Company Registration No. 02366949

ELECTRICITY NORTH WEST LIMITED

Annual Report and Consolidated Financial Statements

for the year ended 31 March 2023

Introduction

Electricity North West Limited (ENWL or ''the Company'') is the electricity distributor for the North West of England. We are responsible for maintaining and upgrading the network of poles, wires, transformers and cables which carry electricity from both the national grid and locally connected generation to homes and business across the North West. Our job is to keep electricity flowing safely and reliably to our customers' homes and businesses, keeping the power on 24 hours a day, seven days a week. We are proud of who we are, the essential role we play for our customers, our support of the move to net zero carbon, and the investment we make locally.

We recognise the role that electricity, and the electricity distribution networks such as ourselves, play in leading and facilitating the net zero transition, managing power flows from a range of sources as we move away from fossil fuels towards electricity for heating and transport. We do all this while keeping costs as low as we can for customers.

We are pleased to present the Annual Report and Consolidated Financial Statements of the Company and its subsidiaries (together referred to as "the Group") to shareholders for the year ended 31 March 2023. Further information on the Company can be found by visiting our website: www.enwl.co.uk. The Company is limited by shares and incorporated and domiciled in England, the United Kingdom under the Companies Act 2006.

Notice regarding limitations on directors' liability under English Law

The information supplied in the Strategic Report and Directors' Report has been drawn up and presented in accordance with English Law. The liabilities of the directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

Strategic Report

In preparing the Strategic Report, the directors have complied with s414 of the Companies Act 2006. The Strategic Report has been prepared for the Electricity North West Group as a whole comprising Electricity North West Limited (''the Company'') and its non-trading subsidiaries (together, ''the Group'').

Cautionary statement regarding forward-looking statements

The Chairman's Statement, Chief Executive Officer's Statement and Strategic Report sections of the Annual Report and Consolidated Financial Statements (''the Annual Report'') have been prepared solely to provide additional information to the shareholders to assess the Group strategies and the potential for those to succeed. These sections and other sections of the Annual Report contain certain forward looking statements that are subject to factors associated with, amongst other matters, the economic and business circumstances occurring within the region and country in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those anticipated at the date of the Annual Report. The Group does not undertake any obligation to update or revise these forward-looking statements, except as may be required by law or regulation.

Regulatory reporting and regulatory audits for the year ended 31 March 2023

Certain regulatory performance data contained in this Annual Report remain subject to regulatory audit by the Office of Gas and Electricity Markets (''Ofgem''). The final regulatory reporting pack for the year ended 31 March 2023 is not due for submission to Ofgem until July 2023, and will be reviewed by Ofgem after their submission.

Website and investor relations

The Company's website, www.enwl.co.uk, gives additional information on the Company and Group. Notwithstanding the references we make in this Annual Report to the website, none of the information made available on the website constitutes part of this Annual Report or shall be deemed to be incorporated by reference herein. Interested institutional debt investors can also gain access to additional financial information by visiting our website www.enwl.co.uk/about-us/investor-relations.

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Chairman's Statement

I am pleased to introduce the Annual Report and Consolidated Financial Statements for Electricity North West Limited (ENWL) for the year ended 31 March 2023.

Price control successfully concluded

The Board meetings in the last year have understandably been highly focused on the 2023-28 price control agreement with our regulator, Ofgem (this control is called "RIIO-ED2"). We entered negotiations with Ofgem in a positive frame of mind, being the only DNO Group to have recorded a suite of only 'green lights' in the Ofgem traffic lights approach to performance evaluation, over each of the last five years. Even so, we were very far from complacent in this demanding process; for example, we needed to show that we were learning lessons from events such as Storm Arwen in November 2021.

The Board took a lot of advice – especially from our own designated customer group. In addition, we took soundings from our three major regional political bodies (the Councils of Cumbria, Lancaster and Greater Manchester), as well as undertaking regular and multiple polling of opinions and views from our customers. For example, we noted that decarbonisation and net zero remains a top priority for the members of Youth Focus North West.

The ED2 final determination by Ofgem in December 2022 was carefully considered by the Board. We concluded that, whilst very challenging for the business, it represented a fair balance of interests. The Board was particularly pleased that Ofgem recognised that ENWL has effectively become the 'innovation network company'. Our successes in this area means that our customers benefit from both electricity usage savings on their bills and cost benefits through lower charges. Ian Smyth, our new CEO intends to develop and extend this company characteristic during the next price control – with a particular regard to digitalisation.

The combination of a well-run network company, that is also innovative and imaginative, will position us well both through ED2 and, in the future, going into the 2028 price control, as well as supporting the desire amongst our local politicians to push to net zero well before 2050.

Major personnel changes achieved

We were very pleased that Ian Smyth joined us as our new Chief Executive Officer (CEO) in September 2022, after a successful career at UK Power Networks (UKPN). This timing meant that we had a seamless CEO transition, enabling Ian to build on the legacy of Peter Emery who stepped down this year after six years of outstanding contribution in the role. Ian made an immediate impact on our RIIO-ED2 submission and he ensured that Ofgem really understood the nature and achievements of ENWL's business. The final determination in December 2022 represented a significant improvement for our stakeholders over the original draft determination of June 2022.

There has also been a smooth transition of the other executive member of the Board, the Chief Financial Officer (CFO). David Brocksom leaves ENWL in June 2023 and was replaced on the Board in May by Chris Johns. We are very fortunate that one highly regarded industry CFO is being replaced by another. David leaves after securing the issuance of a £425m Green Bond in January 2023, managing the RIIO ED2 financial package, and introducing PricewaterhouseCoopers LLP as our new auditors. David has been a major influence on ENWL's fortunes since he joined in 2013, when the business was in a far less certain state, and his tenure has included managing the complex sale of the business in 2019 to our current owners.

Although not a Board member it would be remiss of my Chair's report not to recognise a 40-year veteran of our business who leaves in Summer 2023. Steve Cox has been invaluable to the business in managing our engineering and technical functions in recent years. He has also been one of the catalysts to our earning the sobriquet of "Innovation Network Company".

Chairman's Statement (continued)

At the Group level, the Board continues to receive reports on diversity and pay appropriateness. Indeed, at the last Board meeting we were pleased to note a narrowing of pay gaps. The Board has also expressed interest in ENWL's approach to disability, with further focus on this in 2023.

Good governance achieved under extra demands

My fellow Independent Non-executive directors (INEDs) continue to contribute their experiences in managing our governance closely. Susan Cooklin this year has given extra focus to cyber, Rob Holden to assurance, and Anne Baldock (formerly a partner at one of the UK's top law firms) to a Government Order that was imposed on the business in early Autumn. This Order was issued on ENWL on 30 September 2022 and revoked by the Secretary of State on 20 December 2022. The Order was issued under the new National Infrastructure and Security Act, and primarily related to how we could manage our relationship with certain shareholders. Having taken immediate legal advice, the executive team re-structured the way we worked to ensure we complied with the order, protected all our staff and respected our shareholders. As Chair I am pleased to report that we came through that two-month period in good order.

I am also pleased to report to our wider stakeholders that the investors of ENWL (the Japanese consortium, KDM, led by Kansai Power, CNIC and Equitix, a leading UK infrastructure investor) have continued to fully support the concept of top quality governance throughout the last year.

ENWL is re-energised for the future

The year ended 31 March 2023 was always going to be a 'transition year' given the uncertainties around RIIO-ED2 and the senior management changes. That transition has been achieved in a highly professional manner. The new look team, led by a dynamic and energetic CEO, are now well placed to meet the considerable challenges ahead.

Ofgem and Government have recognised in recent months that it is the local distribution network companies, such as ENWL, that will 'lead the charge' for changes to meet the country's net zero aspirations. This is a heavy responsibility, and we will need to ensure that, by the time of the next regulatory review in 2028, we have met, or exceeded, the ambitions of customers, regulators, Government and wider stakeholders. This has to be achieved in spite of navigating the cross winds of inflation, cost of living, supply chain disruption and access to relevant skilled employment groups.

As Chair of ENWL, I look forward to these challenges with great confidence, and excitement.

Alistair Buchanan CBE
Chairman

Chief Executive Officer's Statement

I am pleased to present the Annual Report and Consolidated Financial Statements for the year ended 31 March 2023, my first such report as Chief Executive Officer at Electricity North West.

I joined an engaged, agile, innovative and efficient business. After six months with the business, working closely with the senior management team, we have now embarked on an accelerated trajectory of improved performance, with strong outcomes for consumers, which will achieve the ambitions agreed with Ofgem in our ED2 plan.

Our license to operate

In my first months, safety has been reset and it will continue to remain our top priority. Our safe operation is fundamental to the business's licence to operate.

We take an uncompromising approach to excellence in protecting our workforce and the public, and to serving our customers, particularly those in vulnerable circumstances.

Everyone has been affected to differing extents by rising energy costs in the last 12 months. In the context of these cost of living concerns, we have continued to keep our bills among the lowest in the UK with ENWL's typical domestic customer paying £123 a year, compared to the GB average of £138. For 34 pence per day per customer we manage 30,000 switchgear assets, 57,000 kilometres of overhead and underground cables, providing 99.995% reliability as well as a 24-hour fault response and continually renewing and expanding this network.

We have made material improvements to the way we work after learning some hard but important lessons in the aftermath of one of the worst storms in a generation, Storm Arwen, in November 2021. Customers in affected areas told us that they needed more help to be better prepared for similar future events. Alongside the £0.5m community resilience fund that we established in the months after the storm, we have completed significant investment in the network, including deploying more sensors on the network to identify faults quicker and to improve our operational response. We have also put in place arrangements to rapidly mobilise the whole workforce to support our customers in vulnerable circumstances, when required by such events.

We continue to recognise our role in supporting customers in vulnerable circumstances. Every winter we carry out a 'Be Winter Ready' awareness campaign. However, when National Grid raised the prospect of emergency power cuts, we enhanced our normal winter campaign tailoring the information we provided to help our customers in these circumstances. This included directly contacting 23,000 of our customers in the most vulnerable circumstances, medically dependant with no access to mobile or internet communications, over the course of just one week. This involved more than 300 volunteers from across the company supporting our customer contact centre. We are the only critical national infrastructure operator to have gone to these lengths to support these customers. Our 'licence to operate' extends beyond the Ofgem licence and recognises our role and our social obligations to our employees, customers and stakeholders who legitimise our work.

Delivering performance improvements for customers

My first year end with the business also marked the final year of the current eight-year regulatory period, referred to as RIIO-ED1, with a strong closing position. I am pleased that we have met all of our key regulatory outputs and have delivered significant performance improvements over the 8 years with network reliability (measured as number of customer interruptions) showing a 19% improvement over that period and customer satisfaction improving from 80% to 89.4%. We have delivered this while being absolutely focussed on cost efficiency, delivering the highest cost efficiency of any distribution network operator, both enabling additional investment in the network and saving our customers £74m over that period, in the form of lower bills, after these investments.

Chief Executive Officer's Statement (continued)

A unique approach to innovation

Innovation is key to delivering the performance our customers rightly expect at an efficient cost. This year we were proud that one of our innovations, CLASS, received special recognition from Ofgem. CLASS reduces, when needed, the amount of power used by everything from streetlights to everyday household devices. Whilst these reductions are not noticeable to consumers, when these individually small reductions are aggregated across a wide area, they amount to an important saving in electricity use at times when the system needs it. As well as saving customers' money, CLASS also delivers huge benefits for the environment by avoiding the environmental costs of using fossil fuel generation to balance the national electricity system.

CLASS was the only project in the UK to receive an award in Ofgem's latest assessments of network company innovations with the judging panel calling it 'exceptional'. We are very proud of the development and commercial deployment of CLASS.

I was also pleased to see our innovative Smart Street project secure funding for the next 5 years in the ED2 determination. Smart Street will save 250,000 properties in our region between 5% to 8% on their energy bills through improved efficiency, reducing energy consumption and bills.

Developing and commercialising new technologies such as CLASS and Smart Street has been possible because we have the most digitally advanced network in Europe, giving us unprecedented visibility and control of our assets.

Looking ahead to the next regulatory period

We have now entered a new five-year regulatory period, RIIO-ED2. This will be a period of significant change for the industry as we continue the journey to net zero. RIIO-ED2 brings a unique challenge for the energy industry with the demand for power expected to increase by a third by 2030, as the distribution operators invest for a net zero future during a cost of living crisis.

In December 2022, we received the final determination from Ofgem for this next price control, setting out the funding arrangements and associated obligations we are required to meet for our customers.

During the next five years we will be spending over £1m per day, both maintaining a high performance network for our customers whilst investing to create vital new capacity to support our communities and their net zero ambitions. As well as investing in the network, significant sums will go towards strengthening customer service and supporting those customers in vulnerable circumstances who need it the most.

During ED2, we will continue to build on the foundations that have been laid in ED1, delivering further improvements in customer satisfaction, targeting a minimum customer satisfaction of 90%, and further reducing both the number of power cuts, and the time customers are without power, by 20% from current levels, which in themselves are among the best in the industry.

No one will be left behind and all will benefit through our work to enable a net zero future.

Financial performance in the year

The financial performance for the Company continues to be strong, supported by the cost efficiencies and incentive revenue earnings that we have delivered over the ED1 regulatory period.

Overall, our revenue has grown from £472.8m to £594.7m in the year, with £79.9m of this increase being related the collection of Supplier of Last Resort levies from which we make no profit, with the full amount paid to suppliers immediately on collection of the levy. The remaining increase in our revenues reflects the positive impact of incentive revenues earned by exceeding standards of performance for customers as set by Ofgem, the effect of rising inflation and in part reflects the collection of some income in the year that was not collected at the start of the Covid-19 pandemic where we saw our revenues fall.

Chief Executive Officer's Statement (continued)

Financial performance in the year (continued)

Supported by the increase in revenues, we have increased the levels of capital investment, improving network resilience and capacity. Total capital expenditure during the year was £263.4m, £50.4m higher than the prior year.

Our income statement continues to show the impacts of the macro economic environment on non-cash items in our accounts. In particular, we have seen significant accounting fair value gains in our derivative financial instruments (£125.2m fair value gain in the year, compared to a £76.5m fair value loss in the prior year) which results a non-cash increase (2022: decrease) in profit before tax. This non-cash item continues to reflect volatility in the markets and in particular in inflation forecasts.

A responsible employer proud to serve our communities

Delivering a culture of high engagement is critical for us to meet the challenges that the industry is facing. We measure colleague engagement with an annual independent survey. We were pleased that our latest employee survey conducted in February 2023 showed our highest ever levels of colleague agreement, scoring 78.7% compared to the last survey when we recorded an agreement score of 74.7%.

Last year we were proud to be awarded the Investors in People standard, recognising our efforts to becoming an employer of choice in the North West. We continue to work with Investors in People to improve our employees experience of working at ENWL.

In the last 12 months we have made progress delivering our strategic commitments to Diversity and Inclusion. Female representation in our leadership teams has increased year on year and is currently at 34%. Our gender pay gap continues to reduce and is one of the smallest gaps in the sector and more than 4% better than the latest average UK gender pay gap.

We have engaged with the 10,000 Black Intern programme and look forward to welcoming our new interns later in the year.

Finally, I would like to thank the Board, shareholders, my executive colleagues and all our employees who have both welcomed me into the business and continued to work hard to secure yet another successful year. We will lose two senior colleagues – David Brocksom, and Steve Cox - who leave us to explore their retirement plans. We will miss them. However, in Chris Johns as Chief Financial Officer and Ben Grunfeld as Asset and Technology director, we have two new dynamic directors joining the business. We welcome them to the ENWL family and to the challenges of ED2. I look forward to driving the accelerated trajectory of good-to-great performance. This will ensure strong outcomes for consumers, employees and shareholders as we enter a period of significant change for the industry and meet the net zero challenge innovatively, efficiency and most of all safely.

Ian Smyth
Chief Executive Officer

Strategic Report

Electricity North West Limited is a private company limited by shares and incorporated and domiciled in England, the United Kingdom, under the Companies Act 2006. It is ultimately owned by investors composed of funds advised by Equitix, a consortium led by KDM Power Limited and Swingford Holdings Corporation Limited, as shown in Note 29. The immediate parent company is North West Electricity Networks plc ("NWEN plc"), which is a company limited by shares and incorporated in England, the United Kingdom, under the Companies Act 2006.

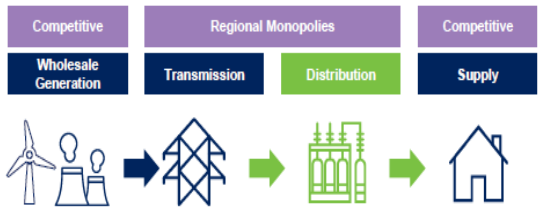
Company Background

Electricity North West Limited is the electricity distribution network operator for the North West of England. We are one of 14 distribution network operators in the UK regulated by Office of Gas and Electricity Markets (Ofgem).

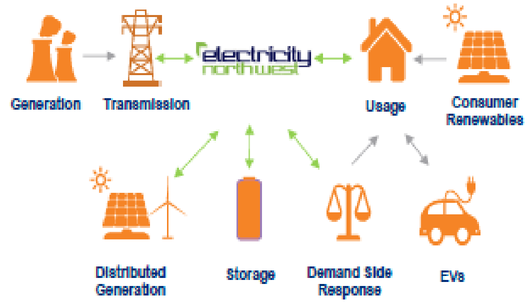
The Company serves approximately 5 million customers at 2.4 million domestic and industrial locations, has circa 2,100 employees and provides a safe and reliable electricity supply, 24 hours a day, seven days a week.

We own, invest in, operate and maintain the network of poles, wires, transformers and cables which carry electricity from both the national grid and locally connected generation to homes and businesses across the North West, together with the telecommunications network that controls the network remotely.

The role we play in serving our communities continues to evolve as we seek to transition to a low carbon economy and electricity generation becomes more distributed across our network. We have moved from a fairly linear network operating model:



To one that is far more complex and multi directional at the distribution level:



Electricity North West is fundamental to the Net Zero transition, managing power flows from a range of sources in a wider whole system as we move away from fossil fuels towards electricity for heating and transport.

How we charge customers

We charge our customers through their electricity suppliers, in the case of domestic and small customers, or directly for larger customers.

The prices that we charge our customers for distributing electricity are regulated by the Gas and Electricity Markets Authority (GEMA) which operates through Ofgem, but we recognise that ultimately it is our customers that fund the business and its investments in the network.

Strategic Report (continued)

Regulatory framework

ENWL's costs were around 13% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £123 per home for the year ended 31 March 2023; this compared to an average DNO customer bill impact of £138 per home.

Charges are regulated by Ofgem through the RIIO model; Revenue = Incentives + Innovation + Outputs. This model determines how much the Company is allowed to charge customers to fund network investment and operating costs in a regulatory price control period, with allowed revenues adjusted up or down depending on performance against regulatory outputs and incentive mechanisms.

The price control in operation for the year ended 31 March 2023 was RIIO-ED1, running for an 8-year period from 2015 to 2023. On 1 April 2023, the new regulatory period, RIIO-ED2 commenced, a 5-year regulatory period from 2023 to 2028.

The RIIO price controls have been developed to ensure that the revenues collected from customers are linked to company performance. The base income in each year is largely fixed, being essentially to allow for the operating costs of the Company and to provide a return to investors for the capital invested in the Company. However, income increases or decreases depending on the Company's performance against the outputs set through a number of incentive mechanisms.

These mechanisms incentivise good customer service, stakeholder engagement, delivery for connections customers and network reliability, the latter based upon minimising the number of interruptions that customers suffer (CIs) and the average length of those interruptions (CMLs). Performance is assessed each year and any positive or negative adjustments are fed annually into a process which modifies revenues for subsequent years.

The RIIO price control model also incentivises cost reductions, through innovation and efficiency, promoting the delivery of a well-maintained and efficiently invested network for the long-term. Cost savings are shared between customers, via price reductions, and shareholders, again after an annual review.

The Company also charges separately for new connections to, and diversions of, the network. This activity is also regulated by Ofgem.

Investment and innovation continue to ensure the development and availability of the appropriate technology to meet the changing demands of electricity supply and to meet the challenge of a low carbon future, at a price our customers can afford.

External Factors

Transition to the RIIO-ED2 regulatory period

During the year we received the final determination from Ofgem, setting out our allowed revenues for the 5-year RIIO-ED2 regulatory period, having submitted our ambitious stakeholder led plans in the previous year.

The Net Zero transition will undoubtedly result in very significant increases in network demand by 2050 driven by both renewable generation connections and new demand such as electric vehicles and heat pumps. Our key challenge in ED2 is to provide the capacity to allow customers to adopt these technologies whenever they wish to, at a price that is affordable.

Our RIIO-ED2 business plan sets out our clear vision around Net Zero. Our plan sets out how we will make sure that the network is not a barrier to connecting electric vehicles or other low carbon technologies. We also set out our plans to improve network reliability and resilience and to look after those in our area who find themselves in vulnerable circumstances, all at the lowest cost to customers.

RIIO-ED2 will be a challenging period for the industry to meet the challenges of the transition to net zero and the significant investment that is needed in networks, both traditional investment and more complex whole system solutions.

Strategic Report (continued)

External Factors (continued)

Energy prices and supplier administrations

The unprecedented rise in energy prices over the last two years has put energy markets under severe strain. Consequently, there were significant numbers of energy suppliers who entered administration during the year ended 31 March 2022. We have seen a more stable position in the year ended 31 March 2023.

When an energy supplier fails, the Supplier of Last Resort (SoLR) process is triggered or, where this is not possible, the Special Administration Regime is used. The two regimes are overseen by Ofgem to protect customers from significant harm.

When a SoLR takes on the customers of a failed supplier, it has to finance the additional costs of doing so (for example procuring the energy it supplies to those customers, honouring any credit balances the customers had with the failed supplier or manage the costs of onboarding those customers). The SoLR process allows for the new supplier to recover these costs through a SoLR levy agreed between Ofgem and the new supplier. This levy is collected through the distribution network companies on a pass-through basis. This cost will effectively be recovered through future energy bills.

COVID-19

While the COVID-19 pandemic has had limited impact on operations this year, we continue to monitor and review our business continuity plans, recognising our role as a critical service provider. We continue to review our working practices and policies as we remain in a period of living with COVID-19.

Political and economic uncertainty

We also monitor the continuing environment of political and economic uncertainty. Supply chain management continues to be an area of focus as we see the implications of the events in Ukraine and COVID-19 recovery in particular. All of these have had a limited direct impact, aside from a modest planned increase in stock levels to manage supply chain risk.

Having considered the factors noted above, there are no material impacts on either the going concern statement on pages 32-33, or the period covered by the viability statement page 33.

Purpose, vision and principles

Our Purpose “Together we have the energy to transform our communities” reflects the essential role we play in the North West and in the lives of our customers, acknowledging how our role is changing alongside our customers’ needs.

Transforming our communities is at the heart of our Purpose, ensuring we take a responsible approach in everything we do, including how we treat and support:

- our customers and communities;
- our environment; and
- our people and partners.

Our vision is to ‘Lead the North West to Net Zero’. We do not say that lightly. The climate challenge is the greatest of our age and networks are uniquely positioned to enable the transition from fossil fuels to low carbon electricity to power our homes, businesses, transport and heating.

Strategic Report (continued)

Purpose, vision and principles (continued)

As the region's distribution network operator, we are key to leading the region to Net Zero. We are focusing on three things both to make it happen and to do so at the lowest cost to customers:

1. Investing and innovating to make sure the network is fit for the future;
2. Helping domestic customers and businesses play their part, making new connections as quick and easy as possible while ensuring no one is left behind; and
3. Continuing to improve the reliability of the network – something that is fundamental as we all become even more reliant on electricity.

Our purpose and vision are supported by our principles, setting the cultural framework within which we operate.

Our principles are:

- We are switched on
- We are adaptable
- We take pride

Health, Safety and Environment

The Company operates in a high hazard industry and the safety of its people and customers, and the protection of the environment will always remain key priorities.

Operational safety

The Company ensures that all people are well trained and able to operate safely, backed by policy driven procedures and compliance assurance, alongside a behavioural approach that seeks to ensure that all staff and contractors approach any task with a strong behavioural attitude to safety.

In the year ended 31 March 2023 we have continued to review and improve our safety management system which is certified to the international standard ISO 45001.

We finished the year ended 31 March 2023 with a lost time injury frequency rate 0.035 (2022: 0.058) having had three lost time injuries in the year (2022: five).

This relatively low incident rate reflects the sustained improvement since we embarked on a company-wide initiative to create an enhanced safety culture. The total recordable injury rate was 0.093 (2022: 0.175).

We are never complacent about safety. In the year to 31 March 2024, we will embed an updated plan to further improve our safety record, including working closely with our contract partners.

As our safety journey continues, we are increasingly focused on the quality of, and learning from, safety observations and positive challenges, rather than focusing on the volume of these. Safety observations in the year were recorded at 14,725 (2022: 9,438), with 3,011 positive challenges (2022: 2,447).

Asset safety

The safety of the Company's employees, contractors and the public from the inherent risks of electrical assets is assured through the Company's ongoing asset investment programme and the associated asset risk management policies which define the programme scope.

During the year ended 31 March 2023 the Company continued to invest to reduce further the risks associated with link box failures and with rising and lateral mains in multi occupancy properties, such as blocks of flats.

Our link box inspection programme assesses the risk of the asset which then, where necessary, informs an intervention such as blast mitigation protection, replacement or the removal of the asset.

We continue to use innovation to target the potential risks associated with electricity supplies in multi occupancy properties. We have installed innovative monitoring equipment which helps identify abnormalities and inform replacement decisions.

Strategic Report (continued)

Safety and Environment (continued)

Environmental performance

The Company is dedicated to achieving the highest standards of environmental performance, not only by minimising the risks created by our activities, but also through targeted investment in outputs that deliver a positive environmental impact. To achieve our environmental objectives, we monitor environmental related investments to ensure that we are on track.

In terms of our own direct operational impact on the environment, our principal performance indicator is the level of carbon dioxide emissions equivalent (tCO2e). This measure covers the environmental impact both from the use of fossil fuels in vehicles and generators and of energy in buildings, as well as the impact of Sulphur Hexafluoride (SF6), which is a greenhouse gas, historically used as insulation in electrical equipment.

At the start of the current regulatory period, we made a commitment to our customers to reduce carbon emissions by 10% from a 2014/15 base year, by 2020. Through targeted investment in the efficiency of our buildings and other efficiency measures, we have reduced emissions by 43% from 2014/15 levels. Emissions for the year ended 31 March 2023 were 13,990 tCO2e in (2022: 14,649 tCO2e). In addition to this direct reduction in emissions, our CLASS innovation has further reduced carbon-based generation in the economy, by avoiding the need for traditional generation.

Our “Leading the North West to zero carbon plan” sets out our target to decrease our emissions by 10% year-on-year in order to become zero carbon by 2038. This includes some of the actions that we are taking to decarbonise our operations but also provides exemplars, research evidence and business case information to inform the investment decisions that stakeholders need to take to decarbonise. We have been working closely with key stakeholders across the region and have produced decarbonisation pathways for Greater Manchester, Cumbria and Lancashire.

Our recently published electric vehicle strategy sets out our plans to lead and support stakeholders on the journey to decarbonise the region’s transport. Our role is to facilitate this journey by preparing the electricity network for the rapid uptake of electric vehicles (EVs) and the associated charging infrastructure needed to support this. The uptake in low carbon technologies will ultimately result in a lot more demand being placed on our network, and our main challenge is to manage the change and keep the costs as low as we can while ensuring that our network remains resilient, reliable and meets customer's needs.

Recognising our role in leading decarbonisation, we have made two of our depots and two substations carbon neutral using a range of low carbon technologies. These modifications have the dual benefit of reducing our own carbon emissions and can be used as exemplars to other businesses across the region, sharing our learnings. Our goal for RIIO-ED2 is to decarbonise one of our twelve depots each year.

We have rolled out electric vehicle (EV) charging points at all of our depots and we are incentivising colleagues to change to electric vehicles. We have also engaged with local authorities and businesses across the region to support them with this transition, promoting the mass adoption of EV technology.

The transition to carbon neutrality is as much about behavioural change as it is about technologies. In that regard, we became the first bronze accredited carbon literate Distribution Network Operator and are now eligible for silver accreditation. We have a goal to achieve Gold over the course of RIIO-ED2.

Strategic Report (continued)

Network Reliability

Our customers and stakeholders have made it clear that our fundamental role is to keep power flowing to customers and network users. This becomes ever more important as customer dependence upon electricity continues to grow as we move to a low carbon future. Network reliability continued to be high with a network availability of 99.995% (2022: 99.995%).

Reliability of electricity supply is achieved by strategic investment in the network both to target a reduction of faults but also to quickly restore and limit the number of customers affected by those faults that do occur.

In the year ended 31 March 2023, the average number of interruptions per 100 customers (CIs) was 26.6 (2022: 25.8). This has significantly outperformed the target of 45.6 set by Ofgem.

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2023 was 26.9 (2022: 27.4), which was our best ever performance and again represented a significant outperformance of the target of 38.2 set by Ofgem.

This performance improvements have been driven through a combination of investment in automation and network resilience, as well as improvements in operational response when faults do occur. This year saw further development of our network management system, providing a strong digital platform and offering industry leading emergency responses whilst protecting critical customers.

Our network has to withstand the external environment and other risks to ensure it continues to operate reliably even under extreme circumstances, such as severe winter storms. This year we continued to invest in vegetation management and installation of further automation devices to support rapid restoration of customer' supply, ensuring that interruption is kept to a minimum.

We have further strengthened our approach to preparing and managing the network during significant weather events and utilising benefits within the network management system. We continue to improve resilience through investment in flood defences and interconnectivity to provide protection to a 1 in 1000-year flood risk at key sites.

