of £645.0m of 20 year subordinated loan notes issued on 27 March 2018 by WWU to affiliated companies resident and incorporated in Hong Kong and controlled by the 4 members of the Hong Kong based consortium that jointly own West Gas Networks Limited and Western Gas Networks Limited, the joint owners of the Company's ultimate parent company, Wales & West Gas Network (Holdings) Limited. The loan notes carry a coupon of SONIA (plus a fixed Credit Adjustment Spread) + 6.5% and are registered on the Official List of the International Stock Exchange in Jersey. See note 16 (d) – Related party transactions for further detail.

8. Financial instruments and risk management (continued)

(a) Categories of financial instruments (continued)

The Group's and Company's income, expense, gains and losses in respect of financial instruments are summarised in the following table:

		Unaudited		Audited
	Note	30 September 2023 £m	30 September 2022 £m	31 March 2023 £m
Interest income and expense				
Total interest income for financial assets at amortised cost	2(a)	**(5.4)**	(1.5)	(5.1)
Total interest expense for financial liabilities at amortised cost	2(b)	**78.0**	69.9	141.5
Fair value (gains) and losses				
On derivative financial assets measured at fair value through profit or loss	2(c)	**(1.9)**	(12.2)	(21.5)
On derivative financial liabilities measured at fair value through profit or loss	2(c)	**(63.1)**	(273.6)	(150.1)
		(65.0)	(285.8)	(171.6)

(b) Interest rate and index-linked derivative contracts ("swaps")

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

The Group values swap contracts on a discounted cash flow basis. Forward RPI and interest rate market data is used together with fixed amounts (i.e. the fixed interest rate receipt legs of certain swaps), to determine future undiscounted cash flows over the remaining life of the swaps. Those cash flows are then discounted to a present value sum using a discount curve represented by forward interest rates.

The Group has entered into index-linked interest rate swaps primarily to mitigate the impact of volatility from the RPI index-linked regulated revenues and comply with interest rate hedging limits to reduce volatility from such interest rates and as prescribed in senior lender agreements.

The fair value of derivative contracts (before FRS 102 accounting adjustments) at 30 September 2023, 30 September 2022 and 31 March 2023 are shown below:

	Unaudited		Audited
	30 September 2023 £m	30 September 2022 £m	31 March 2023 £m
Fair value of financial derivatives			
Fair value of swap liability	**(895.8)**	(878.1)	(986.3)
Fair value of swap asset	**42.6**	36.9	40.7
Net fair value of financial derivatives	**(853.2)**	(841.2)	(945.6)

The difference between the fair value of derivative financial instruments disclosed above and the book value of derivative financial instruments as disclosed in note 8(a) reflect the unamortised element of swap restructure costs of £62.1m (2022: £70.9m) less the credit adjustment on the swap asset of £0.1m (2022: £0.4m).

8. Financial instruments and risk management (continued)

Index-linked swaps

At 30 September 2023, WWU held index-linked swaps with a notional principal of £1,000.4m (2022: £1,000.4m). The real coupon on the pay leg of these swaps at 30 September 2023 ranged between 1.4% and 2.3% (2022: 1.4% and 2.3%). The maturity dates of these swaps range between November 2023 and November 2039 (2022: between November 2023 and November 2039). These maturities are subject to break clauses. Of the total notional of £1,000.4m, £645.4m (2022: £645.4m) of these swaps have self-executing break dates and are phased as follows:

Year of break clause	Unaudited 30 September 2023 £m	Audited 31 March 2023 £m	Unaudited 30 September 2022 £m
2026	**136.0**	136.0	136.0
2028	**145.3**	145.3	145.3
2029	**141.3**	141.3	141.3
2030	**43.8**	43.8	43.8
2031	**47.0**	47.0	47.0
2032	**51.2**	51.2	51.2
2033	**57.0**	57.0	57.0
2034	**15.8**	15.8	15.8
2036	**4.0**	4.0	4.0
2038	**4.0**	4.0	4.0
	645.4	645.4	645.4

The Group intends to continue to extend or remove break dates well in advance of their due dates.

