Company Registration No. 06845434

ENW FINANCE PLC

Annual Report and Financial Statements

for the year ended 31 March 2022

Contents

Strategic Report

ENW Finance plc ("the Company") is a public company limited by shares and incorporated in England, the United Kingdom under the Companies Act 2006.

Business review and principal activities

The Company acts as a financing company within the North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)") group of companies ("the Group"); it has debt in issue and listed on the London Stock Exchange. Following the issue of the debt, the net proceeds were lent to a fellow group subsidiary, Electricity North West Limited ("ENWL").

The Company operates solely as a financing company and, therefore, there are no non-financial key performance indicators (KPI's). A review of the Group's non-financial key performance indicators is disclosed in the Annual Report and Consolidated Financial Statements of the key trading subsidiary, ENWL.

There have been no significant changes to the activity of the Company in the current period.

Financial performance and key performance indicators

The results for the year are set out in the Profit and Loss Account on page 15.

The primary KPI for the year was a profit before tax of £0.3m in the year (2021: loss before tax of £6.9m). This movement is due to a £2.6m reduction in interest payable, due to the £200m 6.125% 2021 bond being repaid in the year, plus a £4.7m lower fair value loss in the year.

The Company had borrowings of £299.3m at 31 March 2022 (2021: £499.2m) relating to the listed debt. The Company repaid at par £200m at 6.125% on maturity in July 2021. The remaining debt has a nominal value of £300m at 1.415%, maturing in July 2030.

The Company has on-lent the net proceeds of both bonds to ENWL and recognises the assets receivable from ENWL on equivalent terms, equal and opposite, to the external borrowings and associated intercompany hedging arrangements.

There are no planned changes to the business activities of the Company.

Principal risks and uncertainties

As the Company's obligations, in respect of the listed debt, are met via income receivable from ENWL, the Board considers the principal risks and uncertainties facing the Company to be those that affect ENWL and the larger Group.

The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that company, and ultimately the Group, are outlined in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements, which are available on the website www.enwl.co.uk.

An assessment of the change in risk has been carried out and the principal risks are deemed comparable year on year, with the exception of the refinancing risk in the Company. Proceeds were received by the Company in accordance with the inter-company loan agreement with ENWL in relation to the £200m listed bonds, and those proceeds used to repay at par the listed debt on maturity in July 2021.

The Company has exposure to interest rate risk and inflation risk; the intercompany index-linked swap and hybrid asset are exposed to a risk of change in their fair value arising from a risk of change of future cash flows due to changes in market interest rates and inflation rates. This exposure is limited as the impact on the intercompany index-linked swap (liability) is largely offset by an opposite impact on the embedded derivative (asset) element of the hybrid asset.

Strategic Report (continued)

Derivatives

The Company uses inter-company index-linked derivatives to economically hedge exposure to fluctuations in market rates over the medium to long-term, converting fixed rate debt to index-linked borrowing. All derivatives relate directly to underlying debt. At 31 March 2022 there were no formal hedging relationships in the Company (2021: same).

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.

Fair values

The derivatives are accounted for at fair value through profit or loss (FVTPL), with fair value movements booked through the income statement.

These fair value movements are non-cash and will reverse over the life of the financial instruments, but can be significant and result in material volatility in the income statement.

In the current year, net fair value losses totalling £2.4m have been recognised in the income statement (2021: losses of £7.1m), which relates entirely to non-cash movements.

The fair value movements in the year were primarily driven by the significant changes in market expectations of future interest and inflation rates.

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 financial position of the Company and the Group in which it operates.

The Company is ultimately a subsidiary of NWEN (Jersey); the key trading subsidiary in the Group is ENWL.

As the Company's obligations in respect of the listed debt are met via income receivable from ENWL, the Board considers the principal risks and uncertainties facing the Company to be those that affect ENWL and the larger Group.

The external £200m bond was repaid at par on maturity in June 2021 using proceeds received from ENWL in accordance with the inter-company loan agreement.