Most customers enjoy excellent levels of reliability, but we recognise that there is variability in the level of service experienced by some. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. During the year we have continued to invest in schemes that aim to reduce, in the long-term, the numbers of worst served customers, with the number of customers meeting this Ofgem definition decreasing by 127 in the year ended 31 March 2023 to 584 (2022: 711). We continue to focus on our ambition to have no customers meeting this definition. In order to achieve this, we are focusing on understanding customers' experience of multiple interruptions which, in turn, allows us proactively to identify circuits for early intervention. We have instigated investment 12programmes on all of the circuits where we saw customers become categorised as worst served in the year.

Investment in an affordable and sustainable network

In the year ended 31 March 2023, £115.0m of the total capital investment expenditure was invested directly in network assets (2022: £81.4m). In addition to investment to improve the automation of the network and to increase capacity, we continue to invest to maintain the relative health of the network. The current network has been installed over many decades and a significant proportion of the investment programme relates to replacing existing equipment at, or approaching, the end of its life with modern equivalents.

Innovation is essential to maintain network performance and reliability levels and to meet the increasing demands on electricity from the decarbonisation of energy, at an affordable cost. We continue to develop and deliver our cutting-edge engineering innovations such as CLASS, Smart Street and LineSight that will keep the network reliable, efficient and safe.

Strategic Report (continued)

Customer

Supporting those customers in vulnerable circumstances is core to our customer strategy. Our "Electricity Users in Vulnerable Circumstances Strategy" ensures that the support we are giving customers in our region is focused appropriately. It helps us respond to the complexities of the challenge of supporting those most in need. Our strategy is informed by our Advisory Panel and supported by external specialist support agencies.

We have continued to increase support to customers in vulnerable circumstances, developing our on-going partnership with Citizens Advice Manchester (CAM). CAM act as our Strategic Partner to support fuel poverty, energy efficiency and other conditions which may leave consumers vulnerable in the region as the result of a power cut.

We maintain a Priority Service Register (PSR) to identify those customers who are most dependent on our services, and deliver prioritised support to them in a power cut. In the year ended 31 March 2023 we continued to promote awareness of our free PSR service, and increase accessibility to it. Data cleanse activities and collaboration with other utilities have also improved our view of vulnerability of our region.

We have over 650,000 households on our PSR. Our enhanced contact campaign has increased registration on our PSR from 57.7% to 73.3% of those eligible in the region. In delivering for our priority customers, we have proactively provided cost of living advice to help our customers to stay safe and warm throughout the winter and engaged with customers to ensure their preparedness for potential planned rota load disconnections by National Grid. Having committed to contact customers on our PSR, prioritising the medically vulnerable, over 300 colleagues from across the business supported the Contact Centre in this effort.

We recognise our role in helping to tackle fuel poverty and the particular challenges that this brings in our region. This year the cost of living crisis has meant that our customers have needed our support more than ever and extra, targeted advice and help was provided both through our partners and on our website.

Through the introduction of referral partnerships, the volume of support increased to the highest level to date with 12,362 (2022: 11,000) homes benefiting from the service.

Delivering excellent customer service is important to us. Our overall customer satisfaction score for the year ended 31 March 2023 was 89.4% (2022: 88.7%). Throughout the ED1 period (2015 to 2023), our overall satisfaction has improved by 9.4%, from 80% to 89.4% (representing the second largest DNO improvement through ED1; for the year ended March 2023 we were 9th of 14).

The Company is committed to improve further customer satisfaction levels, with clear actions in place that are monitored regularly by the Executive Leadership Team. The actions focus around reducing customer effort, simplification, owning what we do, and engaging, listening and improving.

The number of complaints we receive has increased in the year, with complaint volumes up 28% compared to the prior year. This increase is attributed to a combination of some bad weather incidents and a significant increase in connections volumes due to the uptake in low carbon technologies. We have reviewed our policies and practices and have increased resource in the connections area to reduce complaint volumes. We track the time taken to resolve complaints when we do receive them. The overall complaints performance within the year continued to outperform the Ofgem target and reflects a year-on-year reduction, with a complaint metric of 2.6 (2022: 3.45), with 83.4% of complaints resolved in 24 hours (2022: 80.1%). This complaint metric reflects the percentage of complaints resolved within 24 hours, combined with the percentage of complaints resolved within 31 days.

We continue to focus on Guaranteed Standards of Performance (GSoP) for Connections customers. GSoP failures this year were similar to the year before. We are focusing on process improvements and simplification to further improve service levels.

Strategic Report (continued)

People

The Company is a major employer in the North West of England, employing approximately 2,100 people in the region. We also work with carefully selected local contract partners to support fluctuating work demands, providing even wider levels of employment for the region. We are committed to building careers for our people providing secure, long-term employment in an inclusive environment where everyone feels a sense of belonging.

Climate is the measure the Company uses to quantify 'how it feels to work here' and, in turn, makes the link between this 'feeling' and how the Company performs. Annual colleague climate surveys are undertaken to measure engagement and levels of agreement with the Company's identified climate priorities.

Colleague engagement scores in our January 2023 survey are the highest ever recorded by the organisation, with a survey response rate of 82% and an agreement rate of 78.7%. This was 3.7% higher than our target of 75% agreement and a 4% increase on our previous survey result. Our colleagues rated health and safety, pride and customer focus highest.

The Company continues to make significant investment for all employees in training and development, providing a learning and development portfolio to boost all employees' competencies. We were proud to receive the Investors in People Certification in April 2022.

We are committed to creating a great place to work and influencing diversity and inclusion in the Energy sector. The Company launched its first diversity and inclusion ("D&I") strategy in December 2021 with the vision to 'create a sense of belonging for our colleagues and truly reflect the communities we serve'. Our D&I vision is underpinned by four key areas of strategic focus (belonging, talent, leadership and community), underpinning inclusion in everything we do.

Equal and fair consideration is given to all employees and applicants regardless of their diverse background. If necessary, the business modifies equipment and practices to accommodate the requirements of all colleagues. This year we rolled out company-wide conscious inclusion training and established six colleague network groups who have been instrumental in helping us achieve our Silver Forces Friendly award and Disability Confident Employer status.

We were proud that our Apprenticeship Programme won recognition as Diversity and Inclusion Programme of the Year at the Lancashire Apprenticeship Awards.

We have continued to take positive action to ensure our workforce is more representative of the communities we serve, with a particular emphasis on attracting female and under-represented groups into the business. We have 34% female representation in leadership roles (with 25% in senior leadership roles) and 8% representation of females in engineering roles.

Working with our local communities, including successful partnerships with local mosques, schools, colleges and universities we have seen a rise in minority ethnic candidates joining the business. 24% of our most recent apprentice intake for the year were female, and 18% were from an ethnically diverse background.

We're committed to creating a diverse and inclusive environment where everyone feels they belong and can reach their full potential. We have been moving in the right direction since the requirement to publish our gender pay gap and benchmark well against other Energy companies and the UK Average and are committed to closing the gap further.

This is partly down to our investment in talent programmes in which females made up 48% of participants. Our mean hourly pay gap of 10.6% is an improvement of 1.5% on last year, and 4.3% better than the average UK Gender Pay Gap of 14.9%.

We have been an accredited Real Living Wage Employer since 2019 and contract with our supply chain to honour the real living wage commitments for their people. We are also proud to be a member of the Greater Manchester Combined Authority Good Employer Charter, and a founding partner of the Utilities National Work Group on Modern Slavery.

Corporate Social Responsibility

Our Responsibility Framework

Sometimes referred to as our social contract, our Corporate Social Responsibility Framework, or our Environmental and Social Governance, sets out how we work to deliver for our customers and stakeholders. The Framework demonstrates how we consider the social, environmental and economic impact in our decision-making and that our activity delivers a wide, positive, societal impact.

Under our framework, each key section - our communities, our environment, and our people and partners - is divided into a number of goals which are important to our business, our stakeholders and our colleagues. Below each goal are a series of commitments and measures.

The responsibility framework does not exist in isolation. While it does not seek to include and measure our core business and services as a network operator, it does bring together a number of the activities and strategies already embedded in our operations and the business plan. In doing so it provides an overarching indication of our activities as a socially responsible business and how we operate within our communities

In our **People and partners** section, we put the wellbeing and safety of colleagues at the forefront of what we do. This year we have reinforced our positive health and safety culture across the business. Operating our organisation safely is fundamental to our licence to operate. It is critical that we maintain our safety culture to ensure that we keep our colleagues and communities safe.

We discuss the vision and progress of our Diversity and Inclusion strategy, along with other people matters, in the People section of the Strategic report.

Despite a challenging year with our supply chain continuing to be adversely impacted by the implications of the COVID-19 pandemic and war in Ukraine, we seek to ensure that suppliers are compliant with our Supply Chain Charter and that they also promote finding alternative ways of working that support our transition to net zero and reduce our carbon impact (including development of Science Based Targets and Scope 3 emissions).

In our **Communities** section, we have significantly developed our support for customers who experience a power cut and those in financially difficulty due to the energy and cost of living crisis.

Our £500,000 two-year strategic partnership with Citizens Advice continues to support over 22,000 customers with energy saving advice. This year we launched our 'Be Safe and Save' campaign and our existing Be Winter Ready messages were also widened to support cost of living signposting. New communication channels were used alongside partners to help get critical messages out to customers.

We learnt from Storm Arwen that we could further improve customer communications. When energy supplies came under pressure and the media noted the risk of potential disconnections over the winter of 2022, we contacted customers on our Extra Care register during December 2022 to ensure that they had plans in place in case of a power cut.

This year, through targeted campaigns we have also significantly increased the number of customers on our Extra Care register. This scheme helps us to provide additional information and support to customers who may become more vulnerable during a power cut.

Corporate Social Responsibility (continued)

Our Responsibility Framework (continued)

This year our education programme has seen a key development as a result of our partnership with the Girlguiding Association. The creation and launch of the Girl Power badge to young people involves a task to increase the awareness of electricity. This is now being shared across other DNO regions and is being adapted to be gender neutral for other community groups. Following collaboration with National Grid Distribution, we were also pleased to launch a new educational safety game to complement our existing Bright Sparks on-line educational resources.

We also introduced 34 new apprentices to our award-winning apprenticeship programme and trialled a new approach to work experience, supporting 27 students throughout the year.

Our colleagues also continue to support activities in their local community through fundraising and volunteering. Our eleven local teams have helped us to make donations totalling over £20,000. Colleagues across the company volunteered more than 700 hours.

In our **Environment** section, the Company continues to make progress our ambitious plan to tackle our operational carbon footprint including taking an active management approach to heating and cooling our buildings and investing in low carbon technologies for our operations. We are also supporting our colleagues in the transition to electric vehicles as nearly 60% of our company fleets (including those currently on order) will be plug-in electric vehicles. We are also proud to have now achieved silver accreditation on our Carbon Literacy journey.

This year we have collaborated with partners to provide business low carbon advice to help support our stakeholders on their net zero journey, participating in events across Greater Manchester, Cumbria and Lancashire.

Our investment in the network is also directly helping to enable a low carbon future. For example, working with South Lakeland District Council we have reinforced the local electricity network enabling the investment in an electric alternative to the diesel ferry at Windermere and associated electric vehicle charging points for visitors and the community.

Community and local energy schemes across the North West continue to grow. This year our Powering our communities' scheme has supported seven projects to the value of £95,000. To date we have allocated £400,000 to 33 projects.

This year we have continued to develop our biodiversity commitment. With planting schemes reintroduced following the end of the COVID-19 pandemic, we have completed 10 'Transforming our Spaces' sites this year.

Responsibility Benchmarks

We continue to work with Business in the Community. This year they worked with us to provide a strategic review of our responsibility framework as we approach our new business commitments of RIIO-ED2. The finding from that report will be incorporated into our strategy for next year and beyond.

Stakeholder engagement

We are committed to ongoing stakeholder engagement and recognises the proven value and insight that stakeholder relationships bring to our decision making, risk management and reputation.

Stakeholder engagement enables us to listen to, respond and collaborate to on the issues that matter most to our communities. This year, as a result of the combined effects of an energy and a cost of living crisis, this has been more important than ever. Working with existing and new partnerships we heard directly about the huge strain on resources that was being created as more and more of our communities sought help and advice about energy efficiency, debt support and the health and safety implications of meter tampering. By listening and responding to our stakeholders

Corporate Social Responsibility (continued)

Stakeholder engagement (continued)

we have been able to co-create tailored services for our customers and target investment in further partnerships to support our partners.

Over the last three years stakeholder engagement has helped us to shape and refine our RII0-ED2 Business Plan for the next price control period, 2023-28. Our business plan was independently reviewed by our Customer Engagement Group (CEG) throughout the development process. The CEG has continued to meet publishing responses to Ofgem's draft and final determinations. We are now in the process of finalising our stakeholder engagement approach for 2023/24 to ensure enduring consumer input into decisions throughout the ED2 price control.

Throughout the year our independently-chaired Consumer Vulnerability and Sustainability Advisory Panels alongside our strategic Chief Executive Advisory Panel have continued to present robust challenge and insight into our current activities whilst also providing valuable input into key ED2 strategies. The panels have been particularly valuable in helping us to shape the response to the cost of living and energy crisis and to prepare enhanced reporting around our Environment Action Plan. The panels have continued to meet virtually with the Chief Executive Advisory Panel, but also agreeing to meet twice in person.

This year our three annual regional advisory panels also returned to face to face engagement in Greater Manchester, Lancashire and Cumbria. The events gave the opportunity to share our proposed future investment plans and to discuss concerns about current economic conditions and connecting to our network and the impact on business and domestic customers.

Each year we undertake to review our approach to stakeholder engagement and this year our stakeholder satisfaction survey continued to show high levels of overall satisfaction (77%). Nearly 150 participants responded achieving excellent representation across our mapped stakeholder community. The survey indicated a strong correlation between the frequency of engagement, stakeholders' familiarity with our business and overall satisfaction. This year we saw an increased shift to a preference for face to face meetings and bilateral meetings with named contacts.

Each year we have been required to submit to Ofgem a 'Stakeholder Engagement and Customer Vulnerability' submission. The company also engages auditors for non-financial assurance of its commitment to Accountability Principles for Sustainable Development (AA1000APS). The assurance review involves an assessment of our performance against each of the best practice performance pillars resulting in a score against AccountAbility's Stakeholder Engagement Maturity Ladder. This year we demonstrated a 6% improved performance across the pillars and embedded our 'accomplished' maturity level. In its management report AccountAbility concluded with the following:

"Electricity North West continues to demonstrate a strong culture of stakeholder engagement, evident at all levels and across teams. Increased senior-level involvement, investment in internal capacity building and in building partnerships, show that the company is taking ownership of its role in promoting safety and safeguarding vulnerable customers. Most notably, employees across the business stepped up to this role during the impressive phone call campaign to 23,000 highly vulnerable customers to reassure them ahead of potential rota load disconnections."

Strategic Report

Section 172 Statement

Introduction

Throughout this Annual Report, we illustrate how the Board recognises the broader context in which the Company operates. This extends to considering things such as: the long term consequences of decisions, the interests of our employees, fostering good relationships with customers and other stakeholders, the impact of our activities on our community and environment, maintaining a reputation for high standards of business; and the need to act fairly as between our shareholders.

This Statement provides specific examples of how the Company acknowledges these wider considerations in its approach to making decisions.

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of Electricity North West Limited consider, both individually and together, that they have acted in a way they consider in good faith would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in decisions taken during the year ended 31 March 2023.

Long term decision-making

Our business is all about the long term, to create the right electricity infrastructure for the world of tomorrow. We are very aware that what we do now will have an impact in the future. Given that context, we pick out some examples of how that longer-term thinking has influenced our decision-making.

Conclusion of the RIIO-ED2 price control process

The Board played a key role in the development and conclusion of our price control for the next five years (RIIO-ED2). We recognised the crucial importance of getting the right outcome to allow the business to deliver its ambitious plans, both up to 2028 and beyond. At all times, the Board looked to balance the needs of all its stakeholders and recognised the Company's role in enabling the significant changes required by long term goals such as Net Zero. Further information is contained in the Chairman's statement.

Supply chain continuity

Like all businesses, we have been impacted by pressures on our supply chains caused by global events such as the COVID-19 pandemic and the war in Ukraine. In response, we have ensured that we take the necessary actions and maintain sufficient stock to negotiate these challenges. Whilst this has often involved additional costs, for example increasing stock holdings and advance ordering of equipment, these decisions have meant that we have been able to continue to undertake our operations and investment programmes without disruption.

Executive leadership changes

The Board has considered the long-term requirements of the business and its stakeholders when managing changes in the key leadership roles of Chief Executive Officer and Chief Financial Officer, ensuring a smooth transition in both roles. Further information is contained in the Chairman's statement.

Our people

As directors, we are always aware of the importance and efforts of our people. We consider them in everything we do. This is discussed further in the People section of the Strategic Report on page 13.

Safety

The safety of our people is our highest priority. With the assistance of a dedicated Board Committee (see page 48), we continually monitor safety performance and safety culture. Following a disappointing first half to the year, we are pleased to have overseen a major improvement in organisational safety. This is described in more detail in the Strategic report on page 9.

Diversity and inclusion

As explained in more detail in the People section of the Strategic Report on page 13, we are constantly striving to ensure that we create a sense of belonging for our colleagues and

Strategic Report (continued)

Section 172 Statement (continued)

truly reflect the communities we serve through our diversity and inclusion strategy. The Board regularly discusses the progress of our strategy and initiatives in this area.

Employee engagement

Last year we were proud to be awarded the Investors in People certification, recognising our efforts to becoming an employer of choice in the North West. We continue to work with Investors in People to seek opportunities to continually improve our employees' experiences of working at ENWL.

Annual colleague climate surveys are undertaken to measure engagement and levels of agreement with the Company's identified climate priorities. The results from the survey and management approach to improving the climate are discussed further in the People section of the Strategic Report on page 13.

We recognise the value that trade unions bring to our organisation and work closely with them on key issues. This supplements wider engagement activities that we undertake to involve and inform colleagues in what is happening across the organisation.

Future skills

We recognise the importance of investing in our people to ensure that we develop existing and future skills, behaviours and capabilities across the organisation. Information on training courses delivered in the year is included in the Strategic Report on page 20.

Stakeholder relationships

Our relationships with stakeholders are discussed extensively throughout this Annual Report with more detailed information in the Corporate and Social Responsibility section of the Strategic Report on pages 15-16.

Specifically, in developing the ED2 submission, the Board took a lot of advice – especially from the Company's designated customer group as well as taking feedback from our three major regional political bodies (the Councils of Cumbria, Lancaster and Greater Manchester).

Winter Preparedness Programme

Given the backdrop of cost of living pressures, threats to energy supplies and the challenges presented by adverse weather events, it was especially important for the Company and our customers to be fully prepared for the winter. As described in more detail in the Customer section of the Strategic Report (see pages 12), Board oversight ensured that appropriate plans were put in place with particular emphasis on protecting our most vulnerable customers.

Customer service focus

Delivering excellent customer service is part of our 'licence to operate' and an area that the Board monitors closely to ensure our service levels continuously improve. Providing additional support to electricity users in vulnerable circumstances and fuel poverty is core to our customer strategy. Further information on Customer is contained on pages 12 of the Strategic Report.

Shareholders

As highlighted in our Corporate Governance Report (see page 41), our business benefits from the involvement of our Shareholders; not least, due to their representation on the Board and through the workshops and other meetings in which they participate.

Impact of our operations

Our Purpose "Together we have the energy to transform our communities" reflects the essential role we play in the North West and in the lives of our customers, acknowledging how our role is changing alongside our customers' needs.

Throughout the Annual Report, we discuss the impact of our operations on the wider community, in particular by supporting customers in vulnerable circumstances.

Leading the transition to Net Zero

The Net Zero transition will result in very significant increases in network demand. As the region's electricity network operator, we have a vital role to play, providing the capacity to allow customers to adopt low carbon technologies, at a price that is affordable. Further information, including approach to the

Strategic Report (continued)

Section 172 Statement (continued)

Leading the transition to Net Zero (continued)

decarbonisation of our own operations is discussed in the Environment section of the Strategic Report on page 10.

The Board is very aware of its stewardship role and the importance of protecting the North West's natural environment. We have put these considerations at the heart of our plans for RIIO-ED2 and beyond. Further information is contained in our Corporate and Social Responsibility statement on page 14-15.

Ethical business conduct

We expect the highest standards of conduct in our business. This extends beyond our Company and its people to all organisations who work with us. During the year, the Audit Committee in particular has overseen the implementation of a number of new policies and monitored ongoing compliance with relevant legal and regulatory requirements.

Supplier Vetting

As a business, we recognise that our customers expect us to check the credentials of the suppliers who work on our behalf. This is not just about confirming that we select the right contractors to do a given job, it is also about making sure that the people employed by them have completed the necessary checks to work with us and our customers. The Audit Committee has overseen the refresh of relevant Supplier vetting processes and ongoing compliance procedures.

Further information, including our Whistleblowing procedures and codes of conduct are discussed in the Anti-corruption and anti-bribery of the Strategic Report on page 21.

Strategic Report (continued)

Non-financial Information Statement

A description of the principal risks relating to the following non-financial information is contained elsewhere in the Strategic Report, as indicated below;

- Environmental matters – see page 10, page 21 and page 22,
- Employees – see page 13,
- Community issues and social matters – see pages 21-22,
- Respect for human rights – see page 20, and
- Anti-corruption and bribery matters – see page 21.

Workforce composition and gender diversity

Information on the composition of the workforce at the year end is summarised below:

Turnover

2023 – 161 leavers (2022: 185 leavers)

Training courses delivered

2023 – 851 (2022: 402)

Training course attendee sessions

2023 – 25,789* (2022: 16,240*)

*These figures include e-learning courses, operational and non-operational training.

Workforce (Male/ Female)	2023 Number	2022 Number
Total employees	**1,553/ 523** ***(75%/25%)***	1,462/ 500 *(75%/25%)*
Senior managers	**34/ 12** ***(74%/26%)***	32/ 12 *(73%/27%)*
Executive leadership team*	**5/ 2** ***(71%/29%)***	6/ 3 *(67%/33%)*
Non-Executive Directors	**7/ 2** ***(78%/22%)***	7/ 2 *(78%/22%)*

* The Executive leadership team figure includes two Executive Directors.

Respect for Human Rights

The Group operates exclusively in the UK and, as such, is subject to the European Convention on Human Rights, the UK Human Rights Act 1998 and the Modern Slavery Act 2015. The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through policies and procedures, in particular, regarding employment, equality and diversity, treating customers fairly and information security.

The Group is a founding partner of the Utilities National Work Group on Modern Slavery and we achieved our Forces Friendly silver award this year.; the Modern Slavery Act Compliance Statement is available on the website: www.enwl.co.uk/misc/modern-slavery-act-compliance-statement.

Strategic Report (continued)

Anti-corruption and anti-bribery

At ENWL, we are proud of our strong commitment to high ethical standards in the way that we work. The business takes a zero-tolerance approach to bribery and corruption, and is committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, implementing and enforcing effective systems to counter bribery. It is important that our regulator and other stakeholders have confidence in the arrangements and integrity of the organisation.

The Company operates a number of policies governing anti-bribery and anti-corruption matters: Anti-Corruption and Bribery Policy, Corporate Hospitality & Gifts Policy and Conflict of Interest Policy. During 2022, we also launched a revised 'Ethics in our Business' document. This includes our Ethical Framework, setting out our expectations for all those working with us, and a decision-making tool to assist colleagues if faced with an ethical dilemma. Alongside this, we launched an updated Speak Up (Whistleblowing) policy, providing colleagues with a number of channels to raise and escalate any concerns they may have. An e-learning package was also made available for all colleagues during the year to increase understanding and awareness of these important policies.

During 2023, we launched our revised Competition Law e-learning module. The aim of this module was to familiarise our colleagues with key aspects of competition law as they apply to our business activities.

All of our corporate ethics policies apply to all employees and officers of ENWL and form part of the employee Code of Conduct. Other individuals performing functions for the Company, such as agency workers and contractors, are also required to adhere to these policies.

To support our Speak Up policy, we have in place a confidential independent reporting line, provided by Safecall.

Environment

Environmental protection continues to be one of our core values, and we remain committed to achieving the highest possible standards of environmental performance. The year ended 31 March 2023 saw our lowest ever level of carbon emissions, in part due to the operational changes the business has adopted through the COVID-19 pandemic. Some of these business changes will continue due to the long-term carbon footprint benefit that was highlighted during the COVID-19 pandemic. Other opportunities to reduce our carbon footprint will be implemented to continue a carbon reduction trajectory.

We minimise emissions and spills, and are investing to remove potentially damaging equipment, and to enhance the environment by undergrounding overhead cables. As examples of what we are doing, during the year:

- We have continued to deliver our 'Leading the North West to Zero Carbon' plan, decarbonising our own operations, and helping businesses, customers and colleagues across the region to do the same.
- Zero breaches were recorded by the Environment Agency against our Environmental Permits for the storage and treatment of electrical insulating oil, resulting in Band A ratings against all sites (Central Oil Reprocessing Department (CORD) Whitebirk, Kendal, Oldham, Workington).
- Overall leakage of oil from cables was 13,217 litres continuing the performance achieved last year and both representing a significant reduction from levels seen earlier in RIIO-ED1 and meeting our business plan commitment target of less than 30,000 litres in a year.

Strategic Report (continued)

Environment (continued)

Business carbon footprint

	2023 tCO_2e	2022 tCO_2e
Scope 1		
Operational transport	6,190	6,056
Business transport - road	733	787
Fugitive emissions	889	893
Fuel combustion	2,777	3,275
	10,589	11,011
Scope 2		
Buildings energy usage	3,384	3,628
Scope 3		
Business transport - rail	5.0	1.6
Business transport - air	13.6	7.2
	18.6	8.8
Business Carbon Footprint (excl. losses)	**13,990**	14,649
Electrical losses[1]	**242,882**	268,340
Business Carbon Footprint (incl. losses)	**256,872**	282,989

[1]The reported electrical losses figure is a snapshot of received data as of the date of this report and will change as further settlement reconciliation runs are carried out (up to 28 months after each relevant settlement date).

The Company's business carbon footprint (excluding losses) for the year was 13,990 tCO2e, which is a reduction of 4.5% from the previous year (2022: 14,649 tCO2e).

During the year the Company continued to implement energy efficiency measures, through the refurbishment of its buildings, and the replacement of fleet vehicles and company cars with more efficient vehicles.

Around 17,500,000 kWh of electricity, equal to around 3,384 tCO2e, was purchased by the Company for its own use, including for the purposes of transportation. This tCO2e figure was calculated by multiplying the total consumption in kWh by the UK Government Conversion Factors for greenhouse gas emissions.

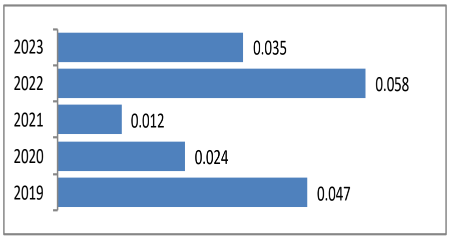
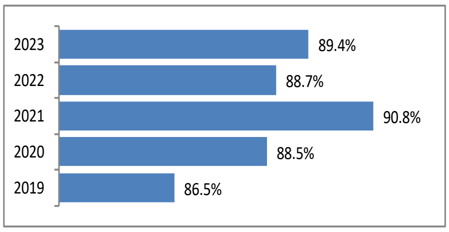
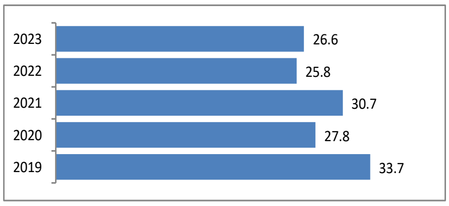
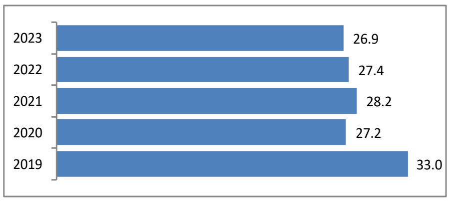
There was around 25,909,000 kWh of energy consumed from the combustion of gas and consumption of fuel for operational transport. This is calculated by multiplying the litres of gas oil and diesel consumed by the conversion factor provided in the UK Government Conversion Factors for greenhouse gas emissions.

The Company's annual emissions are equivalent to 6.46 tCO2e per employee, a reduction of 0.07 tCO2e per employee against last year's emissions.

Electricity losses are measured as the difference between energy entering the network (from generation) and energy exiting the network (for demand). Whilst it is impossible to eliminate these losses, we do take steps to minimise them and we will be taking measures to reduce losses as part of our commitment to decarbonise our operations. This is done through installing more efficient assets in our network, particularly low loss transformers and cables and through our revenue protection activities, addressing the issue of electricity theft. However, as electricity demand over the network starts to increase, maintaining losses at current absolute levels will be impossible to achieve, with the level of emissions being determined by the amount of renewable generation in the mix.