The remaining £355.0m (2022: £355.0m) of index-linked swaps do not have any such break dates and expire in 2023, 2035 and 2039 (2022: 2023, 2035 and 2039).

The index linked swaps require the Group to make payments to swap counterparties of accrued inflation, usually every three to six years. During the six months to 30 September 2023, WWU paid £31.8m of accrued inflation and interest. The next payment is due on 30 November 2023 when £304m of index linked swaps expire (2022: 31 March 2023). These payments, which are volatile due to realised inflation, are reflected in the Group's financial planning.

Interest rate swaps

As at 30 September 2023, the Group held interest rate swaps with a notional principal of £680.4m (2022: £680.4m), which offset floating SONIA/LIBOR receive legs on index-linked swaps.

The maturity date of these swaps range between November 2023 and March 2030 (2022: between November 2023 and March 2030). £605.4m of these swaps expire in November 2023.

9. Provisions for liabilities

	Note	Audited Brought forward 1 April 2023 £m	Charged / (released) in period £m	Unwinding of discount (note 2b) £m	Change of discount rate in period £m	Unaudited Carried forward 30 September 2023 £m
Provisions:						
Insurance provision	a)	7.2	(0.1)	0.1	(0.6)	6.6
Environmental and holder demolition provision	b)	15.7	(1.1)	0.3	(1.8)	13.1
Wayleaves provision	c)	7.1	-	0.2	(0.3)	7.0
Other provisions	d)	20.2	(4.0)	-	-	16.2
Deferred tax	e)	376.0	23.7	-	-	399.7
		426.2	**18.5**	**0.6**	**(2.7)**	**442.6**

a) The insurance provision is the estimate of liabilities in respect of past events incurred by the business. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. The provision has been discounted to its estimated net present value using a long-term gilts risk free rate of 4.8% (March 2023: long-term gilts risk free rate of 3.8%, September 2022 long-term gilts risk free rate of 4.1%). The anticipated timing of the cash flows for insurance claims is expected to be incurred over the period until 2050.

b) The environmental and gas holder demolition provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. The provision has been discounted to its estimated net present value using a long-term gilts risk free rate of 4.8% (March 2023: long-term gilts risk free rate of 3.8%, September 2022 long-term gilts risk free rate of 4.1%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty but is expected to be incurred over the period until 2050.

c) The wayleaves provision is provided to cover the costs associated with rectifying gas distribution assets which are the subject of ineffective easements or wayleaves. The provision has been discounted to its estimated net present value using a long-term gilts risk free rate of 4.8% (March 2023: long-term gilts risk free rate of 3.8%, September 2022 long-term gilts risk free rate of 4.1%). The provision is expected to be utilised over the period until 2037. From time to time, there may be a requirement for additional rectification due to the identification of further ineffective easements or wayleaves. None of these have historically been individually significant and it is not possible to determine the value of such future rectification until the circumstances of the rectification arise.

d) Other provisions relate to development claims and regulatory matters. Development claims relate to potential claims from third parties and suppliers where there is uncertainty in terms of timing and value of their ultimate settlement. Other regulatory matters relates to potential non-adherence to obligations as at 31 March 2022. Discussions with this counterparty are on-going and a material provision continues to be provided in these accounts.

The Group has adopted the exemption available in paragraph 21.17 of FRS102 not to disclose all of the information required by paragraph 21.14 in respect of other provisions because not to do so is considered by the business as seriously prejudicial to the outcome of the regulatory matters outlined above.

9. Provisions for liabilities (continued)

e) Deferred tax liability is analysed as follows:

	Unaudited		Audited
	30 September 2023 £m	30 September 2022 £m (as restated)	31 March 2023 £m
Net book value of plant in excess of tax written down value	437.2	460.9	430.1
Timing difference in respect of intangibles	33.7	35.0	34.3
Tax losses carried forward	(13.8)	(37.0)	(26.6)
Future tax relief on swap liabilities	(46.6)	(67.1)	(55.9)
Short-term timing differences on general provisions	(3.9)	(3.9)	(4.9)
Pension (liability) / asset	(6.9)	13.2	(1.2)
Future tax relief in respect of corporate interest restriction	-	-	0.2
Total deferred tax liability at end of period/year	399.7	401.1	376.0

There are no expiry dates for any of the timing differences.