In consideration of this, the Directors of the Company are cognisant of the going concern disclosure in the financial statements of both NWEN (Jersey) and ENWL for the year ended 31 March 2022, the latter of which is available on the website www.enwl.co.uk.

After making the appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

The going concern basis has been adopted by the Directors, with consideration of the guidance published by the Financial Reporting Council.

Strategic Report (continued)

Corporate governance

The NWEN (Jersey) group has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the entire business.

The details of the internal control and risk management systems which govern the Company in relation to the financial processes 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.

Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN plc, a company incorporated and registered in the United Kingdom. The ultimate parent undertaking is NWEN (Jersey), a company incorporated and registered in Jersey.

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%).

Fair, balanced and understandable

The Directors have reviewed the Annual Report and Financial Statements, to ensure they are fair, balanced and understandable. As part of the review of the Annual Report and Financial Statements the Directors have acknowledged the detailed guidance given to contributors to the financial statements.

Approved by the Board on 24 June 2022 and signed on its behalf by:

David Brocksom
Director

Directors' Report

The Directors present their Strategic Report, Annual Report and the audited financial statements of ENW Finance plc for the year-ended 31 March 2022.

Dividends

Dividends recognised in the year were £nil (2021: £nil). The Directors do not propose a final dividend for the year ended 31 March 2022 (2021: £nil).

As this is solely a financing company, the policy is that dividends are not paid from this company.

Financial instruments

The use of financial instruments and their related risks are disclosed in the principal risks and uncertainties section of the Strategic Report on pages 1-2.

Financial risk management

Disclosure around the Company's risk management policies, which are the same as the Group's, are disclosed in the principal risks and uncertainties section of the Strategic Report on pages 1-2. More information on the Group's use of financial instruments can be found in NWEN plc's consolidated financial statements.

Greenhouse gas emissions

Greenhouse gas emissions are reported in the Strategic Report of ENWL. There are no further disclosures for the rest of the Group.

Environmental impacts

The Company is dedicated to achieving the highest standards of environmental performance, not only by minimising the risk of adverse impacts such as pollution, but through investment in outputs that deliver a positive impact.

Climate change

As this company acts solely as a financing company, it will not be directly affected by any impacts of climate change.

Brexit

Brexit has had no direct impact on the Company.

COVID-19

An assessment of the significance and ongoing development of the COVID-19 impact has been undertaken. More detail on the group can be found in the ENWL accounts however there is no direct impact on the Company.

Future developments

There are no planned changes to the business activities of the Company.

Events after the Balance Sheet date

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

Directors

The Directors of the Company during the year ended 31 March 2022 and to date are set out below. Directors served for the whole year, and to the date of this report, except where otherwise indicated.

Executive Directors

D Brocksom
P Emery

Non-executive Directors

R Holden
S Jones
P O'Flaherty
G Pan
S Sumitomo
T Tanaka

Alternate Directors during the year were:

A Bhuwania
K Fukushima
F Kumura
H Yu

Directors' Report

Directors (continued)

Sion Jones, Takeshi Tanaka, Shinichiro Sumitomo and Genping Pan are shareholder appointed directors and have appointed alternate Directors during their time as Board members. Sion Jones's alternate is Achal Bhuwania. Takeshi Tanaka's alternate is Kaoru Fukushima. Shinichiro Sumitomo's alternate is Fukashi Kumura and Hailin Yu is the alternate to Genping Pan.

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 Company's business (2021: same).

Directors' and officers' insurance

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

The insurance is a group policy, held in the name of NWEN (Jersey) and is for the benefit of that company and all its subsidiaries.

Information given to the auditor

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

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

(2) each Director has 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 Company's auditor is aware of that information.

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

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

The Board of Directors of ENW Finance plc 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 2022. More details can be found in the ENWL accounts.