Strategic Report (continued)

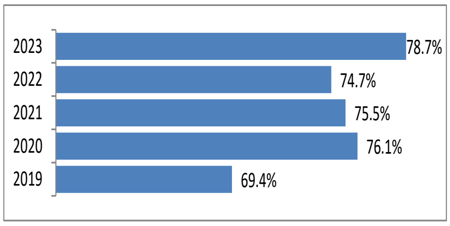
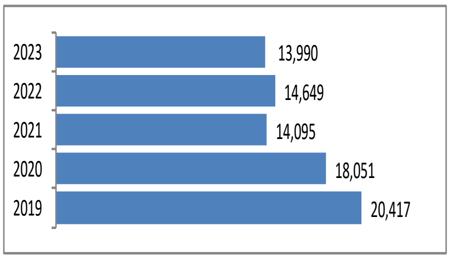
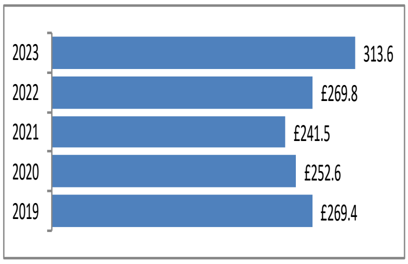
Key Performance Indicators

<table>
<tr><th></th><th>KPI</th><th>Definition and comment</th><th>Performance</th></tr>
<tr><td>Safety</td><td>Lost time incident frequency rate</td><td> Definition: The total number of reportable incidents in the year divided by the number of hours worked in that year (by employees and contractors), multiplied by 100,000 hours. Performance: Reflecting the increased focus on safety, the Company saw a reduction in lost time incidents in the year. There were three lost time incidents in the year, with the corresponding lost time incident frequency rate of 0.035 (2022: 0.058). </td><td>0.035

</td></tr>
<tr><td>Customer</td><td>Overall customer satisfaction</td><td> Definition: The overall customer satisfaction score is a composite score from Ofgem surveys that assesses levels of customer satisfaction for connections quotations and delivery, interruptions and general enquiries. Performance: Overall satisfaction increased to 89.4% for the year, up from 88.7% in the prior year. The score for the year was the second highest in five years, following on from an all-time high in 2021 and reflecting the ongoing focus on improvements to customer service. </td><td>89.4%

</td></tr>
<tr><td rowspan="2">Reliability</td><td>Customer interruptions (CIs) Error! Bookmark not defined.</td><td> Definition: CIs represent the number of interruptions our customers experience. It is calculated by taking the total number of customers affected divided by the total number of customers connected to the network, multiplied by 100. It excludes interruptions during exceptional events, although there were none of these in the year. Performance: The result of 26.6 for the year significantly outperforms the Ofgem target of 45.6 and represents the Company’s second best ever performance. </td><td>26.6 CIs

</td></tr>
<tr><td>Customer minutes lost (CMLs) [1]</td><td> Definition: CMLs represent the time customers are without power in the event of an interruption. It is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents, excluding exceptional events, and dividing by the number of connected customers. Performance: The result of 26.9 for the year significantly outperforms the Ofgem target of 38.2 and represents the Company’s best ever year. </td><td>26.9 CMLs

</td></tr>
</table>

[1] The year ended 31 March 2023 figure is yet to be audited by Ofgem.

Strategic Report (continued)

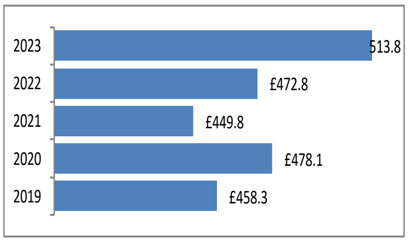
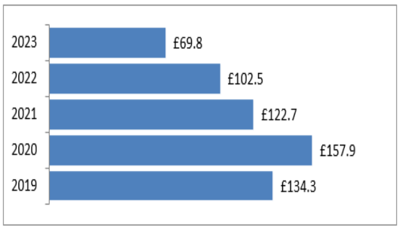
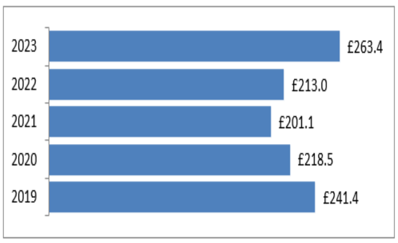
Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
People	Colleague engagement	**Definition**: Colleague engagement is measured via an employee survey which, through a series of questions, provides details of overall colleague engagement and how colleagues feel about the 'working climate'. **Performance**: Overall colleague engagement achieved an agreement score of 78.7% for the year, a 4% increase from 74.7% last year, and the highest in the last five years.	78.7% Climate score 
Sustainability	Carbon footprint (excluding electrical losses)	**Definition**: Carbon footprint measures the impact of our operations on the environment and is calculated in line with Ofgem guidance. The calculation excludes electrical losses arising from the operation of the network which cannot be directly controlled or accurately measured. **Performance**: Through targeted investment in the efficiency of our buildings and other efficiency measures we have managed to further reduce our carbon footprint during the year. 2023 has seen the best overall environmental performance ever.	13,990 tCO_2e 
Cost efficiency	Total Expenditure (Totex)[2]	**Definition**: Totex is a key financial measure for the business. It is a regulatory abbreviation which stands for total expenditure. It includes the money we spend on running our business day-to-day, and the amount we invest in new assets through our network investment programme. We aim to deliver efficiencies in Totex which we share with our customers and which reduces customers' bills. **Performance**: Totex for the year ending 31 March 2023 was £313.6m compared to an equivalent Ofgem allowance of £333.5m in outturn prices. Expenditure was higher than the previous year due to increased operational and support costs and higher investment in operational assets.	£313.6m 

[2] Totex is calculated on a regulatory basis and reported to Ofgem annually on 31 July. For management reporting purposes an approximate calculation of Totex is prepared to track performance. The final regulatory Totex figure may differ from this approximation when detailed cost allocations are performed. The numbers for earlier years have been updated to reflect the annual submission to Ofgem.

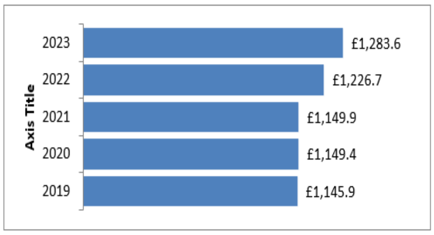
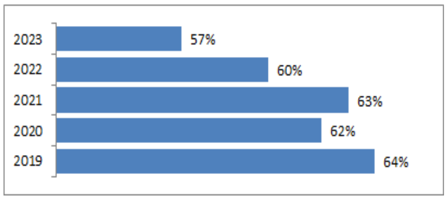
Strategic Report (continued)

Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Financial KPIs	Revenue (excluding collection of Supplier of Last Resort (SoLR levies)	**Definition**: Revenue is determined by Ofgem to allow recovery of efficient costs to maintain and improve the network, as determined as part of the price control process. Actual revenue can vary as demand over the network varies against forecast. Additional revenue is generated through charges for new connections, along with incentive revenues earned for delivering improved performance. As a result of the significant volume of SoLR claims approved by Ofgem, our allowed revenue for the year ended 31 March 2023 was £79.9m higher than it would otherwise have been, with the collection of this levy, which is immediately paid to suppliers. Revenue in the KPI table has been presented excluding the value of SoLR levies collected. **Performance**: Revenues have increased from the prior year, primarily due to increases in DUoS revenue. This reflects inflation and other adjustments to allowed revenue including the impact from incentive revenues previously earned. The revenue under-recovery for the year was £9.4m (2022: £3.6m over-recovery) compared to allowed revenues, with the under recovery reflecting reduction in volume consumption in the year. This will be corrected through adjustments in pricing in future periods.	£513.8m 
	Profit before tax and fair value movements (PBTFV)	**Definition**: The PBTFV of £69.8m is the profit before tax of £195.0m (2022: £26.0m) after deducting the £125.2m FV gain (2022: £76.5m loss), per Note 9. **Performance**: PBTFV has decreased to £69.8m (2022: £102.5m), mainly a result of higher interest expense (including the impact of indexation, see note 9) and an increase in employee and operating costs. PBTFV excludes the significant capital investment that we make in the network each year. Financial performance is better understood through comparing Totex with adjusted allowances.	£69.8m 
	Capital expenditure	**Definition**: This represents investment in the network to maintain its reliability and resilience for future customers. The figure includes total additions to property, plant and equipment and software. **Performance**: We continue to invest to improve the capacity and reliability of the network. Investment increased this year as a number of major investment programmes were completed.	£263.4m 

Strategic Report (continued)

Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Financial KPIs	Net debt	**Definition**: Net debt includes the total borrowings of £1,763.1m (2022: £1,286.1m) per Note 19, net of cash and cash equivalents and money market deposits of £479.5m (2022: £59.4m) per Note 17. **Performance**: The £57.2m increase in net debt is due to the combined effect of inflation indexation on debt (£55.2m) and cash flows, including an increase in investing activities, dividends and accretion paid in the year. (See page 30)	£1,283.6m 
	RAV gearing	**Definition**: RAV gearing is measured as borrowings at nominal value, plus inflation-linked debt accretion where applicable, net of cash and short-term deposits divided by the estimated RAV of £2,485.9m at March 2023 (2022: £2,159m), using the definition in our Financing Agreements. **Performance**: The RAV gearing is in line with target and under the Ofgem guided level of 65%.	56.7% 
	Interest cover	**Definition**: Interest cover is the number of times the net interest expense, adjusted for indexation and capitalisation of borrowing costs, is covered by operating profit from continuing operations, as defined by the Financing Agreements. **Performance**: Interest cover has increased primarily due to the increased DUoS revenue collected in the year (see revenue section above).	4.0 times 

Strategic Report (continued)

Financial Performance

Overall performance reporting

Revenues are derived through the allowed revenues set for the regulatory period, adjusted for a number of factors including under or over collection of revenues in earlier years, movements in inflation and performance incentives earned. Under the RIIO framework, revenues are the cash funding mechanism for the business, including current investment requirements as well as the repayment of past investments, rather than the reflection of income resulting from activities that financial statements usually reflect.

Consequently, operating profit presented in these financial statements represents the combination of revenues that are only partly related to actual activity during the year, less those operating costs actually incurred, but excluding capital expenditure.

Consequently, the profit earned in any given period does not reflect the return to shareholders, which is more accurately represented by the Return on Regulated Equity (RoRE) (see section below).

Whilst the statutory measure that is most closely aligned to the return to shareholders is cash flow before financing activities (see the Statement of Cash Flows), this has a limited correlation to actual economic returns, as a result of the factors noted above.

Return on Regulated Equity

Ofgem presents the results of the networks as a Return on Regulated Equity (RoRE), a measure developed to report performance measures that more accurately reflect the return from regulated networks to investors.

The Regulated Equity is a percentage of the Regulated Asset Value (RAV) which is essentially equivalent to the net book value of the fixed assets of the business, calculated in regulatory terms. Ofgem assumed that for RIIO-ED1, this RAV was financed 65% by debt and 35% by equity, hence they calculate the return to shareholders based upon 35% of the RAV. The Company operates at a lower gearing ratio than this notional level, so returns based upon actual gearing levels are also shown.

The Company is allowed to make a return of 6.0% p.a. real (i.e., before RPI inflation) across the RIIO-ED1 period, on this element.

Returns above this rate are delivered through above target performance for example, through totex cost efficiencies in the delivery of our services, the savings from which are shared at a rate of 42% with customers or through improvements in customer service and network reliability.

Our average post-financing RoRE for the eight years of RIIO-ED1 is at an annual rate of 9.0% on an actual equity basis.

In broad terms, this figure reflects the 6.0% allowed return, with incentives for improved performance adding a further 2.2% through Totex cost efficiencies. However, the costs of servicing our debt are higher than Ofgem allow us, with these actual debt service costs reflecting the prices in the debt markets at the time our debt was issued.

This is the principal element reducing our performance to the overall 9.0% per annum, real, after tax and interest.

Average equity for the period is 39%, higher than the assumed 35% notional equity funding. The difference between the actual and notional equity has the effect of reducing the post financing return from 10.3% to an actual equity return of 9.0%.

RoRE Components Expressed on notional and actual equity basis	ED1 to 2023 £m
Notional equity returns	
Allowed Equity Return	6.0%
Totex outperformance	2.2%
Incentive performance	2.2%
RoRE - Operational performance (notional)	10.4%
Debt performance	(0.4)%
Tax performance	0.3%
RoRE (Notional regulatory equity)	**10.3%**
Adjustment to actual equity	(1.3)%
RoRE (Actual equity)	**9.0%**

Strategic Report (continued)

Financial Performance (continued)

Return on Regulated Equity	**2023* £m**	2022 £m	2021 £m	2020 £m	2019 £m
(Loss)/profit after tax	145.5	(29.5)	53.4	102.1	71.8
Adjustments:					
RAV	(23.6)	(14.0)	(21.4)	(32.8)	(57.2)
Deferred Taxation	39.2	38.6	(11.7)	16.0	(6.9)
Indexation and Fair Value Movements	32.4	127.0	67.4	32.6	70.0
Movement in Other Regulatory Balances	(29.0)	(37.2)	(33.7)	(64.9)	(14.7)
Post - financing return	164.5	84.9	54.0	53.0	63.0
Average return for the RIIO-ED1 period	66.1				
Average RAV balance	1,879.2				
Average debt balance	1,118.4				
RoRE (actual regulatory equity)	9.0%				

**A prior year comparative of RoRE is not provided in the table above as 2023 represents the average result at the conclusion of the eight year RIIO-ED1 period.*

Reconciliation of statutory profit to regulatory performance

RoRE adjusts reported profit under IFRS to reflect the impact of the regulatory framework, outlined above, when presenting financial performance. The post-financing return generated reflects the actual regulatory return made in each year and is used to derive RoRE.

Adjustments in calculating regulatory financial performance

The principal adjustments[3] from reported profit after tax to regulated financial performance are:

Regulated Asset Value ("RAV"): The regulatory composition of costs incurred is split between in-year revenue allowances (fast money) and the creation of additional RAV (slow money). This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles. This adjustment reflects the impact of the fast and slow money concept in the regulatory settlement and the impact of regulatory depreciation which does not form part of the statutory profit.

Deferred taxation: Future revenues are expected to recover cash taxation costs, including the unwinding of deferred taxation balances created in the current year (Note 10).

Indexation and fair value movements: Fair value movements on debt and derivative financial instruments included within statutory profit are excluded from the regulatory performance calculation and an adjustment is made to remove the inflation component of actual interest costs.

Movement in other regulatory balances: Regulatory performance reflects performance on an earned basis, which will be recognised through revenue in future years. IFRS recognises these revenues when they flow through bills to customers and not in the period to which they relate. The principal adjustments are for incentives earned, under or over recoveries of allowed revenue and adjustments for enduring value. Enduring value adjusts for the impact of timing differences between allowed revenue and actual expenditure incurred, i.e., timing differences that will unwind over future years.

Equity component:

Performance is presented on a real equity basis, representing the balance of the RAV that is not debt funded.

[3] Regulatory adjustments for the year ended 31 March 2023 have been presented on a draft basis. Regulatory performance is reported to Ofgem on 31 July and final reported figures may differ from the reconciliation as detailed cost allocations are prepared.

Strategic Report (continued)

Financial Performance (continued)

Financial reporting measures

Revenue

Revenue has increased to £594.7m (2022: £472.8m) during the year, with £79.9m of the increase being due to collection of SoLR levies. As a result of the significant volume and value of SoLR claims approved by Ofgem, our allowed revenue for the financial year ending 31 March 2023 was £79.9m higher than it would otherwise have been, with the collection of this levy. However, immediately at the point the levy becomes billable, the entire value of the levy is paid over to suppliers, with networks making no profit from their role in the process. The remaining year on year increase in revenue reflects the impact of inflation and allowed revenue adjustments as a result of under collection of revenue in previous periods, impacted by the COVID-19 pandemic.

The allowed revenue is recovered against an estimated level of electricity demand across the network. Given the difficulty of predicting this demand each year, we end up with either an over or an under recovery against planned revenue. These over or under recoveries are reflected in profit and loss for the year and will be corrected in future periods through the Ofgem price setting mechanism.

For the year ended 31 March 2023, there was an under recovery of DUoS revenue of £9.4m against plan before adjustment for inflation (2022: £3.6m over-recovery), reflecting variability against forecast in consumption volumes year-on-year. This under recovery will be corrected through adjustments in revenues to be received in two years' time, in accordance with Ofgem's methodology.

Profit before tax and fair value movements

Profit before tax and fair value movements has decreased to £69.8m (2022: £102.5m), despite the higher revenue, primarily due to the indexation on index-linked debt being £30.0m higher than prior year, as a result of the significant increase in RPI over the year, and an accretion payment in the year of £20.1m (2022: nil) on the index-linked swaps, see Note 9. PBTFV provides a closer indication of underlying performance due to the exclusion of fair value movements on derivatives, which do not directly relate to the operations of the business.

Taxation

Corporation tax is calculated at 19% (2022: 19%) of the estimated assessable profit for the year. The tax charge in future periods will be affected by the announcement on 3 March 2021 that the corporation tax rate will be increased to 25% from 1 April 2023. This was substantively enacted on 24 May 2021.

Deferred tax is calculated using the rate at which timing differences are expected to reverse. Accordingly, the deferred tax has been calculated on the basis that they will reverse in future at the 25% (2022: 25%) rate.

The overall taxation charge for the year has decreased from £59.1m in 2022 to £49.5m in 2023.

Property, plant and equipment and software

The Group's business is asset intensive. The Group allocates significant financial resources to the renewal of its network in order to maintain services, improve reliability and customer service, and to meet the changing demands of the UK energy sector.

The total original cost of the Group's property, plant and equipment at 31 March 2023 was £5,873.3m (2022: £5,623.0m), with a net book value of £3,638.5m (2022: £3,512.1m). In the year ended 31 March 2023, the Group invested £252.7m (2022: £200.8m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £10.5m (2022: £12.2m) in IT systems.

New investment is financed through a combination of operating cash flows and increased borrowing.

Strategic Report (continued)

Financial Performance (continued)

Cash flow before financing activities

Net cash outflow before financing activities in the year was £290.1m (2022: £40.7m inflow), despite the higher cash inflow generated from operations. The significant outflow was a result of the £305.7m investment of surplus cash in money market deposits with original maturities over three months.

Net debt

Net Debt	2023 £m	2022 £m
Cash, deposits and money market deposits over 3 months	**479.5**	59.4
Borrowings	**(1,763.1)**	(1,286.1)
Net debt	**(1,283.6)**	(1,226.7)

During the year, the net debt increased by £57.2m, due to the combined effect of the movements in the cash and debt balances. The main movements were the £55.2m increase in debt due to the indexation of index-linked debt (Note 9), the payment of £23.0m dividends (Note 11) and £20.1m accretion on index-linked swaps (Note 9), net of £35.4m net cash inflow from operating and investing activities.

Included in debt is an £96.5m loan from the parent company North West Electricity Networks plc (NWEN plc), due to mature in March 2028 (2022: £84.2m due to mature in March 2023), a £298.8m loan from a group company ENW Finance plc, maturing in July 2030 (2022: £298.6m), plus a new £422.8m loan from ENW Finance plc entered in the year, maturing in November 2032.

Of the external debt, £221.7m (2022: £7.6m) is due to be repaid within the next year, under European Investment Bank, and £1.6m (2022: £1.4m) lease repayments.

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £646.4m (2022: £632.5m), bank loans of £72.8m (2022: £259.5m) and leases of £2.5m (2022: £2.3m).

Note 19 provides more details on the borrowings.

Treasury policy and operations

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Board. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available in line with policy and to maintain the agreed targeted headroom on key financial ratios.

Long-term borrowings are mainly at fixed rates that provide certainty of future cash flows, or are indexed to inflation (RPI) to match the inflation-linked accretion to the RAV. The Group also holds some floating rate debt.

Derivative instruments are used to convert a portion of the fixed rates to RPI-linked cash flows, in order better to match the Ofgem debt allowance structure (noting that Ofgem have now changed this to a CPIH basis), and to fix a portion of the floating rate cash flows.

The proportion of post-hedging borrowings at fixed, floating and index-linked rates of interest is maintained in line with target levels set in the Treasury Policy and is monitored by the Board.

Cash flows are in sterling, other than sundry purchases of plant denominated in foreign currencies and some assets of the defined benefit pension scheme managed by the pension scheme investment managers. The Group has no other material exposure to foreign currency exchange movements.

Liquidity

The Group's funding position continues to be strong, through focussed management of liquidity and working capital. Budgets for the year ending 31 March 2024, forecasts to the end of the next regulatory period in 2028 and longer-term forecasts to 2048 are used to assess the liquidity needs of the Group. These forecasts demonstrate headroom against all financial compliance ratios.

Strategic Report (continued)

Financial Performance (continued)

Liquidity (continued)

Short-term liquidity requirements are met from operating cash flows, cash balances, short-term deposits and unutilised committed borrowing facilities. Utilisation of undrawn facilities is with reference to Regulatory Asset Value (RAV) gearing restrictions; actual and forecast RAV gearing is monitored by the Board.

At 31 March 2023, cash balances were £173.8m (2022: £59.4m), money market deposits greater than 3 months were £305.7m (2022: £nil) and unutilised committed facilities were £50.0m (2022: £50.0m).

Where a liquidity need cannot be met from existing resources, for example refinancing existing debt or demand for additional borrowing, the Group treasury function starts the process of raising new debt at least 12 months ahead of the requirement. The Group's long-term debt has a range of maturities to avoid a concentration of refinancing risk.

In January 2023, a £425m 4.893% 2032 bond, guaranteed by ENWL, was issued by ENW Finance plc. The net proceeds were on-lent to ENWL and will be used in part to repay the £135m index-linked European Investment Bank loan due to mature in February 2024.

There are no re-financing obligations due in the next 12 months that are not covered by the available liquidity.

Credit rating agencies

The Group issues debt in the public bond markets and maintains credit ratings with leading credit rating agencies. During the year, the credit ratings were formally reviewed and affirmed by Standard and Poor's and Moody's Investors Service. Fitch did not formally review the credit ratings during the year.

At 31 March 2023, ENWL was rated BBB+ with negative outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and BBB+ with negative outlook by Fitch Ratings.

The short-term debt ratings were A-2 and F2 with Standard and Poor's and Fitch Ratings respectively.

Further details are available to credit investors in the Financial Investor Relations section of the Company's website www.enwl.co.uk.

Derivatives

The Group uses two main groups of derivatives to economically hedge exposure to fluctuations in market rates over the medium to long-term; interest rates swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing in order to better match the Ofgem debt allowance structure. All derivatives relate directly to underlying debt. At 31 March 2022 and 2023 there were no formal hedge accounting relationships in the Group.

Fair values

The derivatives are accounted for at fair value through profit or loss ("FVTPL").

These fair value movements are non-cash and will reverse over the life of the derivative but can be significant and result in material volatility in profit or loss. In the current year, net fair value gains of £125.2m have been recognised (2022: losses of £76.5m), primarily driven by significant changes in market expectations of future interest and inflation rates.

Defined benefit pension

At 31 March 2023, the Group's defined benefit pension scheme had a net surplus, calculated under IAS 19, of £42.6m (2022: £18.4m), resulting in a re-measurement gain of £9.4m (2022: £68.8m) booked directly to other comprehensive income.

The main reasons for the movement were market movements, specifically an increase of 210 basis points in the discount rate assumption.

Strategic Report (continued)

Defined benefit pension (continued)

The most recent triennial funding valuation of the scheme was carried out as at 31 March 2022 and identified a shortfall of £19.4m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2022 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional contributions in the period to 31 March 2023, as set out in Note 22.

Dividends and dividend policy

The Group's dividend policy is to distribute the maximum amount of available cash, whilst maintaining its targeted gearing level, in each financial year at semi-annual intervals, with reference to the forecast business needs, the Group's treasury policy on liquidity, financing restrictions, applicable law and the Company's licence obligations.

During the year, the Company paid dividends totalling £23.0m (2022: £97.1m). At the Board meeting in May 2023, the directors proposed a final dividend of £18.6m for the year ended 31 March 2023 (Note 11).

Going concern

When considering whether to continue to adopt the going concern basis in preparing these financial statements, the directors have taken into account a number of factors, including the following:

- The Company's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating, which has been met.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.
- Management has prepared, and the directors have reviewed and approved Group budgets for the year ending 31 March 2024. These budgets include profit projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and key sensitivities are considered when budgets are approved, including possible changes in inflation and under recoveries of allowed revenue as plausible downside scenarios.
- Management have prepared forecasts covering the next regulatory period to 2028, based on the business plan submission for RIIO-ED2. Forecasts demonstrate that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period.
- Short-term liquidity requirements are forecast to be met from the Group's operating cash flows and short-term deposit balances. A further £50m of committed undrawn bank facilities are available from lenders; these have availability periods of greater than one year.

Strategic Report (continued)

Going concern (continued)

- Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12-month projections to 31 July 2024 indicate there is sufficient headroom on these covenants.

After making appropriate enquiries, and with consideration of the guidance published by the Financial Reporting Council, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the directors have considered the foreseeable future to be a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements.

Viability statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code the directors have assessed viability over a period longer than that required for going concern and have chosen the period to the end of March 2026.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the period to 31 March 2026.

The Board has considered whether it is aware of any specific relevant factors and notes in particular the outcome from the final determination for RIIO-ED2 and subsequent Ofgem consultations and work on detailed aspects of the regulatory settlement, including the treatment of inflation.

The Board has considered the current economic environment including rising inflation and supply chain disruption, the political environment including impacts from the invasion of Ukraine, and potential changes in future government policy such as changes in interest rates, in making the viability assessment.

In reaching its conclusion, the Board has taken into account Ofgem's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Company's viability.

The directors have conducted a robust assessment of the principal risks facing the Group and believe that the Group is in a position to manage these risks.

In arriving at their conclusion, the directors have considered the Group's forecast financial performance and cash flow over the viability period to 2026. Headroom to compliance ratios over the viability period has been considered, as has the extent to which deviations from forecast financial performance may impact that headroom. The directors have considered this headroom in assessing the Group's long-term viability.

On the basis of this assessment, and assuming that the principal risks are managed or mitigated as expected, the directors have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Strategic Report (continued)

Fair, balanced & understandable

The directors have reviewed the thorough assurance process in place within the Group with regards to the preparation, verification and approval of financial reports. This process includes:

- Detailed review and appropriate challenge from key internal Group functions, such as Risk, Control and Assurance, senior managers and the Chief Financial Officer;
- Formal sign-offs from the business area senior managers, the finance managers and Chief Financial Officer;
- Group Audit Committee oversight, involving a review of key financial reporting judgements, review and appropriate challenge on matters such as any changes to significant accounting policies and practices, significant adjustments and the going concern assumption;
- The involvement of qualified, professional employees with an appropriate level of expertise and experience throughout the business; and
- Engagement of a professional and experienced external auditor, a framework for full transparent disclosure of information during the audit process and post-audit evaluation.

As a result of these processes together with the information and assurance provided by the day-to-day internal control processes, the information provided by the Executive Leadership Team of ENWL and the in-depth reporting required by Ofgem, both the Audit Committee of ENWL and the Board are satisfied that the Annual Report and Consolidated Financial Statements taken as a whole, provide a fair, balanced and understandable assessment of the Group's position at 31 March 2023.

Risk Management

The Board is responsible for the alignment of strategy and risk, and for maintaining a sound system of risk management and internal controls. Our processes and systems are always evolving with the needs of our business and have been developed in accordance with the Financial Reporting Council's (FRC's) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Our Corporate Risk Register currently details a wide range of risks. These risks are considered in the context of the corporate goals – **Safety, Customer, Affordability, Reliability, Sustainability** and **People** and monitored by a business wide network of Risk Champions and Co-ordinators.

The Company's approach to risk appetite goes to the heart of achieving our company goals.

As with any business, the achievement of our goals necessitates a certain level of risk being taken. The key is ensuring that such a scale of change is managed with a good understanding of the risks involved, in a manner consistent with our strategy, and importantly making sure that these risks are managed within our agreed risk appetite. Risks are only accepted when within the risk appetite criteria, and when further mitigation of the risk is not considered cost effective (or is not possible).

Our appetite for risk is measured using a framework which is reviewed annually by the Board. The framework enables our Board to demonstrate its risk appetite for the overall strategic direction of the business, and maps appetite for risk taking in the pursuit of each of our company goals at a tactical and operational level.

Strategic Report (continued)

Risk Management (continued)

Risk appetite varies in these areas, but in line with the framework, the Company generally operates within a 'cautious' to 'very cautious' risk range, given that the achievement of the stretching business plan would not be possible without a level of measured risk taking. In **Sustainability**, a 'very cautious' risk appetite is adopted, given our desire to ensure that the company maintains its reputation for compliance and an ethical way of doing business, as well as the role the Company has in the low carbon transition.

Similarly, in relation to **People**, the Company recognises the value of its people and the organisational climate in order to deliver effectively for our customers so a cautious approach is adopted.

In relation to **Safety**, the Company adopts an averse position on the basis that sound working practices that protect our employees and the general public are a key priority for the business and an important part of ensuring that we undertake our activities safely.

In relation to Systems, Data and Process Stability the Board adopts an 'averse' approach for this category, recognising the strategic importance of these to deliver for our customers and stakeholders.

The key features of the risk management system include:

- Clear risk management strategy approved by the Board.
- Risk appetite framework, approved annually by the Board, in place that forms a key driver of the strategic business plan.
- Board oversight in identifying and understanding significant risks (and opportunities) to the Group in achieving strategic objectives.
- Dedicated Board and Executive Committees to oversee the management of risks for the Group.
- Appropriate operational and non-operational risks being managed within a corporate risk system.
- Target risk scores are in place for corporate risks, forming the basis for the production of work plans by risk owners to show how the target risk scores will be achieved.
- The underpinning of the corporate register by a number of local risk registers across the business with a network of Risk Champions and Co-ordinators which enhance the local monitoring process.

Strategic Report (continued)

Risk Management (continued)

Principal risks and uncertainties

In addition to the normal operating risks such as our failure to meet customer expectations, wider global events, the cyber security threat and potential changes to the regulatory regime are considered the most significant risks that we face currently.

Climate change has the potential to increase risks and uncertainties for us in relation to our business resilience and our ability to meet the expectations of our customers. We continue to be actively considering what this might mean for our own activities, as well as supporting our customers to consider their own plans to mitigate the risks this may present.

	Risk	Mitigations
Global Events	**Global Events and supply chain:** Certain aspects of ENWL's activities are affected by the impact of wider global events, including the conflict in Ukraine, along with the measures put in place by the UK Government in response, and other disruptions in the wider supply chain. Our supply chain continues to face challenges arising from these events, including inflation and economic disruption, which also present uncertainties for the business.	• ENWL is recognised as a Critical National Infrastructure provider and is in regular dialogue with both the UK Government and the Regulator to minimise the effect of the mitigation measures on its abilities to provide an essential service to its customers. • ENWL has a series of existing Business Continuity and Emergency plans. These have been further developed in response to the events that have unfurled in recent years. • Control measures have been implemented to the extent possible to minimise the potential impact of the situation on ENWL's activities and are monitored by members of the ELT. • Analysis and monitoring of supply chain risk continues to be used to understand particular challenges facing the business in light of events such as, continued disruption following the invasion in Ukraine, and challenges facing key components such as microchips. • Forward work planning and advance ordering of materials, such as transformers, where there are constraints in the availability of materials or component parts and extended delivery lead times.