Provisions Discount Rate and Prior Period Adjustments:

Long-term provisions (insurance, environmental & holder demolition and wayleaves) have been discounted using the long term gilts rate of 3.8% (2022: restated to 1.82% from 5.7%). In prior years, the Group discounted these long-term provisions using the weighted average cost of capital based on the equity and debt leverage of the Group adjusted for industry risk rates. In light of the cashflow always having been risk adjusted, in FY23, the Group changed the rate used to discount its provisions to a long-term risk free rate, using the long term gilts rate as a proxy. This change was also applied to the comparatives for the year ended 31 March 2022 as well as the retained earnings brought forward from 2021. This gave rise to a reduced financing charge for the year ended 31 March 2022 of £4.1m (£342.8m from £346.9m) with a corresponding tax charge of £0.5m (£59.6m charge increase from £59.1m), and reduced retained earnings brought forward of £12.1m (as disclosed per the Statement of Changes in Equity on page 18).

The provisions in prior years were also retrospectively re-stated to the revised discounted cashflows, which gave rise to the reduction of operating costs by £1.0m in the year ended 31 March 2022 and £2.3m in the year ended 31 March 2021 due to the release of these provisions. This, combined with the change to the discount rate for the year end 31 March 2022, giving rise to a combined increase of £9.8m across the comparative provisions (a) to (c), as detailed in the tables below, and a corresponding deferred tax credit of £2.1m as adjusted above. The restated deferred tax liability at 30 September 2022 was therefore reduced to £401.1m from the original submission of £403.2m.

10. Pension Scheme

The Group operates one pension Scheme, the Wales & West Utilities Pension Scheme ("the Scheme"), which has defined contribution and defined benefit sections.

Defined benefit section

The Group operates a funded defined benefit section of the Scheme. The Scheme funds are administered by Trustees and are independent of the Group's finances. Contributions are paid to the Scheme in accordance with the Schedule of Contributions agreed between the Trustees and the Group. The Scheme is a registered Scheme under the provision of Schedule 36 of the Finance Act 2004. The defined benefit section of the scheme was closed to future accrual with effect from 1 July 2021 which resulted in a £9.4m curtailment gain in that year.

A full actuarial valuation at 31 March 2022 has been completed by Lane Clark & Peacock, the Scheme's actuary, and showed a deficit on the technical provisions basis of £49.4m. The calculations carried out to produce the results of this valuation were updated to the accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities was measured using the projected unit method. The next full actuarial valuation will be completed at 31 March 2025.

The following amounts at 30 September 2023, 30 September 2022 and 31 March 2023 were measured in accordance with the requirements of FRS 102:

Balance sheet

	Unaudited		**Audited**
	30 September 2023 £m	**30 September 2022 £m**	**31 March 2023 £m**
Total market value of assets	**288.0**	374.1	338.3
Present value of Scheme liabilities	**(315.4)**	(321.1)	(343.0)
Net (deficit) / surplus in the scheme	**(27.4)**	53.0	(4.7)

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

Balance sheet

	Unaudited		**Audited**
	30 September 2023 £m	**30 September 2022 £m**	**31 March 2023 £m**
Opening balance	**(4.7)**	76.4	76.4
Net finance credit/(charge) (note 2(b))	**-**	1.0	2.2
Employer contributions (including deficit contributions)	**3.8**	5.4	9.9
Actuarial (loss)/gain	**(26.5)**	(29.8)	(93.2)
Net (deficit) / surplus at 30 September/31 March	**(27.4)**	53.0	(4.7)

The movement in the Scheme since 31 March 2023 is primarily due to lower than expected investment returns.

By reference to the Scheme Trust Deed and Rules, a surplus in the Scheme is considered recoverable by the Group. Accordingly, the Group therefore considers it appropriate to recognise an asset in respect of the Scheme where one arises. The deficit recognised at 30 September 2023 amounted to £27.4m (March 2023: £4.7m, September 2022: £53.0m surplus).