Independent auditor

Deloitte LLP, Statutory Auditor, Manchester, United Kingdom has been the auditor of the Company since incorporation in 2009. In accordance with legal and regulatory requirements, Deloitte LLP will be resigning as auditor following completion of the audit for the year-ended 31 March 2022. Following a tender process in early 2022, the Audit Committee recommended to the Board that PricewaterhouseCoopers LLP (PwC) be appointed as the Company's auditor for the financial year beginning on 1 April 2022.

Registered address

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

ENW Finance plc
Borron Street
Stockport
Cheshire
SK1 2JD

Registered number: 06845434

Approved by the Board on 24 June 2022 and signed on its behalf by:

David Brocksom
Director

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 *'Reduced Disclosure Framework'*. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 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.

They are also 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 responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework', give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- 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 they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 24 June 2022 and is signed on its behalf by:

David Brocksom
Director

Independent Auditor's Report to the Members of ENW Finance plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of ENW Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 4 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Recoverability of the intercompany receivable Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £2.7m which was determined on the basis of total assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach in the current year.

4. Conclusions relating to going concern

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.

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

- reviewed management's forecasts for the management's going concern period review covering to the end of 2025;
- assessed the significance and ongoing development of the COVID-19 pandemic;
- assessed the significance of supplier failures;
- considered short-term liquidity and the financing facilities available;
- considered linkage to business model and medium-term risks, including the forthcoming RIIO ED-2 regulatory period;
- performed sensitivity analysis; and
- considered the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

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 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.

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

Independent Auditor's Report to the Members of ENW Finance plc (continued)

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included 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 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.

5.1. Recoverability of the intercompany receivable

Key audit matter description	There is significant level of judgement involved in determining the recoverability of the £737m (2021: £898m) receivable from group undertakings based on the financial position and future prospects of the group undertakings. The loan to group undertakings includes a hybrid asset of £391.9m (2021: £570.1m) and a derivative liability of £391.9m (2021: £367.7m). Our assessment takes into consideration a range of factors such as the trading performance of the group undertakings and support available from the wider group where required. See also the accounting policy on financial instruments in note 2 to the financial statements, the critical accounting judgement and key sources of estimation uncertainty in note 3 to the financial statements and the further detail in note 13 to the financial statements.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the recoverability of the intercompany receivables through obtaining a copy of the counterparty's latest financial information, understanding their future trading performance and by assessing their ability to repay these amounts. We also reviewed the historical accuracy of management's forecasts by comparing the actual results to forecasts.
Key observations	Based on the work performed we concluded that the intercompany receivables appears appropriate.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£2.7m (2021: £2.5m)
Basis for determining materiality	Materiality represents 1% of total assets (2021: same).
Rationale for the benchmark applied	We determined materiality based on total assets as this is the key metric used by management, investors, analysts and lenders. When determining materiality, as the company is part of the wider Electricity North West Limited Group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements to the group's results.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Company's overall control environment; and

- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2021: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

8. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 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 company or to cease operations, or have no realistic alternative but to do so.

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

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

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

9.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
    - the matters discussed among the audit engagement team and relevant internal specialists, including financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

9.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

10. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Matters on which we are required to report by exception

10.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

10.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

11. Other matters which we are required to address

11.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders in 2009 to audit the financial statements for the year ending 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 31 March 2010 to 31 March 2022.

11.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

12. Use of our report

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

Christopher Robertson (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
24 June 2022

Financial Statements
Profit and Loss Account
For the year ended 31 March 2022

	Note	2022 £000	2021 £000
Operating result	4	**-**	-
Interest receivable from group companies	6	**14,966**	10,412
Net interest payable and similar charges	7, 13	**(14,689)**	(17,281)
Profit/ (loss) before taxation		**277**	(6,869)
Taxation	8	**(948)**	1,138
Loss for the year attributable to shareholders of the Company		**(671)**	(5,731)

The results for the current and prior year are derived from continuing operations.

There were no other items of comprehensive income other than the results shown above, therefore, no separate Statement of Other Comprehensive Income has been presented.