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Safety	**Health, Safety and the Environment:** Risk associated with unsafe working practices, man-made or naturally occurring hazards that could cause harm to employees or the wider public, or the environment.	• Board Health, Safety and Environment Committee oversees this area. • Extensive policy and procedures to ensure a safe system of work and environmental management. • Behavioural safety training programme across all areas of the organisation. • Simple 'Golden Rules' to ensure strong safety approach throughout the Company's operations. • Robust 'lessons learned' exercises conducted to identify root causes when safety or environmental issues occur. • Robust authorisation processes, policies and procedures to control who works on the network and the activities that they perform. • Annual programme of audits and an inspection regime. • Well-established hazard and safety observation (including near miss) reporting in place.
Customer	**Meeting our customers' expectations**: Failure to meet the required level of customer satisfaction performance and to achieve output deliverables, costs and efficiencies against the commitments made to our customers in both the RIIO-ED1 and RIIO-ED2 periods.	• A programme of improvement activities described in more detail on pages 15-16 is being co-ordinated by the Executive Leadership Team to optimise the Company's position against all elements of the customer satisfaction measure. • Robust plans in place to achieve other commitment targets, or outperform where possible. • Controls in place regarding the ongoing reporting of performance against targets.
People	**Developing our people:** Having an inadequately skilled and experienced workforce to deliver current and future business objectives.	• Resource and succession plans are in place, which are subject to periodic Executive and Board level review. • Training delivered throughout the Company to ensure employees are equipped to do their roles competently and effectively.
	Ethical Behaviour: Inappropriate behaviour by Board members, executive or senior management bringing the company into disrepute	• Extensive policies in place regarding ethical conduct within the business, including Anti-Bribery and Corruption; Conflict of Interests; Ethics; Equality; Internal Control & Governance; Modern Slavery and Speak Up (Whistleblowing). • We continue to review and enhance the mitigations in this area in line with emerging best practice. We are corporate members of the Institute of Business Ethics.

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Reliability	**Cyber and physical security threat:** Breach of our security regime and access to key network security systems by an internal/external party.	• Dedicated qualified personnel allocated to Cyber and IT security. • A comprehensive investment programme to address any potential weaknesses and respond to arising threats. • A training programme in place to inform all users of the risks of email and social engineering attacks. • A cyber risk assessment methodology implemented within the Group. • Pre-employment screening and ongoing checks for all colleagues, with enhanced requirements for critical roles such as System Administrators. • A strong governance and inspection regime to protect infrastructure assets and operational capacity. • Physical and technological security measures, including encryption of key laptops, preventing the loss of data. • Data Centre infrastructure providing enhanced security monitoring and management tools, 'next generation' firewalls and network traffic analysis. • Ongoing security patching of critical systems. • Ongoing renewal and replacement programmes to ensure hardware and software is refreshed on appropriate timescales. • Periodic internal and external security reviews. • Key systems IT disaster recovery testing. • Physical security measures are in place to limit access to sites. • Use of e-learning to promote awareness of Cyber issues for all employees.
	Personal data: Breach of regulations relating to data protection and privacy	• We continue to review and enhance the mitigations in this area, in particular to do with the General Data Protection Regulation (GDPR) requirements.

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Sustainability	**Government and regulator policy:** The Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the now current RIIO-ED2 period, and future regulatory settlements. The legal and compliance framework can change, leading to additional compliance obligations, market conditions, and reporting requirements. A changing political focus on the sector can have a significant effect on profitability or risk.	• The Company has dedicated Regulation and Legal departments that provide advice and guidance regarding the interpretation of political, regulatory and legislative change. • There is ongoing engagement by the Company with the Regulator and Government. • Parliament, in framing the Electricity Act, imposed certain duties on Ofgem/GEMA to ensure that the networks remain financeable for the long-term benefit of customers. • There is regular engagement with the Board on political and regulatory developments which may impact the Company.
	Business resilience: Events outside of our control, for example extreme weather or medical emergencies, affecting large areas, may negatively impact the business.	• The Company has comprehensive contingency plans for network emergencies, including key contract resources such as mobile generators and overhead line teams. • Business continuity testing on a regular basis. • Reciprocal arrangements with other network operators. • Maintenance of inventory levels to cover larger events.
	Regulation and compliance risk: Compliance failure leading to an adverse effect on the business.	• Overall governance and control framework in place, including established compliance routines and accountabilities, owned by the Executive Leadership Team and ultimately the Board. • Specialist teams in place to ensure compliance and assurance is carried out. • An internal audit programme focusing on the Group's key risk areas, including fraud, regulatory compliance and business processes. • Established controls in place, including segregation of duties and restricted access to systems.

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Affordability	**Financial risks:** The business is subject to treasury, tax, inflation and liquidity risk exposures, and under performance of the pension scheme investments, market impacts and/or an increase in the scheme liabilities which would give rise to higher contributions.	• A formal treasury policy is in place to manage exposure to counterparty, liquidity and market risk, overseen by the Audit Committee. • A well-established monthly banking covenant monitoring process. • Monitoring of inflation calculations on allowances, compared to the actual inflation suffered on treasury instruments and operations. • Tax risk scoring. • Active monitoring of the pension scheme's investments carried out on a quarterly basis. • The pension scheme Trustee engages professional legal, actuarial and investment advice for all decisions taken and regularly consults with the Company, who also engage professional advisors.

	Programme delivery including change programmes:
	Delays in the investment programme or major business change activity leading to an adverse impact on the Company, particularly relating to customer interruptions (CIs) and customer minutes lost performance (CMLs).
		• Established governance controls in place to oversee the delivery of business change.
		• Processes in place to support delivery of change programmes, management of risks and achievement of business benefits.
		• For activity impacting CI and CML performance, the following mitigation measures are in place:
		  ○ Fault response times and team performance are closely monitored including time to despatch and mobilise response teams;
		  ○ Supply interruptions are planned to minimise customer impact;
		  ○ Network automation to minimise the effect of faults;
		  ○ Significant expenditure on routine maintenance to reduce the causes of network interruption.

	Macro-economic factors: Factors, such as inflation rates (including divergence between inflation measures) may impact negatively on the business.	• Monitoring the potential exposure to fluctuating factors through forecasts from a range of financial institutions. • Inflation sensitivities reported quarterly through the business valuation process. • A significant proportion of our Group debt is RPI-linked to provide an economic hedge between allowed revenues and some of our financing costs. The move to CPIH indexation increases the Group's exposures to basis risk, which exposures are monitored.

The Strategic Report, outlined on pages 6 to 40, has been approved by the Board of Directors and signed on behalf of the Board on 10 July 2023.

Ian Smyth, Director

Corporate Governance Report

Under The Companies (Miscellaneous reporting) Regulations 2018, the Company has chosen to report on how the principles and provisions of the UK Corporate Governance Code ("the Code") have been applied during the year. There are some limited areas of non-compliance, all of which are considered appropriate to the privately owned status of the Company and are explained on page 46-48.

The Board

Board Members at 31 March 2023

Alistair Buchanan, CBE
Independent Non-Executive Director
Appointed on 25 July 2018

Alistair Buchanan has over 25 years' experience in the energy industry, including 10 years as Chief Executive of Ofgem. In 2013 he joined KPMG as Partner and UK Chairman of Power & Utilities, returning to the firm where he trained as a Chartered Accountant. During his career, Alistair became an award-winning energy sector analyst and head of research for banks in New York and London.

Anne Baldock
Independent Non-Executive Director
Appointed on 26 September 2018

Anne Baldock was previously a partner for 22 years and global head of the Projects, Energy and Infrastructure Group at the international law firm Allen & Overy LLP. She has extensive experience in advising energy companies, charities and governmental boards on significant contracts and projects. Now retired as a solicitor, Anne has a portfolio of Non-Executive Director positions which currently include Pantheon Infrastructure PLC, East West Rail Limited and Restoration and Renewal Delivery Authority Limited.

Susan Cooklin
Independent Non-Executive Director
Appointed on 25 July 2018

Susan Cooklin retired in March 2022 as the Managing Director of Route Services at Network Rail running a portfolio of 60 services and leading a directorate of 5,000 staff. Over the last 15 years she has held senior executive roles in both IT and business operations within FTSE top 20 companies in the UK, specialising in transformational change. She has worked at Board level for over 8 years with Non-Executive Director positions on the Board of Leeds Beckett University and Leeds Building Society. From 2013 - 2017 she ran the Could IT Be You campaign to raise awareness of IT as a career for young women. Susan currently serves as an Independent Non-Executive Director on the Board of Netcompany Group A/S which is listed on the Nasdaq Copenhagen and the Spanish company, Nortegas Energia Grupo S.L.U.

Rob Holden CBE
Independent Non-Executive Director
Appointed on 1 January 2016

Rob Holden has, for the past decade, had a portfolio career following his executive positions as CEO of London & Continental Railways and Crossrail. He is Chair of London City Airport and has recently assumed the Chair of NNB Generation (SZC) (more commonly known as Sizewell C) where he has been a Non-Executive director for several years. Rob's previous non-executive roles have been with The Submarine Delivery Agency, Nuclear Decommissioning Authority, Viridor, High Speed 1 and Eurostar. Rob is a Chartered Accountant who qualified with Arthur Young & Co (now Ernst & Young LLP) and since leaving the accountancy profession has worked with Governments here in the UK and overseas on the delivery of long term complex projects.

Corporate Governance Report (continued)

The Board (continued)

Peter O'Flaherty

Non-Executive Director
Appointed on 17 September 2019

Peter O'Flaherty is an asset management Director at Equitix Limited. Peter oversees the management of a number of Equitix's investment funds with a combined investment total of £1.4bn across 77 assets and a variety of sectors such as network utilities, renewable power, environmental services and social infrastructure. He serves on the boards of a number of companies including, a regulated gas distribution network and gas supply business located in Northern Ireland. He has over 20 years' investment experience gained working in banking, project finance and infrastructure equity. Prior to joining Equitix Peter spent 13 years at NIBC Bank as a founding partner of its European Infrastructure Fund. Peter was a Board Director on a number of the fund's investments focusing on operationally intensive investments and large corporates such as the motorway service operator Welcome Break. In 2018 he led the divestment of the entire NIBC fund. Peter has a BEng in Civil Engineering and an MSc in Property Development and Planning.

Siôn Jones

Non-Executive Director
Appointed on 20 August 2019

Siôn Jones is employed by Equitix Limited as Chief Operating Officer. He is approved by the Financial Conduct Authority and oversees the portfolio of managed funds. Prior to joining Equitix, Siôn was a partner at King Sturge where he was responsible for asset and project company management. There he established the Corporate Finance division of King Sturge with responsibility for creating institutional and private equity real estate investment vehicles. Siôn has a BSc Honours in Chemistry from the University of Southampton. He is a CFA charter holder and holds an Investment Management Certificate and a Certificate in Securities from the Chartered Institute for Securities & Investment.

Genping Pan

Non-Executive Director
Appointed 12 December 2019

Genping Pan is the Chief Investment Officer at CNIC. He has been actively involved in overseas investment projects and business operations and management for over 10 years, and has gained extensive experience in investment management, capital operation and financial management. Positions previously held by Mr Pan include Finance Manager of Oasis Oil Co. Limited, Chief Accountant of PetroChina (Venezuela) and Financial Director of China Huaming International Investment Corporation.

Masahide Yamada

Non-Executive Director
Appointed on 7 July 2022

Masahide Yamada is employed by the Kansai Electric Power Company, Inc., which is an electric utility with its operational area of Kansai region, Japan. He is the General Manager for Asset Management, Americas and Europe Region, International Business Division. Mr Yamada has 10 years' experience in the field of power distribution, with more than 10 years' experience in overseas investment in power assets including as a Finance Director of a hydropower project in the Republic of Indonesia, and some experience with Strategy, Planning and Budget Management.

Takeshi Tanaka

Non-Executive Director
Appointed on 25 June 2020

Takeshi Tanaka is employed by the Kansai Transmission and Distribution, Inc. which build, operate and maintain transmission and distribution facilities throughout the Kansai area in Japan. He is the General Manager for International Business and Cooperation Group. Mr Tanaka has more than 20 years' experience in the field of power distribution such as serving as a manager for several distribution offices including 7 years' experience technically assisting with some distribution projects in South East Asia.

Corporate Governance Report (continued)

The Board (continued)

Ian Smyth
Chief Executive Officer
Appointed on 5 September 2022

Ian Smyth joined Electricity North West Limited in 2022 as Group CEO.

Prior to Electricity North West Limited, Ian was a Director of UK Power Networks leading their commercial division. Ian has also served as Managing Director of Europe, Middle East and Asia for Navigant a global advisory and dispute resolution consultancy. He was the lead partner of the Energy, Utilities and Regulated Industries practice for LCP (a European risk and investment consultancy). Ian has worked internationally for governments, regulators and utilities across electricity, gas and water, and has been a consultant for Ernst & Young.

Ian has a BA(Hons) in philosophy, psychology, statistics and artificial intelligence from Manchester Metropolitan University and an MSc in Cognitive Science from the University of Birmingham.

David Brocksom
Chief Finance Officer
Appointed on 5 October 2015, Resigned 25 May 2023

David Brocksom joined the Company as interim Chief Financial Officer in September 2013 and has, with a short break at the start of 2015, been with the Company since then, becoming a Director in October 2015. Previously he has held a number of Chief Financial Officer roles including at UK Coal plc and Pace plc. He qualified as a Chartered Accountant with Price Waterhouse (now PricewaterhouseCoopers LLP 'PwC').

Chris Johns
Chief Finance Officer
Appointed on 25 May 2023

Chris joined Electricity North West as Chief Financial Officer in May 2023.

Chris is a Chartered Accountant and has previously been CFO of Yorkshire Water, a role he held from June 2020. He has also previously held the roles of Finance Director of both Northumbrian Water Group and Northern Gas Networks.

Shareholder appointed directors

Siôn Jones, Peter O'Flaherty, Takeshi Tanaka, Masahide Yamada and Genping Pan are shareholder appointed directors and have appointed alternate directors during their time as Board members. Siôn Jones's and Peter O'Flaherty's alternate is Aisha Hamid. Takeshi Tanaka's alternate is Tatsuhiro Tamura and Makoto Murata is the alternate for Masahide Yamada. Genping Pan's alternate is Hailin Yu. Alternate directors attend board meetings where the principal director would be otherwise unable to attend.

Corporate Governance Report (continued)

The Board (continued)

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year.

At the discretion of the Board, senior management were invited to attend meetings when appropriate specific items were subject to discussions. Where a director was unable to attend a Board meeting, their views were canvassed by the Chairman prior to the meeting.

The table below shows Board attendance, and Board Committee attendance, for committee members only. Informal meetings to discuss board member replacements are not included nor are attendances by directors at committee meetings where they are not formal members.

Board Member Attended / Scheduled	ENWL Board Ω	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety and Environment Committee
Alistair Buchanan	6/6	-	4/4	1/1	-
Anne Baldock	6/6	4/4	4/4	-	3/3
Susan Cooklin	6/6	4/4	-	-	3/3
Rob Holden	6/6	4/4	-	-	-
Peter O'Flaherty	6/6	-	4/4	1/1	3/3
Siôn Jones	5/6	-	4/4	1/1	-
Genping Pan***	6/6	-	3/4α	1/1	1/3
Ian Smyth**	3/3				
Shinichiro Sumitomo****	-	-	1/1	0/0	
Takeshi Tanaka	6/6	-	1/1	1/1	-
Peter Emery**		-	-	-	-
David Brocksom		-	-	-	-
Masahide Yamada****	4/4	-	3/3	1/1	-

Ω The Company was subject to an order made under the National Security and Investment Act 2021 (the "**Order**") between 29 September 2022 and 20 December 2022. In compliance with the Order Board and Committee meetings held during this period were divided into two parts (Part A and Part B) based on the matters to be discussed future
future
and relevant attendees.
** Ian Smyth was appointed as a director on 5 September 2022 and attended all subsequent Board meetings during the period. Peter Emery resigned as a director on 4 September 2022 but had attended all previous Board meetings during the year to this date.
*** At three Board meetings Hailin Yu attended as alternate director in place of Genping Pan. Further to the Company's compliance with the Order, Hailin Yu attended only Part B of the Board meeting held on 24 November 2022.
**** Masahide Yamada was appointed to the Board on 7 July 2022 and attended all subsequent Board meetings during the period. Sumitomo Shinchiro resigned as a director on 7 July 2022 but had attended all previous Board meetings to this date.
α Genping Pan agreed not to attend the meetings of the Health, Safety and Environment Committee on 22 November 2022 and the Remuneration Committee on 24 November 2022 as part of the Company's compliance with the Order.

Corporate Governance Report (continued)

The Board (continued)

Diversity

The Board supports diversity in its broadest sense and accordingly aims to ensure that its number is made up of a diverse range of experience, independence and expertise appropriate to the industry in which it operates, its operational business model and the extensive financial, governance, regulatory risk management and legal expertise required.

Diversity of the Board continues to be assessed on a case by case basis as vacancies arise. This is principally a matter for the Nominations Committee.

Composition

The Board comprises four Non-Executive Directors considered under the Code to be independent, one of whom is the Chairman, and five Non-Executive Directors representing the four shareholders, together with two Executive Directors. The Directors' biographies are on pages 41-43.

Two of the Independent Non-Executive Directors, Susan Cooklin and Anne Baldock, have been named to Ofgem as fulfilling the role of Sufficiently Independent Directors as required by Ofgem. The role of the Sufficiently Independent Director was introduced from 1 April 2014 as part of a range of enhancements made to the ring-fence conditions in the Company's licence to protect consumers, should a distribution operator experience financial distress.

Leadership

The Board provides leadership of the Company, ensuring it continues to balance the needs of stakeholders while delivering the Company's strategy. Individually the directors act in a way that they consider will promote the long-term success of the Company.

The role of the Chairman and the Chief Executive Officer is separate, defined by clear role descriptions set out in writing and agreed by the Board.

The Chairman is responsible for the leadership and governance of the Board, and the Chief Executive Officer for the operational management of the Company and implementation of the strategy on the Board's behalf. The Chief Executive Officer is assisted by his Executive Leadership Team that comprises the operational unit directors.

Advice

All directors are able to consult with the Company Secretary, and the appointment and removal of the Company Secretary is a matter reserved for the Board.

Any individual director, or the Board as a whole, may take independent professional advice relating to any aspect of their duties at the Company's expense. This is clearly stated in the Terms of Reference of the Board and of its Committees.

How the Board operates

The Board's role is to promote the long-term success of the Company and provide leadership within a framework of effective controls. The Board is responsible for approving the strategy and for ensuring that there are suitable resources to achieve it. In doing so, the Board takes into account all stakeholders, including its shareholders, employees, suppliers and the communities in which it operates.

The Board has matters specifically reserved for its decision, including the approval of budgets and financial results, assessment of new Board appointments, dividend decisions, litigation which is material to the Group, and directors' remuneration.

Evaluation

Lintstock Limited conducted a second evaluation in June 2021. This constituted the first evaluation of the Board and its composition under the new ownership. The next externally facilitated exercise is due to take place in 2024.

Corporate Governance Report (continued)

The Board (continued)

Training

The Chairman is responsible for ensuring that all directors update their skills, knowledge and familiarity of the Company.

Directors regularly receive reports facilitating greater awareness and understanding of the Company, its regulatory environment and the industry. The Board held three workshops and one strategy meetings during the year aimed at developing a greater understanding of the Company's finances and operations and to explore strategic matters in detail.

Committee members received detailed presentations at meetings focusing on areas of relevance to the Committee and Board members are invited to workshops with shareholder representatives which are able to delve into areas of interest in greater detail.

The Chairman is also responsible for ensuring that all new directors receive a tailored induction programme that reflects their experience and position as either an Executive or Non-Executive Director. This involves meetings with the Board, the Company Secretary, other members of the Executive and Senior Leadership Teams and site visits. Additional documentation is provided as appropriate.

Appointments

The four independent Non-Executive Directors are provided with a detailed letter of appointment and are appointed for an initial three-year term, to be reviewed every three years thereafter, if they are reappointed.

The five other Non-Executive Directors are appointed by the Company's shareholders as their representatives. The expected time commitment required from Non-Executive Directors is (minimum) fifteen to twenty days per year and is detailed in their letter of appointment.

Conflicts of interest

The Board has appropriate processes in place to assess and manage any potential conflicts of interest. As part of these procedures the Board:

- Considers conflicts of interest as part of the agenda for all meetings.
- Asks directors annually if there are any changes to their conflict of interest declarations, including appointments to the Boards of other entities.
- Keeps records and Board minutes regarding any decisions made.
- Maintains a company-wide conflicts of interest register.

Areas of non-compliance with the UK Corporate Governance Code

There are some areas where the Company does not comply with the UK Corporate Governance Code (the "Code"), all of which are due to its privately-owned status and are discussed below. The Company has endeavoured to comply with the spirit of the Code throughout; nevertheless, as outlined below, compliance with certain provisions is either impractical or inappropriate.

Senior Independent Director

The Board has not appointed a Non-Executive Director as a Senior Independent Director under the Code. The Board meets the objectives behind this requirement through its shareholder representation on the Board.

Composition of the Board

The Code states that half the Board should be independent Non-Executive Directors. As the Company is privately-owned and all shareholders are represented on the Board, it is felt that the needs of shareholders are met through their presence on the Board.

In addition to the two Sufficiently Independent Directors required by Ofgem, there are two further Independent Non-Executive Directors. The Board considers that the four Independent Non-Executive Directors offer an appropriate perspective, meaningful individual participation and effective collective decision making.

Corporate Governance Report (continued)

Areas of non-compliance with the UK Corporate Governance Code (continued)

Annual election of directors

The Board does not require its directors to be re-elected annually as the shareholder representation on the Board allows the opportunity to challenge a director's performance directly rather than at an Annual General Meeting.

Publication of the terms and conditions of Non-Executive Directors

As a privately-owned company, the Company is not required to provide a remuneration report in line with the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013

The purpose of the remuneration report is to enable shareholders to exercise judgement over directors' remuneration. With the presence of shareholder representatives on the Remuneration Committee, this purpose is met directly.

Engagement with stakeholders

As a privately-owned company, the Company does not have a large or dispersed shareholder base with which to communicate formally, nor are there any minority shareholders. Therefore, Annual General Meetings are not held.

Shareholders:

In addition to formal Board meetings and workshop sessions, the meeting cycle includes quarterly workshops to focus on financial and treasury matters and detailed periodic workshops to meet the requirements of strategic planning and more detailed performance reviews. Board members are invited to attend these meetings.

The Company works closely with its shareholders and all shareholders endorse the UK Stewardship Code and see their stewardship commitments as a key feature of their investment philosophy. They are committed to maintaining the integrity and quality of the markets in which they operate and allocate investment capital to productive purposes, while protecting and enhancing their clients' capital over the longer term.

Workforce:

The Board has not utilised the methods in the code for engagement with the workforce. However, the workforce has a strong Trade Union representation and regular meetings of engagement take place both with representatives and directly through workforce meeting with the leadership team. The Board has however appointed Susan Cooklin as our NED employee representative. Susan is able to facilitate a two-way flow of communication and information between the Board and the workforce.

Nomination and Remuneration Committees:

Nomination Committee

The Code requires a majority of the members of the Nomination Committee to be independent Non-Executive Directors.

Notwithstanding that the Company's Nomination Committee is not so constituted, the Board considers that the Committee has the necessary mix of skills, expertise and experience to discharge its role of leading the process for appointments and ensuring appropriate plans are in place for succession to the Board and senior management positions. Additionally, it is felt that the interests of shareholders are properly reflected by means of their representation of the Committee.

Remuneration Committee

The Code also states that the Remuneration Committee should comprise only independent Non-Executive Directors.

Again, as the Company is privately-owned and has no external shareholders, the Board believes that the interests of shareholders are appropriately represented on the Committee and that the Committee is suitably constituted to discharge its functions in relation to the alignment of remuneration policies and practices to the long-term sustainable success of the Company.

Corporate Governance Report (continued)

Areas of non-compliance with the UK Corporate Governance Code (continued)

Stakeholders:

The Company has strong and open relationships with stakeholders, including Ofgem, local government, schools, emergency services, MPs and central government. There are a number of key relationships and a vast range of public sector stakeholders. The Company also engages across the industry with electricity suppliers, employees, contractors and other utilities, along with research of customers' opinions. Due to the regulated nature of the industry the Company has less flexibility to determine some of its engagement mechanisms with stakeholders.

Our stakeholder engagement strategy is outlined on pages 15-16.

The reflection of stakeholder engagement in our RIIO-ED2 business plan was independently reviewed by our Customer Engagement Group (CEG) throughout the development process. The CEG has continued to meet approximately quarterly since it produced its report on our final submission in January 2022, contributing to the Ofgem Open Hearings in March 2022, and publishing responses to Ofgem's "draft determination" consultation in July 2022 and its "final determination" in December. We are now in the process of finalising our stakeholder engagement approach for 2023-24 to ensure enduring consumer input into decisions throughout the ED2 price control.

***Board evaluation*:**

The Code requires boards to conduct an annual evaluation of their effectiveness, with such evaluation being externally facilitated every three years for FTSE 350 companies. Although the Company does not undertake an annual exercise, externally-led board evaluations are performed every three years. The last one conducted by Lintstock was in 2021, with the next evaluation to take place in 2024, taking into account the recent changes in Executive Directors.

Board Committees

The Board has an extensive workload and, therefore, has delegated the detailed oversight of certain items to five standing Committees and three ad-hoc Committees:

Standard Committees meeting on a regular pre-planned cycle
Audit Committee*
Remuneration Committee*
Nominations Committee*
Health, Safety and Environment Committee*
Use of Systems Pricing Committee
Ad hoc Committees meeting as required to deal with their specific areas of business
Banking Committee Financing Committee Sustainable Finance Committee

The minutes of each Committee are made available to the Board.

The Use of Systems Pricing Committee meets annually (or more frequently as necessary), and the Financing Committee meets on an ad hoc basis, to approve detail about system pricing contained in Licence Condition 14 and financing transactions respectively.

The Sustainable Finance Committee meets twice a year (or more frequently as necessary) in relation to the operation of the Company's Green Financing Framework, under which the 2023 Electricity North West Finance plc Green Bond, guaranteed by the Company, was issued in January 2023.

*The terms of reference and membership of all these Committees were reviewed and amended during the year to ensure effective operation.

Corporate Governance Report (continued)

Report of the Audit Committee

The role and responsibilities of the Committee are set out in its Terms of Reference which are reviewed by the Committee and approved by the Board annually. The Terms of Reference are available on the Electricity North West Limited website.

Membership and meetings

The Committee members are all Non-Executive Directors. The Board is satisfied that the Committee Chair, Rob Holden, as a Chartered Accountant, has relevant financial experience. The committee as a whole have experience relevant to the sector in which the Company operates. Attendance by individual members is detailed in the table on page 44.

There were a number of regular attendees, by invitation, at appropriate Committee meetings in whole or in part, including the Chief Executive Officer, the Chief Financial Officer, the Head of Risk, Control and Assurance and the external auditor.

Over the course of the year, the Committee Chair held separate meetings with both the lead external audit partner at PricewaterhouseCoopers LLP ("PwC") and with the Head of Risk, Control and Assurance.

The Committee also met as a whole with the external auditors without management present.

The role of the Committee

The key responsibilities of the Audit Committee are to:

- Monitor the integrity of the financial statements, including its annual and half-yearly reports and to report to the Board significant financial reporting issues and judgements which they contain.
- Monitor the independence, effectiveness and remuneration of the external auditor.
- Review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management stems and compliance with the UK Corporate Governance Code.
- Monitor the effectiveness of the Company's internal audit function.
- Ensure that the Group's treasury function is effective and approve treasury transactions in line with the treasury policy.

The significant matters considered by the Committee during the year included:

- Review of the 31 March 2022 Annual Report and Consolidated Financial Statements and the September 2022 half-year report.
- Evaluation of the effectiveness and scope of the internal audit plan including management response to audit reports.
- Review of the scope and methodology of the audit work to be undertaken by the external auditor, their terms of engagement and fees.
- Overseeing the appointment of PricewaterhouseCoopers LLP as external auditors and managing the transition of the first year audit.
- Review and discussion on proposed Corporate Governance reforms.
- Review of Treasury operations and Data Protection Officer's reports.
- Compliance with the Bribery Act, including reviewing Speak Up (whistleblowing) reports

The significant issues considered by the Committee during the approval of the financial statements to 31 March 2023 were:

Treasury accounting, particularly fair value calculations, and appropriate disclosures. There is a risk, due to the complexity of the financial instruments that they are incorrectly valued, accounted for or disclosed, resulting in a material error in the financial statements or a material disclosure deficiency. The Committee noted the specialist advice received in this area, compliance with appropriate accounting standards in valuation and disclosure, and the additional functionality employed to support calculations.

Corporate Governance Report (continued)

Report of the Audit Committee (continued)

- Management override of controls (In accordance with ISA 240) with particular consideration of controls surrounding journal entries, accounting estimates for bias of material misstatement and fraud, adjustments made in the preparation of the Group financial statements and the potential manipulation of any incentive or performance targets.
- The risk of misstatement in revenue recognition where considerations included the calculation of unbilled revenue income.
- Capital and revenue allocations and ensuring the appropriate treatment of fixed asset expenditure. The Committee considered the management's key controls and assumptions applied to the capitalisation of overhead costs. The assumptions, policies and procedures in this area were considered reasonable.

External audit

The external auditors are engaged to express an opinion on the Company and Group financial statements. The audit includes the review and testing of the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements. This year's audit is the first undertaken by PwC since taking over from the Company's outgoing auditor, Deloitte LLP. During the year the Committee oversaw the appointment of PwC as external auditors which was done by a tender process.

In accordance with UK regulations, the Company's auditor adheres to a mandatory rotation policy and a new Group lead engagement partner is appointed once their predecessors have completed a term of five years.