11. Called up share capital

	Unaudited 30 September 2023 £	Unaudited 30 September 2022 £	Audited 31 March 2023 £
Allotted, called up and fully paid:			
Ordinary shares of £1 each	**3**	2	2

On 27 September 2023, the Company issued one share at a nominal value of £1 to the immediate parent company, Wales & West Gas Networks (Holdings) Ltd, fully paid.

12. Share Premium

	30 September 2023 £m	30 September 2022 £m	31 March 2023 £m
Opening share premium at start of period	**109.1**	109.1	109.1
Share Premium on new share issued in period	**759.3**	-	-
Closing share Premium at end of period	**868.4**	109.1	109.1

On 27 September 2023, the Company issued one share at a nominal value of £1 to the immediate parent company, Wales & West Gas Networks (Holdings) Ltd. This share was issued for a cash consideration of £759,271,603. The share premium increase in the period was therefore £759,271,602.

13. Net cash inflow from operating activities

	Note	Unaudited Six months ended 30 September 2023 £m	Unaudited Six months ended 30 September 2022 £m	Audited Year ended 31 March 2023 £m
Continuing operations:				
Operating profit		**136.8**	114.8	227.9
Depreciation of tangible assets	5	**39.2**	36.5	75.6
Amortisation of intangible assets	4	**5.8**	5.0	8.1
Profit on disposal of assets		**(1.1)**	(0.9)	(1.9)
Intangible asset write-down	4	**-**	3.7	3.7
One off item – provisions release / curtailment gain		**(0.4)**	(3.2)	0.1
Net increase in stocks		**(0.3)**	(0.7)	(0.1)
Net (increase)/decrease in debtors		**7.8**	(11.0)	(9.6)
Net increase/(decrease) in creditors		**(7.2)**	22.3	10.3
Movements in provisions for liabilities		**(0.8)**	(1.2)	(5.4)
Net cash inflow from operating activities		**179.8**	165.3	308.7

14. Net debt reconciliation

	Note	At 1 April 2023 £m	Cash flows £m	Finance leases £m	Other non-cash £m	At 30 September 2023 £m
Cash at bank and in hand		64.4	742.9	-	-	**807.3**
Cash on deposit		135.0	(19.2)	-	-	**115.8**
Senior secured bonds	7(a)	(1,386.7)	-	-	(6.5)	**(1,393.2)**
Less: accrual for index-linked bond accretion	7(a)	66.4	-	-	6.7	**73.1**
Subordinated loans from affiliates	16(d)	(697.8)	-	-	(11.7)	**(709.5)**
Senior secured bank loans	7(b)	(309.9)	-	-	-	**(309.9)**
Senior secured private placement loans	7(d)	(99.5)	-	-	(0.3)	**(99.8)**
Obligations under finance leases	7(e)	(2.9)	-	(0.3)	-	**(3.2)**
		(2,231.0)	723.7	(0.3)	(11.8)	**(1,519.4)**

The decrease to net debt during the six months ended 30 September 2023 is largely due to the increase in cash from the share capital issued in the year for a cash consideration of £759,271,603. On 2nd October 2023, this cash was used to repay loan notes with affiliated companies.

15. Reconciliation of net cash flow to (increase) / decrease in net debt

		Unaudited		Audited
	Note	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m	Year ended 31 March 2023 £m
Net increase/(decrease) in cash and cash equivalents - cash flow statement		**742.9**	(89.7)	(70.4)
Net transfers (from) / to deposit accounts		**(19.2)**	10.0	(13.0)
Amortisation of debt issue costs and bond discount	2(b)	**(0.3)**	(0.4)	(0.8)
Net bank / bond debt repaid		**-**	50.0	50.0
Amortised cost of bonds - interest		**0.2**	-	0.2
Loans with affiliates	16(d)	**(11.7)**	(9.7)	(20.5)
Obligations held under finance lease	6(a)(b)	**(0.3)**	(0.6)	(1.3)
Increase in net debt		**711.6**	(40.4)	(55.8)
Opening net debt		**(2,231.0)**	(2,175.2)	(2,175.2)
Net debt		**(1,519.4)**	(2,215.6)	(2,231.0)

16. Related party transactions

a) Xoserve Limited

The Group owns 10% (2022: 10%) of the issued share capital of Xoserve Limited ("Xoserve"). Xoserve is owned jointly by the UK Gas Distribution companies and National Grid group as owner of the gas transmission business in the UK.