Balance Sheet
as at 31 March 2022

	Note	2022 £000	2021 £000
ASSETS			
Non-current assets			
Loans to group undertakings	9	**728,168**	665,861
Current assets			
Loans to group undertakings	9	**-**	223,838
Amounts due from group undertakings	10	**8,857**	8,168
Cash and cash equivalents		**12**	12
		8,869	232,018
Total assets		**737,037**	897,879
LIABILITIES			
Current liabilities			
Borrowings	12	**-**	(199,934)
Accrued interest		**(2,838)**	(5,228)
Amounts due to group undertaking	11	**(5,806)**	(4,989)
		(8,644)	(210,151)
Net current assets		**255**	21,867
Total assets less current liabilities		**712,039**	687,728
Non-current liabilities			
Borrowings	12	**(299,313)**	(299,230)
Derivative financial instruments	13	**(408,766)**	(367,643)
Deferred tax liabilities	14	**(3,023)**	(2,893)
		(711,102)	(669,766)
Total liabilities		**(719,746)**	(879,917)
Net assets		**17,291**	17,962
CAPITAL AND RESERVES			
Called up share capital	16	**13**	13
Profit and loss account		**17,278**	17,949
Total shareholders' funds		**17,291**	17,962

The financial statements of ENW Finance plc (registered number 06845434) were approved and authorised for issue by the Board of Directors on 24 June 2022 and signed on its behalf by:

David Brocksom
Director

Statement of Changes in Equity
for the year ended 31 March 2022

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 April 2020	13	23,680	23,693
Loss and total comprehensive expense for the year	-	(5,731)	(5,731)
At 31 March 2021	13	17,949	17,962
Loss and total comprehensive expense for the year	**-**	**(671)**	**(671)**
At 31 March 2022	**13**	**17,278**	**17,291**

Notes to the Financial Statements

ENW Finance plc is a company incorporated 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. All values are stated in thousand pounds (£'000) 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.

1. Adoption of new and revised standards

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

In the current year, the Company 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 2021:

- Amendments to IFRS 9 '*Financial Instruments'*, IAS 39 '*Financial Instruments: Recognition and Measurement*', IFRS 7 '*Financial Instruments: Disclosures'*, IFRS 4 '*Insurance Contracts*' and IFRS 16 '*Leases*' – Interest Rate Benchmark Reform (Phase 2).

Impact of the initial application of Interest Rate Benchmark Reform

In the prior year, the Phase 1 amendments '*Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7*' were effective. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform. The Company has no formal hedging relationships in place; as such, Phase 1 was not relevant to the Company.

In the current year, the Company adopted the Phase 2 amendments *'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16'*. Adopting these amendments enables the Company to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Company has not restated the prior period, but applied the amendments retrospectively with any adjustments recognised in equity as at 1 April 2021. No such adjustments have been recognised.

The amendments are relevant for the following types of financial instruments of the Company, all of which extend beyond 31 December 2021:

- Inter-company derivative asset, where the receive leg is GBP LIBOR-linked, and
- Inter-company hybrid asset, where the pay leg of the embedded derivative is GBP LIBOR-linked.

None of the contractual terms of the Company's financial instruments affected by the interest rate benchmark reform have been amended, rather the Company has adhered to the ISDA 2020 IBOR Fallbacks Protocol ('ISDA Protocol'). Where the contractual terms reference GBP LIBOR, they have transitioned to the nominated replacement, GBP SONIA, plus a credit adjustment spread (CAS) based on the historical difference between the relevant LIBOR and SONIA and fixed by the ISDA Protocol.

As the Company has adhered to the ISDA Protocol, this has ensured a common benchmark replacement across all swaps and that there has been no transfer of economic value as a result of the transition.

Notes to the Financial Statements (continued)

2. Significant accounting policies

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.