To assess the effectiveness of the previous year's external audit, the Committee reviewed the audit approach and strategy and the final Deloitte LLP report to the Committee, as well as receiving verbal feedback from the Board.

Auditors independence and the provision of non-audit services

The Company has a formal policy on the use of the auditors for non-audit work and the awarding of such work is managed in order to ensure that the auditors are able to conduct an independent audit and are perceived to be independent by our stakeholders.

In keeping with professional ethical standards, PwC also confirmed their independence to the Committee and set out the supporting evidence in their report to the Committee prior to the publication of the Annual Report and Consolidated Financial Statements.

The non-audit services provided by the statutory auditor during the year were in connection to Ofgem regulatory requirements and financial covenant compliance.

Internal control framework

The Committee, on behalf of the Board, is responsible for reviewing the Company's internal control framework. This review is consistent with the Code and covers all material areas of the Group, including risk management and compliance with controls. Further details of risk management and internal controls are set out on pages 34-40.

Whistleblowing arrangements

The Committee is responsible for reviewing the Company's Disclosure (Whistleblowing) policy and any concerns raised through these channels and management actions taken in response. A revised policy was approved by the Committee in January 2019 and ratified again in January 2021. In addition, a new Speak Up policy was approved in December 2021. A confidential service is provided by an external company whereby employees can raise concerns by email or telephone in confidence. Any matters reported are investigated and escalated as appropriate.

Committee effectiveness

The Committee formally reviewed its Terms of Reference and its membership during the year to ensure both remain fit for purpose and were considered effective by the Board.

Corporate Governance Report (continued)

Fair, balanced and understandable

The Audit Committee was requested to assist the Board in confirming that the Annual Report is fair, balanced and understandable. As part of its review, the Audit Committee took into account the preparation process for the Annual Report and Consolidated Financial Statements:

- Detailed review and appropriate challenge from key internal Group functions, such as Risk, Control and Assurance, senior managers and the Chief Financial Officer;
- Formal sign-offs from the business area senior managers, the finance managers and Chief Financial Officer;
- Audit Committee oversight, involving a review of key financial reporting judgements, review and appropriate challenge on matters such as any changes to significant accounting policies and practices during the year, significant adjustments and the going concern assumption;
- The involvement of qualified, professional employees with an appropriate level of expertise and experience throughout the business; and
- Engagement of a professional and experienced external auditor, a framework for full transparent disclosure of information during the audit process and post audit evaluation.

The directors' statement on a fair, balanced and understandable Annual Report and Consolidated Financial Statements is set out on page 59.

Report of the Nominations Committee

The role and responsibilities of the Committee are set out in its Terms of Reference and these are available on the Company website. The Committee's responsibilities include keeping under review the composition of the Board and senior executives, identifying and nominating candidates for approval by the Board to fill any vacancies and succession planning for directors and other senior executives.

Membership and meetings

The Committee Chair is Alistair Buchanan, Independent Non-Executive Director. Composition of the Committee and attendance by individual members at meetings is detailed on page 44.

The Chief Executive Officer and external advisors attend meetings at the invitation of the Chairman of the Committee.

The key areas of focus for the Nominations Committee during the year were:

- Executive Director appointments: Following the decisions of Peter Emery (former CEO) and David Brocksom (former CFO) to retire, the Committee was heavily involved in the selection and appointments of Ian Smyth, as new CEO, and the incoming CFO, Chris Johns.
- Executive leadership changes: The Committee also oversaw wider changes to the Company's Executive Leadership Team which resulted in both new appointments and realignment of roles and responsibilities.

The members of the Nomination Committee oversaw a robust process for the selection and recruitment of the incoming CEO and CFO. Amongst other things, this exercise involved the use of specialist Executive search support.

Diversity

As described in the Corporate Governance report on page 45, the Board is committed to diversity in its broadest sense and the Nominations Committee ensures this remains central to recruitment and succession planning. The Committee undertakes an annual review to assess the Company's planning for succession to executive and senior management roles.

Corporate Governance Report (continued)

Report of the Remuneration Committee

The Committee's role is to determine the remuneration structure for the Executive Directors to ensure that it balances appropriate reward with the creation of long-term value, customer performance and sustainability of the network. The Terms of Reference for the Committee are available on the Electricity North West Limited website.

It is also responsible for the review of the remuneration of other members of the Executive Leadership Team to ensure the structure and levels of remuneration appropriately incentivise these individuals to achieve the Company's strategic objectives.

The Committee has been joined by invitation during the year by the Chief Executive Officer and the Chief Financial Officer. They do not attend for any discussions in which they are individually discussed.

Membership and meetings

The Committee Chair is Siôn Jones, Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 44.

Role of the Committee

The Committee reviews and approves the overall remuneration policies for employees below director level, but does not set remuneration for these individuals. This oversight role allows the Committee to take into account pay policies and employment conditions across the Group.

The Committee has reviewed the appropriateness of the previous remuneration structure for the RIIO-ED2 regulatory period and, subject to some changes, determined that it continues to promote the long term success of the Company.

Share options are not offered as an incentive to either Executive or Non-Executive Directors as the Company is privately-owned.

Corporate Governance Report (continued)

The table below sets out the nature of the remuneration of the Executive Directors:

Element	Purpose and link to strategy	Framework
Basic Salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked and will also reflect the director's experience and time at director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, directors are provided with a car allowance and private medical insurance.
Executive Incentive Plan (EIP)	Executive Directors are members of the Executive Incentive Plan. This has been reviewed for RIIO-ED2 with the object of continuing to reward both in-year performance and incentivise strategic and innovative behaviours over the longer-term, aligned to shareholder objectives, including customer performance. Following Health & Safety best practice, Safety is considered to be an essential part of any role and directors. Therefore, directors receive no Health & Safety related incentives. The occurrence of a significant reputationally damaging event, including safety or other issues will be considered as a gateway to the earning of bonuses for RIIO-ED2.	The EIP works on a balanced scorecard approach, with measures scored on an annual basis but set in line with longer term ambitions, and bonus payouts in part deferred into subsequent years, to promote a strategic focus and sustainable performance.
Pension	Directors are offered the same level of defined contribution benefits as all other employees, or a taxable payment in lieu.	No director is a member of the defined benefit scheme which is now closed to new members.

Corporate Governance Report (continued)

CEO pay ratio

Further to recent regulation changes, effective for financial years commencing on or after 1 January 2019, companies with more than 250 employees and which are quoted on the UK Official List are required to publish information on their CEO pay ratio. The requirement is to publish total CEO remuneration compared to the 25th, 50th and 75th percentile total remuneration of full-time equivalent UK employees.

There are three methodologies that companies can choose to report their pay ratio, known as Option A, B and C. The government preference, and most accurate reporting method, is Option A. ENWL have elected to use this method, consistent with previous years, which enables us to compare total remuneration for the financial year ended 31 March 2023, in line with the pay gap requirements.

The following tables set out this information for total remuneration[4] (which is inclusive of bonus, long term executive incentive payments, additional allowances or payments, benefit in kind and employer pension contributions).

Bonus payments are linked closely to Company performance and the timing of maturity of long term incentive arrangements, so may fluctuate year on year. We have, therefore, also included a comparison of total remuneration excluding bonus and long-term incentive awards.

The pay gap, excluding bonus, has remained static from last year. There has been a slight increase in total remuneration from the previous year, but our Executive Pay Gap is well below the national average in comparison.

Employee remuneration amounts for each percentile are shown in table 2 on the right.

	25th percentile	50th percentile	75th percentile
2023 Pay excluding bonus	**1:12**	**1:8**	**1:6**
2023 Total remuneration including bonus	**1:24**	**1:17**	**1:13**
2022 Pay excluding bonus	1:13	1:9	1:7
2022 Total remuneration including bonus	1:23	1:17	1:12

Employee total remuneration is shown in the table below.

	25th percentile	50th percentile	75th percentile
2023 Pay excluding bonus	**£42,092**	**£58,981**	**£79,350**
2023 Total remuneration	**£43,307**	**£60,928**	**£82,575**
2022 Pay excluding bonus	£39,172	£53,838	£72,193
2022 Total remuneration	£40,849	£56,407	£76,193

[4] The remuneration of employees who did not receive a full year's pay have been excluded to ensure the comparison is fair and equitable. For example, employees on reduced pay due to statutory absence those with part year service have been excluded.

Corporate Governance Report (continued)

Report of the Health, Safety and Environment Committee

The Committee continues to develop the Company's health, safety and environment strategies, agrees targets and monitors Company performance in these areas. It regularly challenges the executive and the health, safety and environment team to look at new initiatives and work with other organisations.

Membership and meetings

The Committee Chair is Susan Cooklin, Independent Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 44.

Meetings are also attended by executives in charge of operationally focused directorates.

The role of the Committee

The Committee has delegated authority from the Board set out in its Terms of Reference which are published on the Company website.

The primary purpose of the Committee is to:

- Set the corporate health, safety and environment strategy, objectives, targets and programmes.

  Monitor performance in these areas with a view to:

  - minimising risk;
  - ensuring legal compliance;
  - responding to significant events; and
  - ensuring significant resources are allocated for the control of health, safety and environmental risks.

- Report to the Board developments, trends and/or forthcoming legislation in relation to the health, safety and environmental matters which may be relevant to the Company's operations, assets or employees.
- Review the Company's external reporting in this area and regulatory disclosures.

At every meeting, the Committee receives and discusses in detail a Health, Safety and Environment performance report for the preceding period. Amongst other things, this report covers key issues and developments.

Additionally, the Committee considers relevant risks (including a review of risk that forms part of the Board's overall annual exercise) and oversees the Company's mitigation strategies.

This year the Committee specifically focussed upon an independent safety review, conducted by an external expert, and the development of an immediate and longer-term response to the recommendations made. This included establishing a programme focussed upon the businesses safety culture. The sub-committee continued its programme of dedicated safety visits to depots and sites across the North West, meeting with a wide range of employees to understand, first hand, the key health, safety and environment challenges facing the business.

Directors' Report

The directors present their report and audited consolidated financial statements of Electricity North West Limited ("the Company") and its subsidiaries (together referred to as "the Group") for the year ended 31 March 2023.

General information

The Company is a private company limited by shares and incorporated and domiciled in England, the United Kingdom under the Companies Act 2006.

Information contained in Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report. Specifically, this relates to:

- risk management, pages 34-40;
- how the directors have had regard to the need to foster business relationships with stakeholders, page 18;
- employee matters, page 18;
- greenhouse gas emissions, page 22; and
- future developments, page 7.

Parent, ultimate parent and controlling party

The immediate parent undertaking is North West Electricity Networks plc ("NWEN plc"), a company incorporated and registered in the United Kingdom.

The ultimate parent undertaking is North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)"), a company incorporated and registered in Jersey.

At 31 March 2022 and 2023, the ownership of the shares in NWEN (Jersey) and, therefore, the ultimate controlling parties of the Company are:

- KDM Power Limited (40.0%);
- Equitix ENW 6 Limited (25.0%);
- Equitix MA North HoldCo Limited (15.0%); and
- Swingford Holdings Corporation Limited (20.0%).

Dividends

During the year, the Company declared a final dividend for the year ended 31 March 2022 of £23.0m, paid in June 2022. In the prior year, the Company declared a final dividend for the year ended 31 March 2021 of £15.9m, paid in June 2021, and an interim dividend for the year ended 31 March 2022 of £81.2m, paid in December 2021.

At the Board meeting on 25 May 2023, the directors proposed a final dividend of £18.6m for the year ended 31 March 2023 (Note 11).

Details of the Group's dividend policy can be found in the Strategic Report, page 32.

Capital structure

The Company's capital structure is set out in Note 28.

Financial instruments

The use of financial instruments and their related risks are disclosed in the financial review and principal uncertainties sections of the Strategic Report on page 29, and in Note 21.

Financial risk management

Disclosure around the Group's principal risks can be found in the principal risks and uncertainties section of the Strategic Report on page 2, and in Note 21.

Employees

The Group's policies on employee consultation and involvement, the treatment of disabled employees and on equality and diversity across all areas of the business are contained within the Employees section of the Strategic Report on page 13.

Directors' Report (continued)

Greenhouse gas emissions and energy use

Further details on greenhouse gas emissions are provided in the Business Carbon Footprint section of the Strategic Report on page 22.

Research and development

The Group is committed to developing innovative and cost-effective solutions for providing high quality services and reliability to customers, and for the benefit of the wider community and the development of the network, as further detailed in the Strategic Report. During the year ended 31 March 2023 the Group incurred £3.0m of expenditure on research and development (2022: £2.5m), see Note 5.

Future developments

Details of the future developments of the Company and Group can be found in the Chief Executive Officer's Statement and the Strategic Report on page 7.

Events after the Balance Sheet date

There are no events after the balance sheet date that require disclosure.

Corporate governance

The Group has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the entire business. Details of the internal control and risk management systems which govern the Company are outlined in the Corporate Governance Report of the ENWL Annual Report and Consolidated Financial Statements, which are available on the website www.enwl.co.uk.

Directors

The directors of the Company who were, unless otherwise stated, in office during the year and up to the date of signing the financial statements were:

Executive Directors

- Chris Johns (appointed 25 May 2023)
- Ian Smyth (appointed 5 September 2022)
- David Brocksom (resigned 25 May 2023)
- Peter Emery (resigned 4 September 2022)

Non-executive Directors

- Anne Baldock
- Alistair Buchanan
- Susan Cooklin
- Rob Holden
- Sion Jones
- Peter O'Flaherty
- Genping Pan
- Takeshi Tanaka
- Shinichiro Sumitomo (resigned 7 July 2022)
- Masahide Yamada (appointed 7 July 2022)

Alternate Directors

- Aisha Hamid (appointed 2 February 2023)
- Makoto Murata (appointed 28 July 2022)
- Tatsuhiro Tamura (appointed 7 July 2022)
- Hailin Yu
- Achal Bhuwania (resigned 2 February 2023)
- Kaoru Fukushima (resigned 7 July 2022)
- Fukashi Kumura (resigned 7 July 2022)

Directors served for the whole year, and to the date of this report, except where otherwise indicated.

At no time during the year did any director have a material interest in any contract or arrangement which was significant in relation to the Group's business.

Directors' Report (continued)

Directors' and officers' insurance

The Group maintains an appropriate level of directors' and officers' insurance whereby directors are indemnified against liabilities to the extent permitted by the Companies Act.

The insurance is a group policy, held in the name of the ultimate parent, NWEN (Jersey), and is for the benefit of that company and all its subsidiaries and was in place throughout the year and to the date of this report.

Independent auditors

Following a tender process concluded in early 2022, PricewaterhouseCoopers LLP ("PwC") were appointed as the Group's auditors for the financial year beginning 1 April 2022. PwC took over from Deloitte LLP who had been the auditors of the Group and Company since 2002 and who resigned in accordance with relevant legal and regulatory requirements regarding rotation of auditors.

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of the Company consider, both individually and together, that they have acted in a way they consider to be in good faith and would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in decisions taken during the year ended 31 March 2023. More details can be found on pages 17-19 of the Strategic Report.

Registered address

The Company is registered in England, the United Kingdom, at the following address:

Electricity North West Limited
Borron Street
Stockport
England
SK1 2JD

Registered number: 02366949

Approved by the Board on 10 July 2023 and signed on its behalf by:

Ian Smyth
Director

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' report confirm that, to the best of their knowledge:

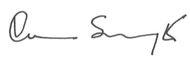
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company, and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date this report is approved:

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

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

Approved by the Board of Directors on 10 July 2023 and is signed on its behalf by:



Ian Smyth
Director

Independent auditors' report to the members of Electricity North West Limited

Report on the audit of the financial statements

Opinion

In our opinion, Electricity North West Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 and of the group's and company's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: Consolidated and Company Statements of Financial Position as at 31 March 2023; the Consolidated and Company Statements of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Statements of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 5 - Operating Profit, in the Notes to the Financial Statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

Electricity North West Limited group consists of the parent company (Electricity North West Limited) which is the only trading entity within the group along with two dormant subsidiaries. The group is the electricity distribution network operator for the North West of England and is regulated by the Office of Gas and Electricity Markets ('Ofgem'). There have been no significant changes to the business or business model over the course of the financial year. The year ended 31 March 2023 is our first year as external auditor of the Group and Company, and as part of our audit transition, we performed specific procedures over opening balances by reviewing the predecessor auditors' working papers and risk assessment and re-evaluating their conclusions in respect of key sources of estimation uncertainty and critical judgements in the opening balance sheet at 1 April 2022.

Independent auditors' report to the members of Electricity North West Limited (continued)

As we undertook each phase of this first year audit, we regularly reconsidered our risk assessment to reflect audit findings, including our assessment of the Group's control environment and the impact on our planned audit approach. Considering the nature of the Group's operations and treasury arrangements we considered: valuation of derivative financial instruments; capitalisation of costs; and valuation of defined benefit pension assets and liabilities to be the most significant areas of risk and therefore have included these as key audit matters.

Overview

Audit scope

- The only component of the group included in the scope of our audit of the consolidated financial statements was Electricity North West Limited.
- All audit work on the group and company was performed by the group audit engagement team.

Key audit matters

- Valuation of Derivative Financial Instruments (group and parent)
- Capitalisation of Costs (group and parent)
- Valuation of Defined Benefit Pension Assets and Obligations (group and parent)

Materiality

- Overall group materiality: £4,915,000 based on 5% of three years average of profit before tax and fair value movements.
- Overall company materiality: £4,900,000 based on 5% of three years average of profit before tax and fair value movements.
- Performance materiality: £3,675,000 (group) and £3,675,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Electricity North West Limited (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of Derivative Financial Instruments (group and parent)

Refer to Note 21 in the Group and Company financial statements. The Group and Company hold derivative financial instruments with both external and sister company counterparties. At 31 March 2023 instruments held with external parties comprised derivative liabilities of £441m and derivative assets of £15m, whilst those held with sister companies comprised derivative liabilities and assets of £312m each. These instruments are measured at fair value through profit and loss. The valuations are complex, and made up of underlying risk free valuations, overlaid with credit risk adjustments. We consider there to be a heightened risk of error in the credit risk adjustments. This risk does not extend to the underlying risk free valuations, as the method, assumptions, and data used for their valuations are all considered to be reliable and appropriate to their nature and do not require significant judgement.</td><td>To assess the appropriateness of the valuation of derivative financial instruments, we performed the following:
- We assessed the reasonableness of the risk adjustments using independent sourced data points and models;
- We understood the underlying control environment applied to the valuation of the instruments;
- We tested the accuracy and completeness of the derivative population through agreeing key terms to underlying agreements;
- We tested the models and key assumptions used by management to value derivatives;
- We tested settlements made on the derivatives, including the amortisation of day 1 derivative valuation differences; and
- We prepared independent valuations for derivatives within the portfolio as at 31 March 2023 on a pre and post credit risk basis, including independently calculating individual credit risk adjustments.
We concluded that valuations of derivatives, including the determination of credit risk adjustments within the valuations, were in line with ranges and thresholds we independently determined by using deterministic and stochastic methods with independently sourced data points.</td></tr>
<tr><td>Capitalisation of Costs (group and parent)

Refer to Note 13 in the Group and Company financial statements. The Group continues to make significant capital investment in Property, plant and equipment, principally in relation to the development of the distribution network. For the year ended 31 March 2023 capital additions were made to the asset categories of operational structures and assets under construction of £131.2m and £63m respectively. These additions include a significant proportion of capitalised overhead costs. Certain categories of overhead costs are capitalised based on judgemental percentage rates. We have identified a risk that the capitalisation rates used do not appropriately reflect the nature of activities to which the underlying costs relate, resulting in an incorrect apportionment of overhead costs between Property, Plant and Equipment on the Consolidated and Company Statements of Financial Position and expenses recognised in the Consolidated and Company Statements of Profit or Loss and Other Comprehensive Income.</td><td>To assess the value and nature of costs capitalised into fixed assets in the year, we conducted the following procedures:
- We discussed with management to understand the process by which capitalisation rates are determined and how costs are then appropriately accounted for when incurred;
- We understood how activities by cost centre are used to determine the percentage of costs capitalised;
- We sampled a selection of the cost categories, including those which contribute to the most significant proportions of capitalised cost as well as those where a judgemental capitalisation percentage is applied;
- We performed procedures to confirm the correct classification of costs to individual categories; and
- We undertook procedures to corroborate the nature of activities performed under each cost category being tested to asses the appropriateness of the capitalisation rates applied.
We have concluded that management has applied appropriate and consistent estimates to determine the overall level of costs to be capitalised for the year.</td></tr>
</table>

Independent auditors' report to the members of Electricity North West Limited (continued)

Key audit matter	***How our audit addressed the key audit matter***
Valuation of Defined Benefit Pension Assets and Obligations (group and parent) Refer to note 22 in the Group and Company financial statements. The net defined benefit pension asset at 31 March 2023 was £42.6m (31 March 2022: £18.4m), comprising gross assets of £916.3m and gross liabilities of £873.7m. Assets held by the scheme include certain Level 3 financial instruments, being an annuity insurance policy and a number of holdings in Pooled Investment Vehicles ('PIVs'). Valuations of Level 3 financial instruments are more complex due to them including unobservable inputs, such as quoted market prices. The determination of the value of liabilities requires the application of an actuarial valuation method, the attribution of benefits to periods of service, and the use of significant actuarial assumptions including in particular the discount rate, inflation rates and the average life expectancy of members. Small changes in the assumptions used could have a significant effect on the financial position of the group. The present value of the gross defined benefit liabilities is deducted from the gross fair value of plan assets in determining the net pension asset.	To assess the appropriateness of the values of assets and obligations in the defined benefit pension scheme, we performed the following: - We challenged, with the support of our own actuarial experts, the key assumptions applied against externally derived data and internally developed benchmarks; - We assessed the appropriateness of recognition of the UK surplus in line with accounting standards; - We obtained evidence of the valuation of scheme assets, including Level 3 financial instruments; - We assessed the membership data used in valuing the defined benefit pension obligation; - We confirmed that there were no significant changes since the latest Scheme Funding valuation, performed as at 31 March 2022, by reviewing administrator controls related to member data and performing roll forward procedures where applicable; and - We considered the adequacy of the group's disclosures in respect of the sensitivity of the surplus to changes in assumptions. Based on the results of our testing, we found the assumptions made in the valuation of the UK defined benefit pension scheme resulted in an overall acceptable valuation taking account of the materiality level applied. We also consider the disclosures made in the financial statements to be appropriate.

How we tailored the audit scope

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

The group consists of Electricity North West Limited, as the parent entity, and two dormant subsidiary companies (Electricity North West Number 1 Company Limited and ENW (ESPS) Pensions Trustees Limited). The group financial statements are a consolidation of these three entities. We note that all balances held by subsidiary entities are eliminated on consolidation. Consequently, Electricity North West Limited was the only entity in scope for the purpose of the group audit.

All audit work on the group and the company was performed by the group engagement team.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the group's financial statements and support the disclosures made within the Annual Report and Consolidated Financial Statements.

Independent auditors' report to the members of Electricity North West Limited (continued)

We used our knowledge of the group, with assistance from our internal climate experts, to challenge the completeness of management's climate risk assessment by challenging the consistency of management's climate impact assessment with internal climate plans and board minutes, including whether the time horizons management have used take account of all relevant aspects of climate change such as transition risks and reading the entity's website / communications for details of climate related impacts.

Using our knowledge of the business we evaluated management's risk assessment, its estimates as set out in Note 2 of the financial statements and resulting disclosures where significant. We considered the only area to be potentially materially impacted by climate risk to be the directors' impairment assessment. To respond to the audit risk identified in this area we tailored our audit approach to address this, in particular, we challenged management on how the impact of carbon reduction commitments would impact the assumptions within the discounted cash flows prepared by management that are used in the Group's impairment analysis.

We also considered the consistency of the disclosures in relation to climate change within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 March 2023.

Materiality

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

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

	Financial statements - group	**Financial statements - company**
Overall materiality	£4,915,000.	£4,900,000.
How we determined it	5% of three years average of profit before tax and fair value movements	5% of three years average of profit before tax and fair value movements
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax and fair value movements is a primary measure reported to shareholders to indicate the underlying performance of the group. The use of a three year average is considered appropriate as this reduces volatility caused by under or over recoveries of electricity distribution revenue in a specific financial year.	Based on the benchmarks used in the annual report, profit before tax and fair value movements is a primary measure reported to shareholders to indicate the underlying performance of the company. The use of a three year average is considered appropriate as this reduces volatility caused by under or over recoveries of electricity distribution revenue in a specific financial year.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £4,900,000, being the material level applied to the audit of the company financial statements of Electricity North West Limited.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3,675,000 for the group financial statements and £3,675,000 for the company financial statements.

Independent auditors' report to the members of Electricity North West Limited (continued)

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.25m (group audit) and £0.25m (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's forecast base case and downside scenarios and challenging the appropriateness of underlying assumptions;
- Reviewing management accounts for the financial period to date and comparing those with management's scenarios;
- Evaluating the historical accuracy of management forecasts;
- Testing the mathematical integrity of management's going concern forecast models; and
- Reviewing the disclosures made in respect of going concern included in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

Independent auditors' report to the members of Electricity North West Limited (continued)

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;

Independent auditors' report to the members of Electricity North West Limited (continued)

- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to General Data Protection Regulation, Health and Safety regulation, employment laws and regulations applicable to the operation of electricity distribution networks in the UK, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax laws the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to improve financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- challenging assumptions and judgements made by management in their significant accounting estimates;
- discussions with management and internal audit including consideration of known or suspected instances of non-compliance with laws and regulation or fraud;
- reviewing minutes of meetings of those charged with governance;
- auditing the calculations supporting tax balances and disclosures;
- reviewing financial statements disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations; and
- reviewing financial statements disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

Independent auditors' report to the members of Electricity North West Limited (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 16 September 2022 to audit the financial statements for the year ended 31 March 2023 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Independent auditors' report to the members of Electricity North West Limited (continued)

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Simon White (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
10 July 2023

Financial Statements

Consolidated and Company Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 March 2023

	Note	**Group and Company 2023 £m**	Group and Company 2022 £m
Revenue	4	**594.7**	472.8
Employee costs	5,6	**(67.0)**	(60.9)
Depreciation and amortisation expense	5	**(140.7)**	(132.7)
Other operating costs		**(191.5)**	(103.6)
Total operating expenses		**(399.2)**	(297.2)
Operating profit	5	**195.5**	175.6
Finance income	8	**4.2**	0.4
Finance expenses	9	**(4.7)**	(150.0)
Profit before taxation		**195.0**	26.0
Tax on profit	10	**(49.5)**	(59.1)
Profit/ (loss) for the year financial year		**145.5**	(33.1)
Other comprehensive (expense)/ income:			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of net defined benefit scheme	22	**9.4**	68.8
Deferred tax on re-measurement of defined benefit scheme	24	**(2.3)**	(17.2)
Adjustment of brought forward deferred tax on re-measurement of defined benefit scheme due to change in future tax rates	24	**-**	12.9
Other comprehensive income for the financial year		**7.1**	64.5
Total comprehensive income for the financial year		**152.6**	31.4

The results for the year ended 31 March 2022 and 2023 are derived from continuing operations. The

The notes on pages 76 to 134 form an integral part of these financial statements

Consolidated and Company Statements of Financial Position

as at 31 March 2023

	Note	**Group 2023 £m**	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	12	**55.2**	**55.2**	58.9	58.9
Property, plant and equipment	13	**3,638.5**	**3,638.5**	3,512.1	3,512.1
Investments	14	**-**	**15.4**	-	15.4
Derivative assets	21	**327.4**	**327.4**	408.8	408.8
Retirement benefit surplus	22	**42.6**	**42.6**	18.4	18.4
		4,063.7	**4,079.1**	3,998.2	4,013.6
Current assets					
Inventories	15	**22.4**	**22.4**	18.1	18.1
Trade and other receivables	16	**97.8**	**97.8**	80.0	80.0
Current tax asset		**2.8**	**2.8**	-	-
Cash and cash equivalents	17,21	**173.8**	**173.8**	59.4	59.4
Money market deposits > 3 months	17,21	**305.7**	**305.7**	-	-
		602.5	**602.5**	157.5	157.5
Total assets		**4,666.2**	**4,681.6**	4,155.7	4,171.1
LIABILITIES					
Current liabilities					
Trade and other payables	18	**(152.3)**	**(168.0)**	(125.9)	(141.6)
Current income tax liabilities		**-**	**-**	(6.2)	(6.2)
Borrowings	19	**(223.3)**	**(223.3)**	(93.2)	(93.2)
Customer contributions	23	**(76.6)**	**(76.6)**	(38.3)	(38.3)
Provisions	25	**(0.6)**	**(0.6)**	(0.6)	(0.6)
		(452.8)	**(468.5)**	(264.2)	(279.9)
Net current assets/ (liabilities)		**149.7**	**134.0**	(106.7)	(122.4)
Non-current liabilities					
Borrowings	19	**(1,539.8)**	**(1,539.8)**	(1,192.9)	(1,192.9)
Derivative liabilities	21	**(753.6)**	**(753.6)**	(960.2)	(960.2)
Customer contributions	23	**(688.5)**	**(688.5)**	(686.5)	(686.5)
Deferred tax liabilities	24	**(237.3)**	**(237.3)**	(186.7)	(186.7)
Provisions	25	**(0.4)**	**(0.4)**	(1.0)	(1.0)
		(3,219.6)	**(3,219.6)**	(3,027.3)	(3,027.3)
Total liabilities		**(3,672.4)**	**(3,688.1)**	(3,291.5)	(3,307.2)
Net assets		**993.8**	**993.5**	864.2	863.9
EQUITY					
Called up share capital	26,27	**238.4**	**238.4**	238.4	238.4
Share premium account	27	**4.4**	**4.4**	4.4	4.4
Revaluation reserve	27	**72.0**	**72.0**	74.1	74.1
Capital redemption reserve	27	**8.6**	**8.6**	8.6	8.6
Retained earnings	27	**670.4**	**670.1**	538.7	538.4
Total equity		**993.8**	**993.5**	864.2	863.9