Xoserve provides gas throughput (meter reading) and billing information to the Group which is used by the Group in setting its regulated gas distribution charges to gas Shippers. The cost to the Group of Xoserve providing these services was £2.2m for the six months ended 30 September 2023 (2022: £1.5m), of which £nil (2022: £nil) was charged to capital.

b) Loans from affiliated companies

WWU issued £645.0m (2022: £645.0m), net of fees of £0.2m, of loans to affiliates with a 20 year term; issued on 27 March 2018 expiring on 26 March 2038. The loan notes attract interest at LIBOR + 6.5%.

At 30 September 2023 the book value of these loans was £709.5m (2022: £687.0m).

During the six month period ended 30 September 2023, interest of £4.4m (2022: £30.5m) was charged on these loans. During the six month period ended 30 September 2023 £10.5m loan interest was paid to affiliates (2022: £10.5m). At 30 September 2023 £49.8m is accrued and is included in accruals (2022: £43.8m included in accruals).

The interests of the affiliates in the loan notes of the Group with a book value of £709.5m at 30 September 2023 (2022: £687.0m) were:

Loan note holders and country of incorporation	Ultimate parent Company	% share	Nominal value £m	Unaudited Book amount 30 September 2023 £m
Grace Lucky Investment Limited (HK)	CK Infrastructure	**30%**	**193.5**	**212.9**
Popular Sky Investment Limited (HK)	Power Assets Holdings	**30%**	**193.5**	**212.9**
Charm Lion Investment Limited (HK)	CK Hutchison Holdings	**30%**	**193.5**	**212.9**
Grand Palace Investment Limited (HK)	CK Asset Holdings	**10%**	**64.5**	**70.8**
		100%	**645.0**	**709.5**

WWUH's ultimate parent Company is Wales & West Gas Networks (Holdings) Limited (UK), Wales & West House, Spooner Close, Celtic Springs, Coedkernew, Newport, NP10 8FZ. Wales & West Gas Networks (Holdings) Limited, the group, has no controlling party as it is immediately owned by consortium members.

c) Wales & West Gas Networks (Holdings) Limited

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

17. Post Balance Sheet Events

1. On 2 October 2023, the Group repaid £759.3m of loan note debt from affiliated shareholder entities with cash. That cash was provided by equity issued to the Company's immediate parent company on 27th September 2023. As noted in 2(d), accrued interest of £34.1m was released by these affiliated shareholder companies on repayment of the loan notes.

2. On 9 October 2023, the Company issued one share for £1 to its immediate parent for cash consideration of £147,000,000, and the balance of £146,999,999 was credited to its share premium account.

3. On 26 October 2023, WWU borrowed £75m of 20 year private placement notes issued to US based insurance companies. The notes carry a fixed coupon rate of 5.98% with interest paid semi-annually. They are classified as Class A debt in the Company's capital structure.

4. On 26 October 2023, a portion of the Company's share premium account (£906,271,601) was transferred to retained earnings following a capital reduction registered with the Companies House Registrar.

5. On 14 November 2023, the Company issued one share for £1 to its immediate parent for cash consideration of £197,000,000, and the balance of £196,999,999 was credited to its share premium account.

6. On 24 November 2023, another portion of the Company's share premium account (£196,999,999) was transferred to retained earnings following a capital reduction registered with the Companies House.

7. On 29 November 2023, WWU cancelled issued share capital of £30,675,002 and transferred that balance to retained earnings, following a capital reduction registered with the Companies House Registrar.

8. On 7 December 2023, WWU issued 300,000,000 bonus shares of £1 each for £300,000,000 out of a non-distributable gain on revaluation of tangible fixed assets and cancelled those shares. The balance was transferred to retained earnings.