Basis of preparation

The Company has adopted Financial Reporting Standard 101 '*Reduced Disclosure Framework'* (FRS 101) on the basis that it meets the definition of a qualifying entity under FRS 100 '*Application of Financial Reporting Requirements'* and the financial statements have, therefore, been prepared in accordance with FRS 101, as issued by the Financial Reporting Council.

As permitted by FRS 101, for both periods presented, the Company has taken advantage of the disclosure exemptions available under the standard in relation to financial instruments, capital management, presentation of cash flow statement, standards not yet effective and related party transactions with other wholly-owned members of the Group.

Where relevant, equivalent disclosures are given in the consolidated financial statements of NWEN plc, the Company's immediate parent; the consolidated financial statements of NWEN plc are available to the public and can be obtained as set out in Note 17.

The financial statements have been prepared on the historical cost basis, except for the valuation of derivative financial instruments. The derivative financial instruments are held at fair value.

All Company operations arise from its activities as a financing company in the North West of England. Accordingly, only one operating and geographic segment is reviewed by the Chief Executive Officer and Executive Team.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Taxation

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

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 Profit and Loss Account 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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 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 Profit and Loss Account, 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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company 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); and
- 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).

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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.

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.

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 'Investment 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 Company classified as at FVTPL are derivatives and an inter-company hybrid contract; these 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 hedging relationship. Fair value is determined in the manner described in Note 13.

Impairment of financial assets

The Company 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 Company holds no lease receivables or financial guarantee contracts. 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 Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 Company 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 Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company 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 Company 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 Company considers that default has occurred when a financial asset is more than 90 days past due, unless the Company 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 Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company 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 Company 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 Company 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 Company 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 includes cash at bank and in hand, deposits, other short-term highly liquid investments which are readily convertible into known amounts of cash and have a 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)

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 Company 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 Company has no financial liabilities designated at FVTPL. Fair value is determined in the manner described in Note 13.

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.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company'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 Company 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 Company 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Derivative financial instruments

The Company 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 13.

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 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.

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

Notes to the Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the group's accounting policies

In the application of the Company'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.

The Directors do not deem there to be any critical accounting judgements that affect the Company.

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.

Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Company 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 Company. Information about the valuation techniques and inputs used are disclosed in Note 13.

4. Operating result

Audit fees payable to Deloitte LLP of £7,950 for the year (2021: £7,431) were borne by another Group company and have not been recharged (2021: same). These fees relate to the auditing of the financial statements. There were no non-audit fees payable to the auditor in the year (2021: same).

The ECL charge for the year is £320,000 (2021: £77,000).

5. Directors and employees

The Company had no employees during the year (2021: same). Directors' costs are borne by another Group company and cannot be fairly apportioned to the Company (2021: same).

Notes to the Financial Statements (continued)

6. Interest receivable from group companies

	2022 £'000	2021 £'000
From parent company on loan at amortised cost	**364**	376
From group company on loan at amortised cost	**4,333**	2,912
From group company on hybrid loan asset at FVTPL	**10,269**	7,124
Interest receivable from group companies	**14,966**	10,412

7. Net interest payable and similar charges

	2022 £'000	2021 £'000
Interest payable:		
On borrowings held at amortised cost	**8,128**	15,351
Net payments/ (receipts) on inter-company derivatives	**4,145**	(5,136)
Impairment of inter-company loan (Note 9)	**320**	77
Reimbursement of inter-company loan impairment (Note 10)	**(320)**	(77)
Total interest expense	**12,273**	10,215
Fair value movements on financial instruments:		
On inter-company hybrid asset at FVTPL	**(38,707)**	(19,274)
On inter-company derivatives at FVTPL	**41,123**	26,340
Total fair value movements (Note 13)	**2,416**	7,066
Net interest payable and similar charges	**14,689**	17,281

8. Taxation

	2022 £000	2021 £000
Current tax:		
Current year	**818**	340
Deferred tax (Note 14):		
Current year	**130**	(1,478)
Tax charge/(credit) for the year	**948**	(1,138)

Corporation tax is calculated at 19% (2021: 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.