The financial statements of Electricity North West Limited (registered number 02366949), on pages 76 to 134, were approved and authorised for issue by the Board of Directors on 10 July 2023 signed on its behalf by:

Ian Smyth, Director

Consolidated Statement of Changes in Equity
for the year ended 31 March 2023

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m
At 1 April 2021	238.4	4.4	81.9	8.6	596.6	929.9
Loss for the year	-	-	-	-	(33.1)	(33.1)
Other comprehensive income for the year	-	-	-	-	64.5	64.5
Transfer from revaluation reserve	-	-	(7.8)	-	7.8	-
Total comprehensive income for the financial year	-	-	(7.8)	-	39.2	31.4
Transactions with owners recorded directly in equity						
Dividends (Note 11)	-	-	-	-	(97.1)	(97.1)
At 31 March and 1 April 2022	238.4	4.4	74.1	8.6	538.7	864.2
Profit for the year	**-**	**-**	**-**	**-**	**145.5**	**145.5**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**7.1**	**7.1**
Transfer from revaluation reserve	**-**	**-**	**(2.1)**	**-**	**2.1**	**-**
Total comprehensive income for the financial year	**-**	**-**	**(2.1)**	**-**	**154.7**	**152.6**
Transactions with owners recorded directly in equity						
Dividends (Note 11)	**-**	**-**	**-**	**-**	**(23.0)**	**(23.0)**
At 31 March 2023	**238.4**	**4.4**	**72.0**	**8.6**	**670.4**	**993.8**

The notes on pages 76 to 134 form an integral part of these financial statements

Company Statement of Changes in Equity
for the year ended 31 March 2023

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m
At 1 April 2021	238.4	4.4	81.9	8.6	596.3	929.6
Loss for the year	-	-	-	-	(33.1)	(33.1)
Other comprehensive income for the year	-	-	-	-	64.5	64.5
Transfer from revaluation reserve	-	-	(7.8)	-	7.8	-
Total comprehensive income for the financial year	-	-	(7.8)	-	39.2	31.4
Transactions with owners recorded directly in equity						
Dividends (Note 11)	-	-	-	-	(97.1)	(97.1)
At 31 March and 1 April 2022	238.4	4.4	74.1	8.6	538.4	863.9
Profit for the year	**-**	**-**	**-**	**-**	**145.5**	**145.5**
Other comprehensive expense for the year	**-**	**-**	**-**	**-**	**7.1**	**7.1**
Transfer from revaluation reserve	**-**	**-**	**(2.1)**	**-**	**2.1**	**-**
Total comprehensive income for the financial year	**-**	**-**	**(2.1)**	**-**	**154.7**	**152.6**
Transactions with owners recorded directly in equity						
Dividends (Note 11)	**-**	**-**	**-**	**-**	**(23.0)**	**(23.0)**
At 31 March 2023	**238.4**	**4.4**	**72.0**	**8.6**	**670.1**	**993.5**

The notes on pages 76 to 134 form an integral part of these financial statements

Consolidated and Company Statements of Cash Flows

for the year ended 31 March 2023

	Note	**Group and Company 2023 £m**	Group and Company 2022 £m
Cashflows from Operating activities			
Cash generated from operations	31	**297.0**	266.2
Customer contributions received*		**60.6**	51.8
Interest paid		**(58.8)**	(54.1)
Interest portion of lease liabilities	20	**(0.2)**	(0.2)
Accretion on index-linked swap		**(20.1)**	-
Income taxes paid		**(10.3)**	(15.2)
Net cash generated from operating activities		**268.2**	248.5
Investing activities			
Interest received and similar income		**2.0**	0.4
Transfer to money market deposits > 3 months		**(305.7)**	-
Purchase of property, plant and equipment		**(244.6)**	(196.5)
Purchase of intangible assets		**(10.5)**	(12.2)
Proceeds from sale of property, plant and equipment		**0.5**	0.5
Net cash used in investing activities		**(558.3)**	(207.8)
Net cash flow before financing activities		**(290.1)**	40.7
Financing activities			
Proceeds from external borrowings	19	**37.0**	30.0
Repayment of external borrowings	19	**(45.3)**	(37.4)
Repayment of lease liabilities	19	**(1.5)**	(1.2)
Increase in inter-company loan from parent	19	**12.3**	2.0
Increase/ (decrease) in inter-company loan from group	19	**425.0**	(200.0)
Dividends paid	11	**(23.0)**	(97.1)
Net cash generated from/ (used in) financing activities		**404.5**	(303.7)
Net increase/ (decrease) in cash and cash equivalents		**114.4**	(263.0)
Cash and cash equivalents at the beginning of the year	17	**59.4**	322.4
Cash and cash equivalents at the end of the year	17	**173.8**	59.4

*To align with the recognition of Customer contributions received within revenue over the expected useful economic lives of related assets, these amounts have been presented within cashflows from operating activities for the year ended 31 March 2023. As they were previously presented within cashflows from Investing activities, comparative balances have been restated. This has resulted in an increase in prior year cashflows from operating activities of £51.8m, with a corresponding decrease in cashflows from Investing activities.

The notes on pages 76 to 134 form an integral part of these financial statements.

Notes to the Financial Statements

Electricity North West Limited is a company incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006.

The financial statements are presented in sterling, which is the functional currency of the Company and Group. All values are stated in million pounds (£'m) unless otherwise indicated.

The financial statements are prepared on the going concern basis. Further detail on the going concern assessment is contained in the Strategic Report, pages 32-33 and Note 2.

1. Adoption of new and revised Standards

New and amended IFRS Standards that are effective for the current year

In the current year, the Group has applied the following amendments to IFRS Standards issued by the International Accounting Standards Board (IASB) for an accounting period that begins on or after 1 January 2022; their adoption has not had any material impact on the disclosures or the amounts reported in these financial statements:

- Amendments to IFRS 3: *Reference to the Conceptual Framework,*
- Amendments to IAS 16: *Property, Plant and Equipment—Proceeds before Intended Use,*
- Amendments to IAS 37: *Onerous Contracts – Cost of Fulfilling a Contract,* and
- Annual Improvements to IFRS Standards 2018-2020 Cycle.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 *Insurance Contracts,* effective year ending 31 March 2024 but is not applicable to the Group,
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*, effective and will be applied by the Group from year ending 31 March 2025,
- Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies,* effective and will be applied by the Group from year ending 31 March 2024,
- Amendments to IAS 8: *Definition of Accounting Estimates*, effective and will be applied by the Group from year ending 31 March 2024,
- Amendments to IAS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* effective and will be applied by the Group from year ending 31 March 2024,
- Amendments to IFRS 16: *Lease Liability in a Sale and Leaseback*, effective and will be applied by the Group from year ending 31 March 2025,
- Amendments to IAS 1: *Non-current Liabilities with Covenants*, effective and will be applied by the Group from year ending 31 March 2025.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently in the current year and the prior year.

Notes to the Financial Statements (continued)

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, retirement benefit scheme and certain property, plant and equipment that were revalued in 1997. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. More details on the fair value measurements of financial instruments are given in Note 21.

Going concern

When considering whether to continue to adopt the going concern basis in preparing these financial statements, the directors have taken into account a number of factors, including the following:

- The Company's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating, which has been met.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.
- Management has prepared, and the directors have reviewed and approved Group budgets for the year ending 31 March 2024. These budgets include profit projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and key sensitivities are considered when budgets are approved, including possible changes in inflation and under recoveries of allowed revenue as plausible downside scenarios.
- Management have prepared forecasts covering the next regulatory period to 2028, based on the business plan submission for RIIO-ED2. Forecasts demonstrate that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period.
- Short-term liquidity requirements are forecast to be met from the Group's operating cash flows and short-term deposit balances. A further £50m of committed undrawn bank facilities are available from lenders; these have availability periods of greater than one year.
- Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12-month projections to 31 July 2024 indicate there is sufficient headroom on these covenants.

After making appropriate enquiries, and with consideration of the guidance published by the Financial Reporting Council, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the directors have considered the foreseeable future to be a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), made up to 31 March each year.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. There have been no acquisitions or disposals of subsidiaries in the current or prior year.

Accounting policies are consistent in all Group companies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group members are eliminated on consolidation.

Business combinations and goodwill

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Goodwill is measured as the excess of the consideration transferred and acquisition date fair value of any previous equity interest in the acquired entity over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed and is recognised as an asset.

Goodwill is allocated to cash-generating units and is not amortised, but is reviewed for impairment annually, or more frequently when there is an indication that it may be impaired.

Investments in subsidiaries (Company only)

Investments in subsidiary undertakings are stated at cost less any provisions for permanent diminution in value. Dividends received and receivable are credited to the Company’s income statement to the extent that they represent a realised profit for the Company.

Capitalisation of overheads

The costs are initially expensed to the income statement with a portion being capitalised based on management's assessment of the costs incurred that are directly linked to the capital work performed.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable primarily for the distribution of electricity in the normal course of business, net of VAT.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Revenue from the distribution of electricity

The Company provides services under the Distribution Connection and Use of System Agreement (DCUSA) with its customers and derives the majority of its revenue from distribution use of system services. The recognition of revenue from the distribution of electricity is based on actual volumes distributed through the network and includes an assessment of the volume of unbilled energy distributed as at the year end. There is a single performance obligation whereby the Company is required to deliver electricity using its distribution network. The performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits and the Company has the right to payment for the services provided. Revenue includes unbilled income recognised relating to volumes distributed through the network but not yet invoiced at year end.

Electricity distribution revenue is determined in accordance with the regulatory licence. Where revenue received or receivable in the year differs from the allowed revenue permitted by regulatory agreement, adjustments will be made to future prices to reflect this over or under recovery. This will be taken into account in future financial year's allowed revenue. No accounting adjustments are therefore made for the over or under recoveries in the year that they arise or in the year in which they are recovered.

Incentive income earned or adjustments for under or over-spend against totex allowances , are not adjusted within revenue reported in the year within which they arise. These adjustments are factored into allowed revenue for future periods and consequently recognised as revenue when the associated volumes are distributed and the performance obligation is met.

Government levies

Where the Company is directed to collect or pay levies by the Regulator, Ofgem, those levies are accounted for under IFRIC21 levies.

In accordance with IFRIC 21, levies such as Supplier of Last Resort (SoLR) payment levies, are recognised progressively when an obligating event takes place. SoLR levies are directed from time to time by Ofgem, with specified payment and collection periods. In accordance with IFRIC 21 the liability associated with the levy is triggered progressively as the associated income becomes billable, being the defined obligating event.

Revenue from SoLR levies and the associated costs are therefore recognised proportionately over time in the income statement, with the levy collection being reflected in revenue and the corresponding payment of the levy in operating costs.

Connections revenue

Connections revenue includes contract revenue for diversions and disconnections from the network and is recognised by reference to the proportion of total costs of providing the service. The performance obligation relates to completion of work per the terms of the contract. Consideration received in advance of recognising the associated revenue from customers is recorded within contract liabilities (deferred income). Customer contributions are treated as non-refundable once certain milestones have been met. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Customer contributions

Customer contributions received towards distribution system assets are contract liabilities until the performance obligations are completed. The amounts are deferred and credited to the income statement over the estimate weighted average useful life of the underlying assets. The performance obligation is considered to be the provision of an ongoing network connection to the customers.

The performance obligation is regarded as satisfied over time as ENWL creates a bespoke asset for which they have no alternative use other than to provide electricity to the customer's premises. ENWL has an enforceable right to payment for the performance completed to date.

Refundable customer contributions received in respect of property, plant and equipment are initially held as a liability within customer. The amounts can be refundable and repaid to the customer or otherwise credited to customer contributions.

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

Finance income

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using either the rate implicit in the lease, or our incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

The defined benefit pensions scheme is provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2022; agreed actuarial valuations are carried out thereafter at intervals of not more than three years.

Results are affected by the actuarial assumptions used, which are disclosed in Note 22. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Defined benefit costs are split into three categories:

- current service cost, past service cost and gains and losses on curtailments and settlements, recognised in employee costs (see Note 6) in the income statement;
- net interest expense or income, recognised within finance costs (see Note 9) in the income statement; and
- re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur.

Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

IFRIC14: '*The limit on a defined benefit asset, minimum funding requirements and their interaction'* was published by the interpretations committee of the International Accounting Standards Board in July 2007 and was adopted during the year ended 31 March 2008. IFRIC14 provides guidance on the extent to which a pension scheme surplus should be recognised as an asset and may also require additional liabilities to be recognised where minimum funding requirements exist. Legal opinion was obtained that a pension surplus could be recovered on wind up of the scheme and could, therefore, be recognised, along with associated liabilities.

The Group has concluded that, when a defined benefit asset exists, it can recognise the full amount of this surplus on the grounds that it could gain sufficient economic benefit from the refund of the surplus assets that would be available to it following the final payment to the last beneficiary of the Scheme.

The tax expense represents the sum of current and deferred tax charges for the financial year, adjusted for prior year items.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Current taxation

Current tax is based on taxable profit for the year and is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Intangible assets

Intangible assets with finite useful economic lives are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. The carrying amount is reduced by any provision for impairment where necessary.

Amortisation periods for categories of intangible assets are:

Computer software	1-12 years

Intangible assets under construction are not amortised. Amortisation commences from the date the intangible asset is available for use.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment comprise: operational structures; non-operational land & buildings; fixtures, equipment, vehicles & other assets, and right of use assets.

Operational structures

Infrastructure assets are depreciated by writing off their cost, less the estimated residual value, evenly over their useful lives, which range from 5 to 85 years. Employee costs incurred in implementing the capital schemes of the Group are capitalised within operational structure assets.

In 1997 the Company undertook a revaluation of certain assets following a business combination. This resulted in the creation of a revaluation reserve of £234.9m. The additional depreciation, as a result of the revaluation, is transferred from the revaluation reserve to retained earnings on an annual basis.

Assets other than operational structures

All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the items and includes costs directly attributable to making the asset capable of operating as intended. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Freehold land and assets in the course of construction are not depreciated until the asset is available for use.

Depreciation is provided on other assets on a straight-line basis over its expected useful life as follows:

Non-operational land & buildings	30-84 years
Fixtures, equipment, vehicles & other	2-40 years
Right of use assets	3-60 years

Depreciation methods and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of tangible and intangible assets

Tangible and intangible assets are assessed for impairment at each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite life is tested for impairment at least annually and whenever there is an indication of impairment.

The recoverable amount is the higher of fair value less costs of disposal, and value in use. The fair value represents the net present value of expected future cash flows, discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the reversal is recognised immediately in profit or loss and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Goodwill and other indefinite assets are never reversed.

Research and development

Research costs are recognised in the income statement as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to reliably measure the expenditure incurred during development.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on weighted average cost or actual cost and includes expenditure incurred in acquiring the inventories, conversion costs and other costs in bringing them to their present location and condition. Net realisable value represents the estimated selling price, net of estimated costs of selling.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs, directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss, are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised as a gain or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss such that it reaches a value of zero at the time when the contract can be valued using active market quotes or verifiable objective market information. The Group policy for the amortisation of day 1 gain or loss is to release it in a reasonable fashion based on the facts and circumstances (e.g., using a straight-line amortisation).

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company and Group have no financial assets at FVTOCI.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. The Group has no financial assets purchased or originated credit-impaired, or that have subsequently become credit-impaired.

Interest income is recognised in profit or loss and is included in the ‘Finance income’ line item.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically, the financial assets held by the Group classified as at FVTPL are derivatives and are stated at fair value, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedge accounting relationship. Fair value is determined in the manner described in Note 21.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets; the Group holds no lease receivables or financial guarantee assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

a) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

b) Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

d) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. The exposure at default is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, deposits, other short-term highly liquid investments which are readily convertible into known amounts of cash and have an original maturity of three months or less and which are subject to an insignificant risk of change in value.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Money market deposits

Money market deposits with terms to maturity in excess of three months are not included as cash or cash equivalents and are separately disclosed on the face of the Statement of Financial Position.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities measured subsequently at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The Group has no financial liabilities designated at FVTPL. Fair value is determined in the manner described in Note 21.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not at FVTPL are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums and discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability, or part of it, as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Trade payables

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

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and inflation risk. Further details of derivative financial instruments are disclosed in Note 21.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss, in finance expenses, immediately unless the derivative is designated in a hedging relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Embedded derivatives (continued)

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

Hedge accounting

The Group considers hedge accounting when entering any new derivative, however, there are currently no formal hedge accounting relationships in the Group.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are outlined below.

Property, Plant and Equipment

The Group recognises infrastructure assets where the expenditures incurred enhance or increase the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and, therefore, the allocation of costs between capital and operating expenditure requires a level of judgement. The calculation of the cost capitalised include an allocation of overhead cost. This requires the Group to estimate the proportion of time spend by support function staff. See Note 6 for details on value of employee costs capitalised in the year.

Impairment of tangible and intangible assets (including goodwill)

Management assesses the recoverability of tangible and intangible assets on an annual basis. Determining whether any of those assets are impaired requires an estimation of the recoverable amount of the asset to the Group. This calculation requires the Group to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value for the asset and compare that to its carrying value. This concluded that no impairment loss is required against those assets. Details of the impairment loss testing is set out in Note 13.

Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Group uses market-observable data (Level 1 and 2 inputs) to the extent it is available. Where such data is not available, certain estimates (Level 3 inputs) regarding inputs to the valuation are required to be made. Level 3 inputs form a significant part of the fair value of the financial instruments held by the Group. Information about the valuation techniques, inputs used and sensitivities are disclosed in Note 21.

Retirement benefit schemes

The Group’s defined benefit obligation is derived using various assumptions, as disclosed in Note 22. Results can be affected significantly by the assumptions used, which management decide based on advice by a firm of actuaries.

Where available, market data is used to value assets, however for some less liquid assets, up-to-date data is not available, certain estimates regarding inputs to the valuation are required to be made, as disclosed in Note 22, along with sensitivities of certain key inputs.

Notes to the Financial Statements (continued)

4. Revenue

Group and Company	2023 £m	2022 £m
Revenue	**594.7**	472.8

Predominantly all Group revenues arise from one operating segment, electricity distribution in the North West of England and associated activities. This is regularly reviewed by the Chief Executive Officer and Executive Leadership Team.

Included within the above are revenues from three customers (2022: three), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £173.3m (2022: £174.3m). No other customer represented more than 10% of revenues either this year or in the prior year.

Where the Company is directed to collect or pay levies by the Regulator, Ofgem, those levies are accounted for under IFRIC21 levies. For the year ended 31 March 2023, revenue includes £79.9m of Supplier of Last Resort (SoLR) levies (2022: £nil). However, immediately at the point the levy becomes billable, the entire value of the levy is paid over to suppliers, with the Company making no profit from its role in the process. The costs of the levy are shown as an operating expense (Note 5).

In the current year £20.2m (2022: £19.5m) of customer contributions has been amortised through revenue in line with IFRS 15 (Note 23 & 31).

Of the revenue recognised in the year, £2.9m (2022: £3.6m) was included in the contract liability at the beginning of the year.

5. Operating profit

The following items have been included in arriving at the Group's operating profit:

Group and Company Expense/(income)	2023 £m	2022 £m
Employee costs (Note 6)	**67.0**	60.9
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (Note 13 & 31) *	**126.5**	119.9
Amortisation of intangible assets (Note 12 & 31)	**14.2**	12.8
	140.7	132.7
Supplier of Last Resort Levy (Note 4)	**79.9**	-
Loss allowance on trade receivables written off (Note 16)	**(0.4)**	(1.0)
Loss allowance on trade receivables recognised (Note 16)	**0.1**	2.9
Profit on disposal of property, plant and equipment	**(0.5)**	(0.1)
Provision released to profit and loss (Note 25)	**(0.4)**	(0.2)
Research and development	**3.0**	2.5

*Includes depreciation on right of use assets of £1.5m (2022: £1.5m) (Note 13).

Notes to the Financial Statements (continued)

Analysis of the auditor's remuneration is as follows:

Group and Company	2023 £m	2022 £m
Fees payable to the Company's auditors for the audit of the Company's annual financial statements*	**0.2**	0.2
Audit-related assurance services	**0.1**	0.1
Total fees	**0.3**	0.3

*All these fees relate to the audit of the Company; no fees are payable in relation to the subsidiaries of the Company as they are dormant.

Non-audit related services to the Group or Company were £15,000 (2022: £79,000)

6. Employee costs

Group and Company	2023 £m	2022 £m
Wages and salaries	**119.9**	108.6
Social security costs	**13.8**	11.5
Other pension costs (Note 22)	**22.0**	14.0
Employee costs (including directors' remuneration)	**155.7**	134.1
Costs transferred directly to fixed assets	**(88.7)**	(73.2)
Charged to operating expenses	**67.0**	60.9

All employees and employee costs relate to the Company.

The average monthly number of employees during the year (including Executive Directors):

Group and Company	2023 Number	2022 Number
Average number of employees	**2,042**	1,935

Notes to the Financial Statements (continued)

7. Directors' remuneration

The number of directors during the period is set out and analysed by category in the table below:

Group and Company	2023 Number	2022 Number
Remunerated directors	**7**	6
Non-remunerated directors*	**6**	5
Total number of directors	**13**	11

*There are 7 alternate directors (2022: 4 alternate directors) not included as non-remunerated directors set out in page 57.

The compensation paid or payable to directors is shown in the table below:

Group and Company	2023 £m	2022 £m
Salaries and other short-term employee benefits	**1.3**	1.2
Accrued bonus	**1.0**	0.5
Amounts receivable under long-term incentive schemes	**0.9**	0.5
Total fees	**3.2**	2.2

The aggregate emoluments of the directors in 2023 amounted to £3.2m (2022: £2.2m). Emoluments comprise salaries, fees, taxable benefits, and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid director in 2023 in respect of services to the Group amounted to £1.1m (2022: £1.1m). Under the Executive Incentive Plan bonuses are awarded and either paid in the following financial year (accrued bonus) or paid in subsequent years (amounts receivable under long-term incentive schemes); no shares were received or receivable by any director.

As at 31 March 2022 and 2023, there were no amounts payable for post-employment benefits, other long-term benefits and termination benefits.

The pension contributions for the highest paid director for the year ended 31 March 2023 were £nil (2022: £nil). The accrued pension at 31 March 2023 for the highest paid director was £nil (2022: £nil).

As at 31 March 2022 and 2023 the directors had no interests in the ordinary shares of the Company.

8. Finance income

Group and Company	2023 £m	2022 £m
Interest receivable on short-term bank deposits	**4.2**	0.4

Notes to the Financial Statements (continued)

9. Finance expenses

Group and Company	2023 £m	2022 £m
Interest payable:		
Interest on group borrowings at amortised cost (Note 30)	**10.6**	10.2
Interest on borrowings at amortised cost	**41.1**	40.6
Net interest settlements on derivatives at FVTPL	**4.3**	(3.1)
Indexation of index-linked debt (Note 19 & 21)	**55.2**	25.2
Accretion paid on index-linked swaps	**20.1**	-
Reimbursement of inter-company loan impairment	**0.4**	0.3
Interest on leases	**0.2**	0.2
Net Interest cost on pension plan obligations (Note 22)	**(0.8)**	1.1
Capitalisation of borrowing costs under IAS 23	**(1.2)**	(1.0)
Total interest expense	**129.9**	73.5
Fair value movements on financial instruments:		
Inter-company derivative asset	**96.5**	(41.2)
Inter-company derivative liability (Note 21)	**(96.5)**	42.1
Derivative assets	**(15.1)**	-
Derivative liabilities (Note 21)	**(110.1)**	75.6
Total fair value movement	**(125.2)**	76.5
Finance expenses	**4.7**	150.0

Borrowing costs capitalised in the year under IAS 23 were £1.2m (2022: £1.0m), using an average annual capitalisation rate of 4.13% (2022: 3.99%), derived from the total general borrowing costs for the year divided by the average total general borrowings outstanding for the year.

In the Group and Company, no new derivatives were entered during the current or prior year, neither were any swaps closed out during the current or prior year.

The fair value movements on the derivatives are derived using a discounted cash flow technique using both market expectations of future interest rates and future inflation levels, obtained from Bloomberg, and calibrations to observable market transactions evidencing fair value; these are Level 2 inputs and Level 3 inputs under IFRS 13. Note 21 provides more detail on this.

Notes to the Financial Statements (continued)

9. Finance expenses (continued)

There has been £20.1m (2022: £nil) accretion payments on the index-linked swaps in the year; these are scheduled five-yearly, seven-yearly and ten-yearly with the next payment due in July 2023. The amount of accretion accrued over the year was £57.1m (2022: £29.8m), split as follows:

	PAYG 5 £m	PAYG 7 £m	PAYG 10 £m	Total £m
Accumulated Accretion				
1 April 2021	7.8	37.7	14.1	59.6
Accrued in year	7.0	14.2	8.6	29.8
Paid in year	-	-	-	-
31 March 2022	**14.8**	**51.9**	**22.7**	**89.4**
Accrued in year	**13.4**	**27.2**	**16.5**	**57.1**
Paid in year	**(20.1)**	**-**	**-**	**(20.1)**
31 March 2023	**8.1**	**79.1**	**39.2**	**126.4**

10. Tax on profit

Group and Company	**2023** **£m**	2022 £m
Current tax		
Current tax on profits for the year	**2.9**	12.3
Adjustment in respect of prior year	**(1.7)**	0.2
	1.2	12.5
Deferred tax (Note 24)		
Current year	**44.0**	46.4
Adjustments in respect of prior year	**4.3**	0.2
	48.3	46.6
Tax on profit	**49.5**	59.1

Corporation tax is calculated at 19% (2022: 19%) of the estimated assessable profit for the year.

The tax charge in future periods will be affected by the announcement on 3 March 2021 that the corporation tax rate will be increased to 25% from 1 April 2023. This was substantively enacted on 24 May 2021.

Deferred tax is calculated using the rate at which it is expected to reverse. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 25% (2022: 25%) rate. There is no unrecognised deferred tax in the Group.

Notes to the Financial Statements (continued)

10. Tax on profit (continued)

The table below reconciles the notional tax charge at the UK corporation tax rate to the effective tax rate for the year:

Group and Company	2023 £m	2022 £m
Profit before tax	**195.0**	26.0
Tax at the UK corporation tax rate of 19% (2022: 19%)	**37.1**	4.9
Non-taxable income	**(0.6)**	(0.5)
Prior year tax adjustments	**2.5**	0.4
Accelerated capital allowances and other timing differences	**10.5**	-
Increase in deferred tax due to rate change	**-**	54.3
Tax on profit	**49.5**	59.1

11. Dividends

Amounts recognised as distributions to equity holders in the year comprise:

Group and Company	2023 £m	2022 £m
Final dividend for the year ended 31 March 2021 of 3.33 pence per share, paid in June 2021	**-**	15.9
Interim dividend for the year ended 31 March 2022 of 17.03 pence per share, paid in December 2021	**-**	81.2
Final dividend for the year ended 31 March 2022 of 4.82 pence per share, paid in June 2022	**23.0**	-
	23.0	97.1

At the Board meeting on 25 May 2023, the directors proposed a final dividend of £18.6m for the year ended 31 March 2023, subject to approval by equity holders of the Company, that is not a liability in the financial statements at 31 March 2023.

Notes to the Financial Statements (continued)

12. Intangible assets and goodwill

Group and Company	Goodwill £m	Computer software £m	Assets under construction £m	Total £m
Cost				
At 1 April 2021	10.1	99.0	31.2	140.3
Additions	-	6.6	5.6	12.2
Transfers	-	31.8	(31.8)	-
At 31 March 2022	10.1	137.4	5.0	152.5
Additions		**1.5**	**9.0**	**10.5**
Transfers	**-**	**0.2**	**(0.2)**	**-**
At 31 March 2023	**10.1**	**139.1**	**13.8**	**163.0**
Accumulated amortisation				
At 1 April 2021	-	80.8	-	80.8
Charge for the year	-	12.8	-	12.8
At 31 March 2022	-	93.6	-	93.6
Charge for the year	**-**	**14.2**	**-**	**14.2**
At 31 March 2023	**-**	**107.8**	**-**	**107.8**
Net book value				
At 31 March 2023	**10.1**	**31.3**	**13.8**	**55.2**
At 31 March 2022	10.1	43.8	5.0	58.9

In the Company, goodwill arose on the acquisition of assets and liabilities of Electricity North West Number 1 Company Limited in the year ended 31 March 2011. This value reflects the excess of the investment over the fair value of the trade and assets at the date of acquisition.

At 31 March 2023, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £2.5m (2022: £5.2m).

At each balance sheet date, the Group reviews the carrying amounts of its goodwill and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss (Note 13).

Included in the net book value of computer software is £18.1 million (2022: £23.3 million) for an asset relating to the network management system which has four years of amortisation remaining.

Notes to the Financial Statements (continued)

13. Property, plant and equipment

Group and Company	Operational Structures £m	Non-operational land and buildings £m	Fixtures, equipment, vehicles and other £m	Assets under construction £m	Right of use assets (Note 20) £m	Total £m
Cost or valuation						
At 1 April 2021[5]	5,075.6	35.9	188.5	118.9	6.6	5,425.5
Additions	131.2	0.2	5.7	63.0	0.7	200.8
Transfers	37.9	0.5	1.1	(39.5)	-	-
Disposals	(2.5)	-	(0.2)	-	(0.6)	(3.3)
At 31 March 2022[5]	5,242.2	36.6	195.1	142.4	6.7	5,623.0
Additions	**163.6**	**1.0**	**7.6**	**78.8**	**1.9**	**252.9**
Transfers	**66.9**	**1.0**	**3.6**	**(71.5)**	**-**	**-**
Disposals	**(1.0)**	**-**	**(0.3)**	**-**	**(1.3)**	**(2.6)**
At 31 March 2023	**5,471.7**	**38.6**	**206.0**	**149.7**	**7.3**	**5,873.3**
Accumulated depreciation						
At 1 April 2021[5]	1,846.7	12.4	132.6	-	2.3	1,994.0
Charge for the year	103.9	1.0	13.5	-	1.5	119.9
Disposals	(2.1)	-	(0.2)	-	(0.7)	(3.0)
At 31 March 2022[5]	1,948.5	13.4	145.9	-	3.1	2,110.9
Charge for the year	**111.7**	**1.0**	**12.3**	**-**	**1.5**	**126.5**
Disposals	**(1.0)**	**-**	**(0.3)**	**-**	**(1.3)**	**(2.6)**
At 31 March 2023	**2,059.2**	**14.4**	**157.9**	**-**	**3.3**	**2,234.8**
Net book value						
At 31 March 2023	**3,412.5**	**24.2**	**48.1**	**149.7**	**4.0**	**3,638.5**
At 31 March 2022	3,293.7	23.2	49.2	142.4	3.6	3,512.1

At 31 March 2023, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £22.3m (2022: £108.7m).

[5] Amounts disclosed above at 1 April 2021 and 31 March 2022 for both 'Cost or valuation' and 'Accumulated depreciation' for 'Fixtures, equipment, vehicles & other', have been updated to include an additional £15.4m of fully depreciated assets which had been omitted in prior years. There is no impact on net book values at 31 March 2022 or 31 March 2023.

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

At 31 March 2023, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £3,542.6m (2022: £3,407.6m). The revaluation reserve is disclosed in Note 27, net of deferred tax. The revaluation reserve arose following a review after North West Water's acquisition of Norweb, in 1997.

Impairment testing of intangible assets and property plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing the fair value, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The discount rate is calculated at the year end solely from external sources of information.

For the purposes of impairment testing the Group have determined that there is only one cash generating unit (CGU). The carrying value of the CGU at 31 March 2023 was £2,928.6m (2022: £2,846.2) including goodwill of £10.1m (2022: £10.1m). The key assumptions for the fair value calculations are those regarding discount rates and the outcomes of future Ofgem price control settlements. The post-tax discount rate for the year ended 31 March 2023 was 5.85%.

It is considered appropriate to assess the cash flows over a twenty five year period as this reflects the long-term nature of the operation of the electricity distribution network and the importance of the operations of the business in supporting the UK transition to net zero. The Group has prepared cash flow forecasts for a 25-year period, including a terminal value, which represents the planning horizon used for management purposes, being aligned to the end of a RIIO regulatory period and is the period which is expected to be considered by a market participant in assessing the fair value.

No real growth in expenditure is assumed in projecting cash flows beyond the period covered by the most recent budgets/forecast, however, the impact of inflation is considered.

In assessing the carrying value of the groups tangible and intangible assets, we have sensitised our forecasts to factor in changes to key assumptions. No reasonably possible changes to inputs to the impairment test performed were identified as resulting in an impairment.

Based on the impairment testing performed, management believe that sufficient headroom exists between the fair value and the carrying value of the assets such that no impairment loss is required to be booked.

Notes to the Financial Statements (continued)

14. Investments

Company	**2023 £m**	**2022 £m**
Cost and net book value	**15.4**	15.4

Investments are stated at cost less any provisions for permanent diminution in value. Cost of investment relates wholly to the shareholding in the Company's direct subsidiary, Electricity North West Number 1 Company Limited.

Details of the investments as at 31 March 2022 and 2023, all of which were incorporated in the UK and have a principal place of business of the UK, are as follows.

Company	**Description of holding**	**Proportion held**	**Nature of business**
Subsidiary undertakings			
Electricity North West Number 1 Company Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Dormant

There have been no changes to these shareholdings during the year. The address of the registered office of the investments above is Borron Street, Stockport, Cheshire, SK1 2JD.

15. Inventories

Group and Company	**2023 £m**	2022 £m
Raw material and consumables	**22.4**	18.1

The cost of inventories recognised as an expense in the year was £4.1m.

Notes to the Financial Statements (continued)

16. Trade and other receivables

Group and Company	2023 £m	2022 £m
Trade receivables	**15.5**	7.8
Amounts owed by affiliated undertakings (Note 30)	**5.7**	4.8
Prepayments and accrued income	**76.6**	67.4
Total trade and other receivables	**97.8**	80.0

The average credit period taken on sales is 14 days (2022: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £4.1m (2022: £4.4m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

At 31 March 2023, £7.8m (2022: £9.1m) or 24% (2022: 59%) of the Group trade receivables are past due. A balance of £1.3m (2022: £2.2m) is less than 30 days past due, against which an allowance for doubtful debt of £nil (2022: £nil) has been made; a balance of £6.5m is greater than 30 days past due (2022: £6.9m), against which an allowance for doubtful debt of £4.1m (2022: £4.4m) has been made.

The movement on the provision for impairment of trade receivables is as follows:

Group and Company	2023 £m	2022 £m
At 1 April	**4.4**	2.5
Amounts written off in the year	**(0.4)**	(1.0)
Amounts recognised in the income statement	**0.1**	2.9
At 31 March	**4.1**	4.4

The Group is required by Ofgem to accept any company as a counterparty that has obtained a trading licence regardless of their credit status. To mitigate the risk this poses, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to.

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value (RAV) of the Company. In addition, the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level, under the contract, the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2023 £11.9m (2022: £3.4m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of RIIO-ED1 (1 April 2015 to 31 March 2023) and for the year ended 31 March 2023 is £2,481.8m (2022: £2,159m) based on the actual retail price index (RPI) for March.

At 31 March 2023, £186.6m (2022: £162.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £8.3m (2022: £7.6m). All customers granted credit of this level must have a credit rating of at least BBB+ from Standard and Poor's and Baa1 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Notes to the Financial Statements (continued)

17. Cash and cash equivalents and Money market deposits over 3 months

Group and Company	2023 £m	2022 £m
Cash in bank accounts	**12.1**	19.7
Cash in liquidity funds	**43.1**	39.6
Cash in short-term deposit accounts	**0.1**	0.1
Cash in short-term money market deposits under 3 months	**118.5**	-
Cash and cash equivalents	**173.8**	59.4
- Weighted average interest rate	**4.08%**	0.47%
- Weighted average maturity	**55.8 days**	32.0 days
Money market deposits over 3 months	**305.7**	-
- Weighted average interest rate	**4.46%**	-
- Weighted average maturity	**178.5 days**	-
Cash and cash equivalents and Money market deposits over 3 months	**479.5**	59.4

Cash and cash equivalents comprise cash at bank, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have an original maturity of three months or less, net of any bank overdrafts which are payable on demand. Money market deposits with initial terms to maturity in excess of three months are not included as cash or cash equivalents and are separately disclosed on the face of the Statement of Financial Position.

18. Trade and other payables

	Group 2023 £m	Company 2023 £m	Group 2022 £m	Company 2022 £m
Trade payables	**17.3**	**17.3**	13.4	13.4
Amounts owed to group undertakings (Note 30)	**8.7**	**8.7**	5.2	5.2
Amounts owed to subsidiary undertakings (Note 30)	**-**	**15.5**	-	15.5
Contract liabilities	**12.3**	**12.3**	9.0	9.0
Other taxation and social security	**15.9**	**15.9**	13.4	13.4
Refundable customer deposits	**11.9**	**11.9**	3.4	3.4
Accruals and deferred income	**86.2**	**86.4**	81.5	81.7
Total trade and other payables	**152.3**	**168.0**	125.9	141.6

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 19.5 days from receipt of invoice (2022: 20.2 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value. Refundable customer deposits are cash deposits held as a security in relation to distribution of electricity customers. Contract liabilities have increased during the year due to an increase in the work bank on diversions and disconnections projects which are typically paid in advance of the performance obligation being met.

Notes to the Financial Statements (continued)

19. Borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's financial risk management and exposure to credit risk, liquidity risk and market risk see Note 21.

Group and Company	2023 £m	2022 £m
Bank and other term borrowings	**221.7**	7.6
Lease liabilities (Note 20)	**1.6**	1.4
Amounts owed to parent undertaking (Note 30)	**-**	84.2
Borrowings due in less than one year	**223.3**	93.2
Bonds	**646.4**	632.5
Bank and other term borrowings	**72.8**	259.5
Lease liabilities (Note 20)	**2.5**	2.3
Amounts owed to parent undertaking (Note 30)	**96.5**	-
Amounts owed to group undertaking (Note 30)	**721.6**	298.6
Borrowings due in over one year	**1,539.8**	1,192.9
Total borrowings	**1,763.1**	1,286.1

Carrying value by category

The carrying values by category of financial instruments were as follows:

Group and Company	Nominal value £m	Interest rate	Maturity year	2023 Carrying value £m	2022 Carrying value £m
Borrowings measured at amortised cost:					
Bond	200.0	8.875%	2026	**198.6**	198.2
Bond	250.0	8.875%	2026	**269.6**	275.7
Index-linked bond	100.0	1.4746%+RPI	2046	**178.2**	158.6
Index-linked loan	135.0	1.5911%+RPI	2024	**213.0**	187.7
Index-linked loan	50.0	0.38% +RPI	2032	**38.9**	38.1
Index-linked loan	50.0	0%+RPI	2033	**42.7**	41.4
Revolving credit facility	50.0	Sonia+0.35%	2024	**(0.1)**	(0.1)
Lease liabilities (Note 20)	-	-	-	**4.1**	3.7
Amounts owed to parent undertaking	125.0	2.47%	2023	**-**	84.2
Amounts owed to parent undertaking	125.0	4.07%	2028	**96.5**	-
Amounts owed to group undertaking	300.0	1.415%	2030	**298.8**	298.6
Amounts owed to group undertaking	425.0	4.893%	2032	**422.8**	-
Total borrowings				**1,763.1**	1,286.1

Notes to the Financial Statements (continued)

19. Borrowings (continued)

The following table provides a reconciliation of the opening and closing debt amounts. Where applicable, interest on these debt amounts is included in accruals within current liabilities on the balance sheet and is, therefore, excluded from this table.

Group and Company	2023 £m	2022 £m
At 1 April	**1,286.1**	1,472.3
Proceeds from external borrowings	**37.0**	30.0
Repayments of external borrowings	**(45.3)**	(37.4)
Lease liabilities capital repayment	**(1.5)**	(1.2)
Lease liabilities interest repayment	**(0.2)**	(0.2)
Lease liabilities interest charged	**0.2**	-
Lease liabilities reclassified to provisions (Note 25)	**-**	(0.3)
New lease liabilities	**1.9**	0.8
Increase in inter-company loan from parent	**12.3**	2.0
Increase/(decrease) in inter-company loan from group company	**425.0**	(200.0)
Indexation (Note 9)	**55.2**	25.2
Transaction costs on new external borrowing	**(2.3)**	(0.1)
Amortisation of transaction costs, bond discounts and premiums	**(5.3)**	(5.0)
At 31 March	**1,763.1**	1,286.1

As at 31 March 2022 and 2023, all loans and borrowings are unsecured and are in sterling and there were no formal bank overdraft facilities in place. The fair values of the Group's financial instruments are shown in Note 21.

At 31 March 2023, the proceeds of borrowings of £37.0m relate to an existing revolving credit facility.

Committed borrowing facilities

At 31 March 2023, the Group and Company had £50.0m (2022: £50.0m) unutilised committed bank facilities, of which nil (2022: nil) expires within one year, £50.0m (2022: nil) expires after one year but less than two years.

Notes to the Financial Statements (continued)

20. Leases

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Right of use assets at net book value:				
Land and buildings	**1.9**	**1.9**	2.0	2.0
Telecoms	**0.1**	**0.1**	0.1	0.1
Vehicles	**2.0**	**2.0**	1.5	1.5
Total assets (Note 13)	**4.0**	**4.0**	3.6	3.6
Lease liabilities:				
Land and buildings	**(1.8)**	**(1.8)**	(1.9)	(1.9)
Telecoms	**(0.1)**	**(0.1)**	(0.1)	(0.1)
Vehicles	**(2.2)**	**(2.2)**	(1.7)	(1.7)
Total liabilities (Note 19)	**(4.1)**	**(4.1)**	(3.7)	(3.7)

The amount of short-term leases and low value assets as an expense in the year was £0.2m (2022: £nil).

The Company's leasing activities include land and buildings used for office space and substations, telecoms fibre-optic cables for technical equipment communications, and vehicles including trucks and cars for the use of employees.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the incremental borrowing rate is used. The lease liabilities have been discounted at 5% (2022: 5%) for land and buildings, and telecoms; and at 6% (2022: 6%) for vehicles.

The following is an analysis of the maturity profile of the lease liabilities.

Group and Company	**<1 year £m**	**1 – 2 years £m**	**2 – 3 years £m**	**3 – 4 years £m**	**>4 years £m**	**Total £m**
At 31 March 2023	**(1.6)**	**(1.2)**	**(0.3)**	**(0.2)**	**(0.8)**	**(4.1)**
At 31 March 2022	(1.4)	(0.9)	(0.4)	(0.2)	(0.8)	(3.7)

Notes to the Financial Statements (continued)

21. Financial instruments

The Group uses financial instruments to invest liquid asset balances, raise funding and manage the risks arising from its operations.

The principal risks to which the Group is exposed and which arise in the normal course of business include credit risk, liquidity risk and market risk, in particular interest rate risk and inflation risk.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. Derivative financial instruments are used to hedge interest rate risk and to change the basis of interest cash flows from fixed to either an alternative fixed profile or inflation-linked to match the revenue profile linked to RPI. The accounting policy for derivatives is provided in Note 2.

Categories of financial instruments

The following table lists the categories of financial instruments with the financial statements. Subsequent to initial recognition, all financial instruments are carried at amortised cost, with the exception of derivatives that are at FVTPL.

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Financial assets:				
Inter-company derivative asset	**312.3**	**312.3**	408.8	408.8
Derivative assets	**15.1**	**15.1**	-	-
Trade receivables (Note 16)	**15.5**	**15.5**	7.8	7.8
Amounts owed by group undertakings (Note 16)	**5.7**	**5.7**	4.8	4.8
Accrued Income (Note 16)	**55.9**	**55.9**	44.4	44.4
Cash and cash equivalents (Note 17)	**173.8**	**173.8**	59.4	59.4
Money market deposits > 3 months (Note 17)	**305.7**	**305.7**	-	-
Financial liabilities:				
Inter-company derivative liability	**(312.3)**	**(312.3)**	(408.8)	(408.8)
Derivative liabilities	**(441.3)**	**(441.3)**	(551.4)	(551.4)
Borrowings at amortised cost (Note 19)	**(1,763.1)**	**(1,763.1)**	(1,286.1)	(1,286.1)
Trade payables (Note 18)	**(17.3)**	**(17.3)**	(13.4)	(13.4)
Accruals (Note 18)	**(80.4)**	**(80.4)**	(73.0)	(73.0)
Amounts owed to group undertakings (Note 18)	**(8.7)**	**(8.7)**	(5.2)	(5.2)
Refundable customer deposits (Note 18)	**(11.9)**	**(11.9)**	(3.4)	(3.4)

Control over financial instruments

The Group has a formal risk management structure, which includes the use of risk limits, reporting and monitoring requirements, mandates, and other control procedures. It is the responsibility of the Board to set and approve the risk management procedures and controls.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Risk management

All activities of the Group involve analysis, acceptance and management of some degree of risk or combination of risks. The most significant types of financial risk are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation and equity and commodity price risks.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits by means of reliable and up-to-date systems. The risk management policies and systems are amended to reflect changes in market conditions and the associated levels of risk, as appropriate. The processes for managing risk and the methods used to measure risk have not changed since the prior year.

The Audit Committee is responsible for independently overseeing the risk management activities of the Group and the Group treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Audit Committee.

Credit risk

The Group takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade receivables and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk.

Trade receivables

Credit risk in relation to trade receivables is considered to be relatively low, with each customer being contractually required to provide collateral in the form of a cash deposit, subject to the amounts due and their credit rating. Whilst the loss of a principal customer could have a significant impact on the Group, the exposure to such credit losses is mitigated by the protection the regulator provides to cover such losses. Nonetheless, credit management processes are in place and the credit worthiness of each customer is closely monitored.

At 31 March 2023 there were £7.8m receivables past due (2022: £9.1m) against which allowances for doubtful debts of £4.1m were made (2022: £4.4m).

Treasury activities

Treasury activities of the Group that result in the recognition of financial assets include the investment of surplus cash and derivative assets. The Group is potentially exposed to significant credit loss in the event of non-performance by a treasury counterparty, however, there are policies in place to control the risk. Minimum credit ratings are specified for counterparties that can be transacted with and individual exposure limits are in place to reduce the concentration of risk and total exposure to any one counterparty. Management does not anticipate any counterparty will fail to meet its obligations.

At 31 March 2022 and 2023, none of the Group's treasury balances were either past due or impaired, and no terms had been re-negotiated with any counterparty.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The table below provides an analysis of the ratings of the counterparties with which the Group holds cash, cash equivalents, money market deposits and derivative asset positions:

Group and Company	2023 £m	2023 %	2022 £m	2022 %
AAA	**43.1**	**8.7**	39.6	64.7
A+	**122.0**	**24.6**	21.5	35.2
A	**330.1**	**66.7**	0.1	0.1
	495.2	**100.0**	61.2	100.0

Exposure to credit risk

The table below shows the maximum exposure to credit risk, represented by the carrying value of each financial asset in the statement of financial position. For trade receivables, the value is net of any collateral held in cash deposits (see Note 16 for further details).

Group and Company	2023 £m	2022 £m
Inter-company derivative asset	**312.3**	408.8
Derivative assets	**15.1**	-
Trade receivables (Note 16)	**15.5**	7.8
Amounts owed by group undertakings (Note 16)	**5.7**	4.8
Cash and cash equivalents (Note 17)	**173.8**	59.4
Money market deposits > 3 months(Note 17)	**305.7**	-
Balance at 31 March	**828.1**	480.8

Liquidity risk

Liquidity risk is the risk that the Group will have insufficient funds to meet the obligations and commitments resulting from its business operations and financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are able to be met when due. This is achieved through maintaining a prudent level of liquid assets and arranging funding facilities well in advance of need.

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which project cash flows out 25 years ahead, to the end of the Regulatory Period ending 31 March 2048. A medium-term view is provided by the Group business plan covering the period to the end of the following financial year, which is updated and approved annually by the Board. The Board has approved a liquidity framework within which the business operates, including the maintenance of a minimum of 18 months liquidity.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Available liquidity at 31 March was as follows:

Group and Company	2023 £m	2022 £m
Cash and cash equivalents (Note 17)	**173.8**	59.4
Money market deposits > 3 months (Note 17)	**305.7**	-
Committed undrawn bank facilities (Note 19)	**50.0**	50.0
Balance at 31 March	**529.5**	109.4

Cash and cash equivalents comprise cash at bank, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have an original maturity of less than three months, net of any unpresented cheques. Money market deposits comprise deposits with an original maturity of greater than three months, but less than twelve months, the term of which is set with consideration of forecast liabilities ensuring this liquidity is available to meet obligations as they fall due. There was no formal bank overdraft facility in place during the year (2022: none).

At 31 March 2023, the Group and Company had committed undrawn bank facilities of £50.0m (2022: £50.0m), including nil (2022: nil) expiring within one year, £50.0m (2022: nil) expiring after one year but less than two years and nil (2022:£50.0m) expiring in more than two years.

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cash flows within particular time periods. The Group uses economic hedges to ensure that certain cash flows can be matched.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following is an analysis of the maturity profile of contractual cash flows of financial liabilities, including principal and interest payable under financial liabilities and derivative financial instruments, on an undiscounted basis, using prevailing interest and inflation rates at the reporting date. Derivative cash flows include those on both derivative assets and derivative liabilities and have been shown net; all other cash flows are shown gross.

Group and Company	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
At 31 March 2023						
Trade payables	**(17.3)**	**-**	**-**	**-**	**-**	**(17.3)**
Refundable customer deposits	**(11.9)**	**-**	**-**	**-**	**-**	**(11.9)**
Leases (Note 20)	**(1.6)**	**(1.2)**	**(0.3)**	**(0.2)**	**(0.8)**	**(4.1)**
Amounts owed to parent undertaking	**(3.0)**	**(3.9)**	**(3.9)**	**(3.9)**	**(101.5)**	**(116.2)**
Amounts owed to group companies	**(21.6)**	**(25.0)**	**(25.0)**	**(25.0)**	**(866.8)**	**(963.4)**
Bonds	**(42.7)**	**(42.7)**	**(492.7)**	**(2.8)**	**(243.7)**	**(824.6)**
Borrowings and overdrafts	**(227.7)**	**(8.8)**	**(8.8)**	**(8.8)**	**(48.0)**	**(302.1)**
Derivative financial instruments	**(123.4)**	**0.6**	**0.6**	**(3.9)**	**(360.3)**	**(486.4)**
Total contractual cash flows	**(449.2)**	**(81.0)**	**(530.1)**	**(44.6)**	**(1,621.1)**	**(2,726.0)**
At 31 March 2022						
Trade payables	(13.4)	-	-	-	-	(13.4)
Refundable customer deposits	(3.4)	-	-	-	-	(3.4)
Leases (Note 20)	(1.4)	(0.9)	(0.4)	(0.2)	(0.8)	(3.7)
Amounts owed to parent undertaking	(86.9)	-	-	-	-	(86.9)
Amounts owed to group companies	(4.2)	(4.2)	(4.2)	(4.2)	(321.2)	(338.0)
Bonds	(42.3)	(42.4)	(42.4)	(492.4)	(216.5)	(836.0)
Borrowings and overdrafts	(10.8)	(200.0)	(7.8)	(7.7)	(49.9)	(276.2)
Derivative financial instruments	(23.1)	(67.0)	(12.0)	(12.0)	(363.3)	(477.4)
Total contractual cash flows	(185.5)	(314.5)	(66.8)	(516.5)	(951.7)	(2,035.0)

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk; the Group has no significant foreign exchange, equity or commodity exposure.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Treasurer under delegated authority from the Board.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

Interest rate risk

Interest rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's derivatives are exposed to a risk of change in their fair value due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk due to their short-term nature.

The Group uses derivative financial instruments to change the basis of fixed rate interest to an inflation-linked profile to more accurately match the revenue profile. The cash flows exchanged under the derivatives are calculated by reference to a notional principal amount. The notional principal reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

Sensitivity analysis on interest

The sensitivity figures are calculated based on a downward parallel shift across the curve of 0.5% and upward parallel shifts of 0.5% and 1%, a range in outcomes that management deem reasonably possible within the next financial year.

The following table shows the amount by which the fair value of items recorded on the statement of financial position at fair value would be adjusted for a given interest rate movement. As fair value movements are taken to the income statement, there would be a corresponding adjustment to profit; figures in brackets represent a reduction to profit.

			2023			2022
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in fair value	**£m**	**£m**	**£m**	£m	£m	£m
Inter-company derivative asset	**23.9**	**(22.5)**	**(43.6)**	31.5	(33.6)	(57.0)
Inter-company derivative liability	**(23.9)**	**22.5**	**43.6**	(31.5)	33.6	57.0
Inflation-linked swaps	**(39.1)**	**36.2**	**69.7**	(54.3)	47.9	97.3
Interest rate swaps*	**5.7**	**(5.6)**	**(11.0)**	6.9	(4.7)	(14.6)
Total finance expense impact	**(33.4)**	**30.6**	**58.7**	(47.4)	43.2	82.7

*The amounts as at 31 March 2022 have been changed to correct an error in prior year account. The prior year amounts were -£17.2m for -0.5%, -£28.8m for +0.5% and -£38.7m for +1%.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following table shows the amount by which the interest charge in the income statement would have differed if interest rates over the course of the year had differed from actual rates; figures in brackets represent a reduction to profit.

			2023			2022
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in interest charge	**£m**	**£m**	**£m**	£m	£m	£m
Inter-company derivative asset	**1.0**	**(1.0)**	**(2.0)**	0.5	(0.5)	(1.0)
Inter-company derivative liability	**(1.0)**	**1.0**	**2.0**	(0.5)	0.5	1.0
Inflation-linked swaps	**(1.0)**	**1.0**	**2.0**	(0.5)	0.5	1.0
Interest rate swaps	**1.0**	**(1.0)**	**(2.0)**	0.5	(0.5)	(1.0)
Floating rate borrowings	**0.1**	**(0.1)**	**(0.1)**	-	-	(0.1)
Total finance expense impact	**0.1**	**(0.1)**	**(0.1)**	-	-	(0.1)

Although the above measures provide an indication of the Group's exposure to market risk, such measures are limited due to the long-term nature of many of the financial instruments and the uncertainty over future market rates.

Inflation risk

Inflation rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market inflation rates. The Group's inflation-linked borrowings and derivatives are exposed to a risk of change in cash flows due to changes in inflation rates. The Group's index-linked derivatives are exposed to a risk of change in their fair value due to changes in inflation rates.

Sensitivity analysis on inflation

The sensitivity figures are calculated based on a downward parallel shift across the curve of 0.5% and upward parallel shifts of 0.5% and 1%, a range in outcomes that management deem reasonably possible within the next financial year.

The following table shows the amount by which the fair value of items recorded in the statement of financial position at fair value would be adjusted for a given inflation rate movement. As fair value movements are taken to the income statement, there would be a corresponding adjustment to profit; figures in brackets represent a reduction to profit.

			2023			2022
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in fair value	**£m**	**£m**	**£m**	£m	£m	£m
Inter-company derivative asset	**(31.0)**	**33.8**	**65.6**	(35.9)	40.3	82.4
Inter-company derivative liability	**31.0**	**(33.8)**	**(65.6)**	35.9	(40.3)	(82.4)
Inflation-linked swaps	**51.3**	**(51.6)**	**(115.2)**	66.2	(69.6)	(144.8)
Total finance expense impact	**51.3**	**(51.6)**	**(115.2)**	66.2	(69.6)	(144.8)

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following table shows the amount by which the interest charge, including indexation of the index-linked debt, in the income statement would have differed if inflation rates over the course of the year had differed from the actual rates; figures in brackets represent a reduction to profit. The change in indexation would have a corresponding impact on the carrying value of the inflation-linked debt in the statement of financial position.

			2023			2022
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in interest charge	**£m**	**£m**	**£m**	£m	£m	£m
Inflation-linked borrowings – indexation charge	**2.4**	**(2.4)**	**(4.7)**	2.1	(2.1)	(4.3)
Inflation-linked borrowings – interest charge	**-**	**-**	**(0.1)**	-	-	(0.1)
Inter-company derivative asset – interest charge	**(0.1)**	**0.1**	**0.1**	(0.1)	0.1	0.2
Inter-company derivative liability – interest charge	**0.1**	**(0.1)**	**(0.1)**	0.1	(0.1)	(0.2)
Inflation-linked swaps – interest charge	**0.1**	**(0.1)**	**(0.1)**	0.1	(0.1)	(0.2)
Total finance expense impact	**2.5**	**(2.5)**	**(4.9)**	2.2	(2.2)	(4.6)

Capital risk management

The capital structure of the Group consists of net debt, comprised of borrowings net of cash, and equity, comprised of share capital and reserves.

The Group is subject to externally imposed capital requirements, by both Ofgem and financial lenders and investors. These capital requirements include gearing levels, being the ratio of net debt to the regulatory asset value (RAV). The forecast gearing position is closely monitored by the Board against the external capital requirements (see page 30).

The RAV (2012/13 prices) is taken from the most recent Price Control Financial Model (PCFM) published by Ofgem on its website and is calculated in accordance with the RIIO-ED1 methodology (1 April 2015 to 31 March 2023). For the year ended 31 March 2023, the RAV is £2,481.8m (2022: £2,159m) and has been indexed using the RPI for March 2023.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance (see the dividend policy page 32), with regard to the externally imposed capital requirements.

Change in liabilities arising from financing activities

The table below shows changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities. Where applicable, interest on these financial instruments is included in operating activities in the cash flow statement and accruals within current liabilities on the balance sheet and is, therefore, excluded from this table. Fair value movements on derivatives exclude accretion payments on the index-linked derivatives of £20m made in the period and included in operating activities in the cashflow statement.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Group and Company	At 1 April 2022 £m	Financing cash flows £m	Non-cash changes: Fair value movement (Note 9) £m	Non-cash changes: Indexation (Note 9) £m	Non-cash changes: Other changes £m	At 31 March 2023 £m
Bonds (Note 19)	632.5	-	-	**19.5**	**(5.6)**	**646.4**
Bank borrowings (Note 19)	267.1	**(8.3)**	-	**35.7**	-	**294.5**
Lease liabilities (Note 19 & 20)	3.7	**(1.5)**	-	-	**1.9**	**4.1**
Amounts owed to parent (Note 19)	84.2	**12.3**	-	-	-	**96.5**
Amount owed to group (Note 19)	298.6	**425.0**	-	-	**(2.0)**	**721.6**
Inter-company derivative liability	408.8	-	**(96.5)**	-	-	**312.3**
Derivative liabilities	551.4	-	**(110.1)**	-	-	**441.3**
	2,246.3	**427.5**	**(206.6)**	**55.2**	**(5.7)**	**2,516.7**

Group and Company	At 1 April 2021 £m	Financing cash flows £m	Non-cash changes: Fair value movement (Note 9) £m	Non-cash changes: Indexation (Note 9) £m	Non-cash changes: Other changes £m	At 31 March 2022 £m
Bonds (Note 19)	631.9	-	-	5.9	(5.3)	632.5
Bank borrowings (Note 19)	255.3	(7.4)	-	19.3	(0.1)	267.1
Lease liabilities (Note 19 & 20)	4.6	(1.4)	-	-	0.5	3.7
Amounts owed to parent (Note 19)	82.2	2.0	-	-	-	84.2
Amount owed to group (Note 19)	498.3	(200.0)	-	-	0.3	298.6
Inter-company derivative liability	366.7	-	42.1	-	-	408.8
Derivative liabilities	475.8	-	75.6	-	-	551.4
	2,314.8	(206.8)	117.7	25.2	(4.6)	2,246.3

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments to change fixed rate interest to an inflation-linked profile to more accurately match the revenue profile. The table below summarises the various external derivatives held by the Group at 31 March 2023; each category includes multiple instruments and the rates stated are the aggregate rate for that category. The table excludes the inter-company derivative asset and the inter-company derivative liability as the cash flows on these instruments net to nil.

Notional	Number	Type	Maturity	Pay Leg	Receive Leg	Accretion
£200m	14	Index-linked	2038	3.56% + RPI, semi-annual	6m Sonia, semi-annual	5-yearly, next due July 2027 7-yearly, next due July 2023
£100m[1]	4	Index-linked	2050	1.51%+RPI, semi-annual	8.875%, annual	10-yearly, next due Sept 2030
£200m	1	Fix/ float	2030	6m Sonia, semi-annual	0.283%, Semi-annual	None

[1]8.875% up to and including the 26 March 2026 settlement date, then changes to 6m Sonia for the remaining term of the instruments.

The Company also has two inter-company swaps with ENW Finance plc. The first is a back-to-back swap, mirroring in aggregate the terms of the £200m 2038 notional external index-linked swaps noted above. The second is a mirror of that back-to-back swap, the terms of which are defined in an inter-company loan agreement between the two entities, creating an embedded derivative that is bifurcated from the host contract and recorded as a separate instrument in the Company.

Whilst all derivatives are net-settled, no balances meet the offsetting criteria in IAS 32:42 and all are, therefore, shown gross.

The Group has two one-way credit support annexes ("CSAs") in place that define the terms for the provision of cash collateral by the counterparty; under the CSAs, no cash collateral is required to be provided by the Group. At 31 March 2022 and 2023, no cash collateral was held in relation to any of the derivative instruments. The cash collateral would not meet the offsetting criteria in IAS 32:42, but it would be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with the CSAs.

The Group and Company does not use derivative financial instruments for speculative purposes.

At 31 March 2022 and 2023, the Group and Company's derivatives are not designated in formal hedge accounting relationships, and instead are measured at fair value through profit or loss.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group and Company's financial instruments by category as at the statement of financial position date. Cash and cash equivalents, money market deposits, trade and other receivables and trade and other payables are excluded as the book values approximate to the fair values due to their short-term nature.

Group and Company	2023 Carrying value £m	2023 Fair value £m	2022 Carrying value £m	2022 Fair value £m
Financial assets:				
Inter-company derivative assets	**312.3**	**312.3**	408.8	408.8
Derivative assets	**15.1**	**15.1**	-	-
Financial liabilities:				
External borrowings at amortised cost (Note 19)	**(945.0)**	**(953.9)**	(903.3)	(1,080.2)
Amounts due to parent undertaking (Note 19)	**(96.5)**	**(93.8)**	(84.2)	(84.2)
Amounts due to group companies (Note 19)	**(721.6)**	**(654.0)**	(298.6)	(271.3)
Inter-company derivative liability	**(312.3)**	**(312.3)**	(408.8)	(408.8)
Derivative liabilities	**(441.3)**	**(441.3)**	(551.4)	(551.4)

Fair value measurements recognised in the Statement of Financial Position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy above).

Where market values are not available, fair values have been calculated by discounting future cash flows at prevailing interest and RPI rates sourced from market data (Level 2 inputs). In accordance with IFRS 13, an adjustment for non-performance risk has then been made to give the fair value.

The non-performance risk has been quantified by calculating either a credit valuation adjustment (CVA) based on the credit risk profile of the counterparty, or a debit valuation adjustment (DVA) based on the credit risk profile of the relevant group entity, using market-available data.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Whilst the majority of inputs to the CVA and DVA calculations meet the criteria for Level 2 inputs, certain inputs regarding the Group's credit risk are deemed to be Level 3 inputs, due to the lack of market-available data. The credit risk profile of the Group has been built using the few market-available data points, e.g., credit spreads on the listed bonds, and then extrapolated over the term of the derivatives. It is this extrapolation that is deemed to be Level 3. All other inputs to both the underlying valuation and the CVA and DVA calculations are Level 2 inputs.

For certain derivatives, the Level 3 inputs form an insignificant part of the fair value and, therefore, these derivatives are disclosed as Level 2. Otherwise, the derivatives are disclosed as Level 3.

At 31 March 2023, the adjustment for non-performance risk was £87.3m (2022: £121.2m), of which £87.1m (2022: £120.3m) was classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value loss. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. The difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised is £47.4m (2022: £49.7m). The movement in the year all relates to the straight-line release to profit or loss.

The following table provides an analysis of the component parts of the fair values of the derivative assets and derivative liabilities. The movement in the fair values was largely due to fair value movements. No additional swaps were entered during the year, and no swaps were closed out during the year.

Group and Company	**2023 £m**	2022 £m
FV of derivatives pre IFRS 13 adjustment	**377.8**	487.3
CVA/DVA adjustment	**(45.0)**	(56.7)
Day 1 adjustment	**(20.5)**	(21.8)
IFRS 13 FV of inter-company derivative asset	**312.3**	408.8
FV of derivatives pre IFRS 13 adjustment	**(377.8)**	(487.3)
CVA/DVA adjustment	**45.0**	56.7
Day 1 adjustment	**20.5**	21.8
IFRS 13 FV of inter-company derivative liability	**(312.3)**	(408.8)
FV of derivatives pre IFRS 13 adjustment	**15.5**	-
CVA/DVA adjustment	**(1.3)**	-
Day 1 adjustment	**0.9**	-
IFRS 13 FV of derivative assets	**15.1**	-
FV of derivatives pre IFRS 13 adjustment	**(576.4)**	(722.2)
CVA/DVA adjustment	**88.6**	121.1
Day 1 adjustment	**46.5**	49.7
IFRS 13 FV of derivative liabilities	**(441.3)**	(551.4)

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Each category includes multiple instruments.

Group and Company	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 March 2023				
Inter-company derivative asset	**-**	**-**	**312.3**	**312.3**
Inter-company derivative liability	**-**	**-**	**(312.3)**	**(312.3)**
Derivative assets				
-£300m notional inflation-linked swaps	**-**	**3.5**	**11.6**	**15.1**
	-	**3.5**	**11.6**	**15.1**
Derivative liabilities				
-£300m notional inflation-linked swaps	**-**	**(15.9)**	**(379.7)**	**(395.6)**
-£200m notional interest rate swaps	**-**	**(45.7)**	**-**	**(45.7)**
	-	**(61.6)**	**(379.7)**	**(441.3)**
Total	**-**	**(58.1)**	**(368.1)**	**(426.2)**
At 31 March 2022				
Inter-company derivative asset	-	-	408.8	408.8
Inter-company derivative liability	-	-	(408.8)	(408.8)
Derivative assets				
-£300m notional inflation-linked swaps	-	-	-	-
	-	-	-	-
Derivative liabilities	-			
-£300m notional inflation-linked swaps	-	(10.2)	(517.1)	(527.3)
-£200m notional interest rate swaps	-	(24.1)	-	(24.1)
	-	(34.3)	(517.1)	(551.4)
Total	-	(34.3)	(517.1)	(551.4)

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following table provides a reconciliation of the fair value amounts disclosed as Level 3.

Group and Company	**2023 £m**	2022 £m
At 1 April	**(517.1)**	(415.0)
Transfers into Level 3 from Level 2	**(7.7)**	(35.6)
Transfers from Level 3 into Level 2	**46.5**	5.1
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	**14.5**	5.5
- On instruments carried forward in Level 3	**95.7**	(77.1)
At 31 March	**(368.1)**	(517.1)

The following table shows the sensitivity of the fair values of derivatives disclosed as Level 3 to the Level 3 inputs, determined by applying a 10bps shift to the credit curve used to calculate the DVA.

Group and Company	**2023 -10bps £m**	**2023 +10bps £m**	2022 -10bps £m	2022 +10bps £m
Inflation-linked swaps	**(3.8)**	**3.7**	(5.9)	5.6

Fair value measurements disclosed but not recognised in the Statement of Financial Position

Group and Company	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 March 2023				
External borrowings at amortised cost	**(658.9)**	**-**	**(295.0)**	**(953.9)**
Amounts due to parent undertaking	**-**	**-**	**(93.8)**	**(93.8)**
Amounts due to group companies	**(654.0)**	**-**	**-**	**(654.0)**
At 31 March 2022				
External borrowings at amortised cost	(1,080.2)	-	-	(1,080.2)
Amounts due to parent undertaking	-	-	(84.2)	(84.2)
Amounts due to group companies	(271.3)	-	-	(271.3)

Notes to the Financial Statements (continued)

22. Retirement benefit schemes

Group and Company

Nature of Scheme

The Group's retirement benefit arrangement is the Electricity North West Group of the ESPS ("the Scheme") and forms part of the Electricity Supply Pension Scheme (ESPS). The Scheme contains both a defined benefit section and a defined contribution section. The defined benefit section of the Scheme closed to new entrants on 1 September 2006, with new employees of the Group subsequently provided with access to the defined contribution section.

The defined benefit section is a UK funded final salary arrangement providing pensions and lump sums to members and dependants. The defined benefit section is a separate fund that is legally separated from the entity. The Trustee board of the Scheme is composed of representatives from both the employer and members of the Scheme. Under the Pensions Act 2004 at least one third of the Trustee Board must be member nominated and the Trustee Board has made the necessary arrangements to fulfil this obligation. The Trustee Board of the Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e., active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme.

During the year the Group made contributions of £28.2m (2022: £28.1m) to the defined benefit section of the Scheme. This includes £20.0m (2022: £19.4m) of deficit contributions. The Group estimates that contributions for the year ending 31 March 2024 will amount to around £9.4m, in line with the latest actuarial valuation that no further deficit contributions are due beyond 31 March 2023. The total defined benefit pension expense for the year was £13.4m (2022: £9.9m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2023 contributions of £2.4m (2022: £2.5m) relating to the current year had not been paid over to the defined benefit Scheme.

Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent triennial funding valuation of the scheme was carried out as at 31 March 2022 and identified a shortfall of £19.4m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2023 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions in the period to 31 March 2023; no further additional contributions are required after 31 March 2023 until at least the next triennial valuation.

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Funding the liabilities

The current year defined benefit obligation has been calculated based on the results of the 31 March 2022 triennial funding valuation, prior year calculations were based on the results of the 31 March 2019 triennial funding valuation. The results of the 2022 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 *'Employee Benefits'* in order to assess the position as at 31 March 2023 for the purpose of these financial statements. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension surplus under IAS 19 (revised 2011) of £42.6m is included in the statement of financial position at 31 March 2023 (2022: surplus of £18.4m).

The duration of the scheme based on the results of the 31 March 2022 triennial funding valuation (2022: 31 March 2019 triennial funding valuation) is approximately 16 years (2022: 18 years). As at the current reporting date the scheme actuary estimates that the duration based on the 31 March 2022 triennial has since fallen to approximately 13 years (2022: 18 years (based on 2019 data)), this has been used in the calculations as at 31 March 2023.

Investment risks

The Scheme has an investment strategy to aim to match pensioner and other liabilities with lower risk cash flow investments and to invest liabilities in respect of active members into return seeking assets. As active members retire, then a switch of investments would be carried out.

The Company recognises that the interests of customers, who ultimately fund pension costs, should be given full recognition in determining the investment strategy. The Company works in collaboration with the Scheme Trustee to ensure these interests are considered alongside those of the members of the pension scheme.

Other risks

In addition to investment risk, the Scheme exposes the Group to other risks, such as longevity risk, inflation risk and interest rate risk. As the Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

These risks are managed through de-risking and hedging strategies and are measured and reported at Board level. In particular, in October 2019 the Scheme completed a pensioner buy-in with Scottish Widows for around 80% of the Scheme's then pensioner liabilities. This buy-in asset now represents 49.1% of the total Scheme assets as at 31 March 2023 (2022: 47.3%). This had the effect of removing longevity and investment risks in respect of the liabilities for this part of the membership.

Winding up

Although currently there are no plans to do so, the Scheme could be wound up in which case the benefits would have to be bought out with an insurance company. The cost of buying-out benefits would be significantly more than the defined benefit obligation calculated in accordance with IAS 19 (revised 2011).

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Defined Contribution arrangements

All assets within the defined contribution section of the Scheme are held independently from the Group.

The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2023 was £8.5m (2022: £6.7m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2023 contributions of £nil (2022: £nil) due in respect of the current year had not been paid over to the defined contribution Scheme.

Defined Benefits employee benefits

The reconciliation of the opening and closing statement of financial position is as follows:

Group and Company	**2023 £m**	2022 £m
At 1 April	**18.4**	(68.6)
Expense recognised in the income statement	**(13.4)**	(9.9)
Contributions paid	**28.2**	28.1
Total re-measurement included in other comprehensive income	**9.4**	68.8
At 31 March	**42.6**	18.4

The balance recognised in the statement of financial position is as follows:

Group and Company	**2023 £m**	2022 £m
Present value of defined benefit obligations	**(873.7)**	(1,259.3)
Fair value of plan assets	**916.3**	1,277.7
Net surplus arising from defined benefit obligation	**42.6**	18.4

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Movements in the fair value of the defined benefit obligations are as follows:

Group and Company	2023 £m	2022 £m
At 1 April	**1,259.3**	1,434.9
Current service cost	**13.5**	15.7
Interest expense	**32.2**	27.9
Member contributions	**1.2**	1.4
Past service credit	**-**	(8.4)
Re-measurement:		
Effect of changes in demographic assumptions	**(12.3)**	(73.1)
Effect of changes in financial assumptions	**(357.1)**	(50.5)
Effect of experience adjustments	**24.9**	(10.2)
Benefits paid	**(88.0)**	(78.4)
At 31 March	**873.7**	1,259.3

Movements in the fair value of the Pension Scheme assets were as follows:

Group and Company	2023 £m	2022 £m
At 1 April	**1,277.7**	1,366.3
Interest income	**33.1**	26.8
Return on plan assets (net of interest income)	**(335.1)**	(65.0)
Employer contributions	**28.2**	28.1
Member contributions	**1.2**	1.4
Benefits paid	**(88.0)**	(78.4)
Administration expenses	**(0.8)**	(1.5)
At 31 March	**916.3**	1,277.7

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

The net pension expense before taxation recognised in the income statement, before capitalisation, in respect of the Scheme is summarised as follows:

Group and Company	2023 £m	2022 £m
Current service cost	**(13.5)**	(15.7)
Past service credit	**-**	8.4
Interest income on plan assets	**33.1**	26.8
Interest expense on Scheme obligations	**(32.2)**	(27.9)
Administration expenses	**(0.8)**	(1.5)
Net pension expense before taxation	**(13.4)**	(9.9)

The above amounts are recognised in arriving at operating profit except for the interest on Scheme assets and interest on Scheme obligations which have been recognised within finance expense (Note 9).

The amount recognised in other comprehensive income is as follows:

Group and Company	2023 £m	2022 £m
Return on scheme assets excluding interest income	**(335.1)**	(65.0)
Actuarial gain arising from changes in demographic assumptions	**12.3**	73.1
Actuarial gain arising from changes in financial assumptions	**357.1**	50.5
Experience (loss)/gain on liabilities	**(24.9)**	10.2
Total gain recognised in other comprehensive income	**9.4**	68.8

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

The main financial assumptions used by the actuary (in determining the surplus) were as follows:

Group and Company	2023 %	2022 %
Discount rate	**4.75**	2.65
Pensionable salary increases	**3.45**	3.80
Pension increases (RPI)	**3.05**	3.65
Price inflation (RPI)	**3.45**	3.80
Price inflation (CPI)	**2.95**	3.30

The mortality rates utilised in the valuation are based on the standard actuarial tables S3PA_M (SAPS3 combined amounts MIDDLE) (2022: S2PA) tables with a scaling of 109% for male pensioners (2022: 110%), 107% for female pensioners (2022: 105%), 109% for male non-pensioners/future pensioners (2022: 110%) and 107% for female non-pensioners/future pensioners (2022: 105%). These scaling factors allow for differences in expected mortality between the Scheme population and the population used in the standard tables. A long-term improvement rate of 1.25% p.a. is assumed within the underlying CMI 2021 model (2022: 1.25% CMI 2021 model).

The current life expectancies underlying the value of the accrued liabilities for the Scheme are:

Group and Company Life expectancy	2023 Years	2022 Years
Male member - current age 45	**26.4**	26.6
Male member - current age 60	**25.2**	25.6
Female member - current age 45	**29.4**	29.4
Female member - current age 60	**28.2**	28.2

The following table presents a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. The sensitivity analysis is for illustrative purposes and it is of note that while the sensitivities below are based on isolated movements, in reality some assumptions are interlinked and a movement in one may result in movements in others (e.g., inflation-based assumptions).

Group and Company Increase in Defined Benefit Obligation	2023 £m	2022 £m
Discount rate: decrease by 25 basis points	**27.9**	48.3
Price inflation: increase by 25 basis points	**14.1**	27.7
Life expectancy: increase longevity by 1 year	**35.4**	57.2

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

As at 31 March 2023, the fair value of the Scheme's assets and liabilities recognised in the statement of financial position were as follows:

Group and Company

At 31 March	Scheme assets 2023 %	Quoted 2023 £m	Unquoted 2023 £m	Total Value 2023 £m	Scheme assets 2022 %	Quoted 2022 £m	Unquoted 2022 £m	Total Value 2022 £m
Cash	**0.8**	**6.9**	**-**	**6.9**	3.6	45.7	-	45.7
Equity instruments	**-**	**-**	**-**	**-**	4.3	54.8	-	54.8
Debt instruments	**29.0**	**155.3**	**110.8**	**266.1**	33.3	337.7	88.2	425.9
Real estate	**12.2**	**-**	**111.9**	**111.9**	11.1	-	141.6	141.6
Distressed debt	**0.7**	**-**	**6.2**	**6.2**	0.4	-	5.1	5.1
Infrastructure Equity	**8.2**	**-**	**75.0**	**75.0**				
Pensioner buy-in	**49.1**	**-**	**450.2**	**450.2**	47.3	-	604.6	604.6
Fair value of assets	**100.0**	**162.2**	**754.1**	**916.3**	100.0	438.2	839.5	1,277.7
Present value of liabilities				**(873.7)**				(1,259.3)
Net retirement benefit surplus				**42.6**				18.4

The fair values of the assets set out above are as per the quoted market prices in active markets.

23. Customer Contributions

Customer contributions are amounts received from a customer in respect of the provision of a new connection to the network. Customer contributions are amortised through the Income Statement over the expected lifetime of the relevant asset.

Group and Company	**2023 £m**	2022 £m
At 1 April*	**724.7**	692.4
Additions during the year	**60.6**	51.8
Amortised through revenue (Note 4 & 31)	**(20.2)**	(19.5)
At 31 March	**765.1**	724.7
Split:		
Amounts due in less than one year (see Note 18)	**76.6**	38.3
Amounts due after more than one year	**688.5**	686.5
At 31 March	**765.1**	724.8

* Customer contribution balance as at 31 March 2022 has been updated by £0.1m due to prior year casting

Of the revenue recognised in the year, £20.2m (2022: £19.5m) was included in the contract liability at the beginning of the year.

Notes to the Financial Statements (continued)

23. Customer Contributions (continued)

Refundable customer contributions are those customer contributions which may be partly refundable, dependent on contractual obligations

Group and Company	**2023 £m**	2022 £m
Refundable customer contribution	**82.0**	60.3
Non-refundable customer contribution	**683.2**	664.5
At 31 March	**765.2**	724.8

24. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and Company, and the movements thereon, during the current and prior years.

Group and Company	**Accelerated tax depreciation £m**	**Retirement benefit obligations £m**	**Other £m**	**Total £m**
At 1 April 2021	219.2	(13.3)	(70.1)	135.8
Charged/(credited) to income statement (Note 10)	69.8	13.3	(36.5)	46.6
Deferred tax on re-measurement of defined benefit pension scheme	-	17.2	-	17.2
Adjustment due to change in future tax rates brought forward deferred tax in OCI	-	(12.9)	-	(12.9)
At 31 March 2022	289.0	4.3	(106.6)	186.7
Charged/(credited) to income statement (Note 10)	**6.1**	**3.7**	**38.5**	**48.3**
Deferred tax on re-measurement of defined benefit pension scheme	**-**	**2.3**	**-**	**2.3**
At 31 March 2023	**295.1**	**10.3**	**(68.1)**	**237.3**

There are no significant unrecognised deferred tax assets or liabilities for either the Group or Company in either the current or prior year.

Other timing differences relates primarily to derivative instruments, but also includes general provision, pension contributions not paid, rollover relief, IFRS9 and IFRS16 transitional adjustments.

The tax charge in future periods will be affected by the announcement on 3 March 2021 that the corporation tax rate will be increased to 25% from 1 April 2023. This was substantively enacted on 24 May 2021.

Deferred tax is calculated using the rate at which it is expected to reverse. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 25% (2022: 25%) rate.

Notes to the Financial Statements (continued)

25. Provisions

Group and Company	2023 £m	2022 £m
At 1 April	**1.6**	1.7
Amounts released to the income statement (Note 5)	**(0.4)**	(0.2)
Lease liabilities under IFRS 16 reclassified as provision	**-**	0.3
Utilisation of provision	**(0.2)**	(0.2)
At 31 March	**1.0**	1.6

Group and Company	2023 £m	2022 £m
Current	**0.6**	0.6
Non-current	**0.4**	1.0
At 31 March	**1.0**	1.6

ENWL is part of a Covenanter Group (CG) which is party to a Deed of Covenant under which certain guarantees over the benefits of members of the EATL Group of the Electricity Supply Pension Scheme have been given. The closing provision at 31 March 2023 of £0.6m (2022: £1.2m) on a discounted basis relates to the Company's 6.7% share of the liabilities. £0.2m of this balance is due after more than one year and £0.4m of it is due in less than one year.

The remainder of the provision relates to onerous lease provisions and is all due in less than one year.

26. Called up share capital

Group and Company	2023 £	2022 £
Authorised:		
569,999,996 ordinary shares of 50 pence each	**284,999,998**	284,999,998
4 'A' ordinary shares of 50 pence each	**2**	2
Special rights redeemable preference shares of £1	**1**	1
At 31 March	**285,000,001**	285,000,001

Group and Company	2023 £	2022 £
Allotted, called up and fully paid:		
476,821,341 ordinary shares of 50 pence each	**238,410,671**	238,410,671
4 'A' ordinary shares of 50 pence each	**2**	2
At 31 March	**238,410,673**	238,410,673

The 'A' ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

Notes to the Financial Statements (continued)

27. Shareholders' Equity

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
Group:						
At 1 April 2022	238.4	4.4	74.1	8.6	538.7	864.2
Profit for the year	-	-	-	-	**145.5**	**145.5**
Other comprehensive income for the year	-	-	-	-	**7.1**	**7.1**
Transfer from revaluation reserve	-	-	**(2.1)**	-	**2.1**	-
	-	-	**(2.1)**	-	**154.7**	**152.6**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	**(23.0)**	**(23.0)**
At 31 March 2023	**238.4**	**4.4**	**72.0**	**8.6**	**670.4**	**993.8**
Company:						
At 1 April 2022	238.4	4.4	74.1	8.6	538.4	863.9
Profit for the year	-	-	-	-	**145.5**	**145.5**
Other comprehensive expenses for the year	-	-	-	-	**7.1**	**7.1**
Transfer from revaluation reserve	-	-	**(2.1)**	-	**2.1**	-
	-	-	**(2.1)**	-	**154.7**	**152.6**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	**(23.0)**	**(23.0)**
At 31 March 2023	**238.4**	**4.4**	**72.0**	**8.6**	**670.1**	**993.5**

In 1997 the Company undertook a revaluation of certain assets, following North West Water's acquisition of Norweb. This resulted in the creation of a revaluation reserve of £234.9m. The additional depreciation created as a result of the revaluation is transferred from the revaluation reserve to retained earnings on an annual basis.

The capital redemption reserve is a non-distributable reserve specifically for the purchase of own shares.

Notes to the Financial Statements (continued)

28. Capital structure

Details of the authorised and allotted share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 27. The Company has Ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The Company also has 'A' ordinary shares which rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

There exists an unissued special rights redeemable preference share which does not carry any voting rights and can only be held by one of His Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of his Majesty's Treasury or any other person acting on behalf of the Crown. This share is a legacy from the privatisation of the Company and was issued on 19 November 1990 and redeemed on 31 March 1995.

There are no specific restrictions on the size of a holding or on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions in the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid up.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Articles of Association, copies of which are available on request, and in the Corporate Governance Report on pages 41-55.

29. Ultimate parent undertaking and controlling party

The immediate parent undertaking is North West Electricity Networks plc, a company incorporated and registered in the United Kingdom. The registered address of the immediate parent undertaking is Borron Street, Stockport, Cheshire, SK1 2JD. This is the smallest group in which the results of the Company are consolidated and these consolidated financial statements can be obtained from the above address.

The ultimate parent undertaking is NWEN (Jersey), a company incorporated and registered in Jersey. The address of the ultimate parent company is: 44 Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG. This is the largest group in which the results of the Company are consolidated.

At 31 March 2022 and 2023, the ownership of the shares in NWEN (Jersey) and, therefore, the ultimate controlling parties of the Company are:

- KDM Power Limited (40.0%);
- Equitix ENW 6 Limited (25.0%);
- Equitix MA North HoldCo Limited (15.0%); and
- Swingford Holdings Corporation Limited (20.0%).

Notes to the Financial Statements (continued)

30. Related party transactions

During the year the following transactions with related parties were entered into:

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Recharges to:				
Electricity North West (Construction and Maintenance) Limited	**2.5**	**2.5**	0.1	0.1
Electricity North West Services Limited	**1.6**	**1.6**	0.9	0.9
Recharges from:				
Electricity North West (Construction and Maintenance) Limited	**(0.5)**	**(0.5)**	-	-
Electricity North West Services Limited	**(7.5)**	**(7.5)**	(7.3)	(7.3)
Interest payable to:				
North West Electricity Networks plc	**(2.3)**	**(2.3)**	(2.1)	(2.1)
ENW Finance plc	**(8.3)**	**(8.3)**	(8.1)	(8.1)
Total interest payable to Group (Note 9)	**(10.6)**	**(10.6)**	(10.2)	(10.2)
Fair value movement on inter-company derivative asset with ENW Finance plc (Note 9)	**96.5**	**96.5**	(41.2)	(41.2)
Fair value movement on inter-company derivative liability with ENW Finance plc (Note 9)	**(96.5)**	**(96.5)**	42.1	42.1
Dividends paid to North West Electricity Networks plc (Note 11)	**(23.0)**	**(23.0)**	(97.1)	(97.1)
Directors' remuneration (Note 7)	**(3.2)**	**(3.2)**	(2.2)	(2.2)

For disclosure relating to executive directors' remuneration see Note 7. The Company's key management personnel comprise solely of its directors.

Notes to the Financial Statements (continued)

30. Related party transactions (continued)

Amounts outstanding with related parties are as follows:

	Group 2023 £m	Company 2023 £m	Group 2022 £m	Company 2022 £m
Amounts owed by:				
North West Electricity Networks plc	**3.5**	**3.5**	3.5	3.5
Electricity North West (Construction and Maintenance) Limited	**1.2**	**1.2**	0.6	0.6
Electricity North West Services Limited	**0.6**	**0.6**	0.3	0.3
Electricity North West Property Limited	**0.1**	**0.1**	0.1	0.1
North West Electricity Networks (Jersey) Limited	**0.1**	**0.1**	0.1	0.1
North West Electricity Networks (Holdings) Limited	**0.2**	**0.2**	0.2	0.2
Total amounts owed by Group (Note 16)	**5.7**	**5.7**	4.8	4.8
Amounts owed to subsidiaries:				
Electricity North West Number 1 Company Limited (Note 18)	**-**	**(15.5)**	-	(15.5)
Interest payable to Group:				
North West Electricity Networks plc	**(0.2)**	**(0.2)**	(0.6)	(0.6)
ENW Finance plc	**(7.7)**	**(7.7)**	(3.4)	(3.4)
Other amounts payable to Group:				
Electricity North West Services Limited	**(0.5)**	**(0.5)**	(0.9)	(0.9)
North West Electricity Networks (Holdings) Limited	**(0.2)**	**(0.2)**	(0.2)	(0.2)
North West Electricity Networks (Jersey) Limited	**(0.1)**	**(0.1)**	(0.1)	(0.1)
Total amounts owed to Group (Note 18)	**(8.7)**	**(8.7)**	(5.2)	(5.2)
Borrowings payable to:				
North West Electricity Networks plc (Note 19)	**(96.5)**	**(96.5)**	(84.2)	(84.2)
ENW Finance plc (Note 19)	**(721.6)**	**(721.6)**	(298.6)	(298.6)
Group tax relief to:				
North West Electricity Networks plc	**(2.0)**	**(2.0)**	(10.2)	(10.2)
Inter-company derivative asset with ENW Finance plc (Note 21)	**312.3**	**312.3**	408.8	408.8
Inter-company derivative liability with ENW Finance plc (Note 21)	**(312.3)**	**(312.3)**	(408.8)	(408.8)

The loan from NWEN plc accrues weighted average interest at 4.07% (2022: 2.47%) and is repayable in March 2028. Of the loans from ENW Finance plc, £300m accrues interest at 1.415% (2022: £300m at 1.415%) and £425m at 4.893% (2022: nil).

Notes to the Financial Statements (continued)

31. Cash generated from operations

Group and Company	2023 £m	2022 £m
Operating profit	**195.5**	175.6
Adjustments for:		
Depreciation of property, plant and equipment (Note 5 & 13)	**126.5**	119.9
Amortisation of intangible asset (Note 5 & 12)	**14.2**	12.8
Amortisation of customer contributions (Note 4 & 23)	**(20.2)**	(19.5)
Profit on disposal of property, plant and equipment	**(0.5)**	(0.1)
Cash contributions in excess of pension charge to operating profit	**(20.4)**	(23.7)
Operating cash flows before movements in working capital	**295.1**	265.0
Changes in working capital:		
Increase in inventories	**(4.3)**	(4.1)
Increase in trade and other receivables	**(15.6)**	(4.7)
Decrease in trade and other payables	**21.8**	10.0
Cash generated from operations	**297.0**	266.2