Notes to the Financial Statements (continued)

8. Taxation (continued)

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% (2021: 19%) rate, except where it is known that it will reverse before 1 April 2023 when the 19% rate has been used. There is no unrecognised deferred tax in the Company.

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

	2022 £000	2021 £000
Profit/ (loss) before tax	**277**	(6,869)
Tax at the UK corporation tax rate of 19% (2021: 19%)	**53**	(1,305)
Expenses not deductible for tax purposes	**169**	167
Accelerated capital allowances and other timing differences	**726**	-
Tax charge/(credit) for the year	**948**	(1,138)

9. Loans to group undertakings

	2022 £000	2021 £000
Non-current:		
Loan to parent company at amortised cost	**20,500**	-
Impairment of loan (Note 10)	**(27)**	-
Loan to group company at amortised cost	**299,313**	299,230
Impairment of loan (Note 10)	**(384)**	(85)
Hybrid loan to group company at FVTPL (Note 13)	**408,766**	366,716
Total loans to group undertakings due > 1 year	**728,168**	665,861
Current:		
Loan to parent company at amortised cost	**-**	20,500
Impairment of loan (Note 10)	**-**	(6)
Hybrid loan to group company at FVTPL (Note 13)	**-**	203,344
Loans to group undertakings due < 1 year	**-**	223,838
Total loans to group undertakings	**728,168**	889,699

On 21 July 2009, the Company lent £20.5m to the immediate parent company, NWEN plc; this loan was due for repayment in July 2021 but the maturity date was extended during the year, to July 2030.

Notes to the Financial Statements (continued)

9. Loans to group undertakings (continued)

On the same date, the Company lent ENWL £198.2m net proceeds of the £200.0m 6.125% fixed rate bond maturing in 2021, on terms aligned to the terms of the external bond (see Note 12) and associated inter-company hedging arrangements, which formed an embedded derivative. The entire hybrid asset is required to be measured at fair value through profit or loss (see Note 13). This loan matures in 2038, with a £200.0m payment made in July 2021.

During the prior year, the Company lent ENWL £299.2m net proceeds of the £300.0m 1.415% fixed rate bond maturing in 2030, on terms aligned to the terms of the external bond (see Note 12). This inter-company loan is measured at amortised cost and is due for repayment in 2030.

Impairment

Financial assets measured at amortised cost are subject to impairment. The credit risk of the inter-company loan at amortised cost has been assessed as low. Accordingly, any loss allowance is measured at an amount equal to 12-month ECL. In determining the expected credit losses for this asset, the directors of the Company have taken into account the historical default experience, the financial position of the counterparty, as well as the future prospects of the industry, as appropriate, in estimating the probability of default and loss upon default.

In accordance with provisions within the inter-company loan agreements, the Company has requested the reimbursement of the impairment charges incurred to date (Note 10). Similarly, ENWL has requested the reimbursement of the impairment charges it has incurred on the loan with the Company.

No impairment assessment is required for financial assets held at FVTPL.

10. Amounts due from group undertakings

	2022	2021
	£000	£000
Accrued interest due from parent company (Note 9)	**5,468**	5,103
Accrued interest due from group company (Note 9)	**2,978**	2,973
Reimbursement of inter-company loan impairment due from parent company (Note 9)	**27**	7
Reimbursement of inter-company loan impairment due from group company (Note 9)	**384**	85
Amounts due from group undertakings	**8,857**	8,168

11. Amounts due to group undertaking

	2022	2021
	£000	£000
Amounts falling due within one year	**5,806**	4,989

Amounts owed to group undertaking relate to payments for group tax relief.

Notes to the Financial Statements (continued)

12. Borrowings

This note provides information about the contractual terms of the Company's loans and borrowings. For more information about the Group's financial risk management and exposure to credit risk, liquidity risk and market risk, refer to NWEN plc consolidated financial instruments.

	2022 £000	2021 £000
Bonds held at amortised cost due < 1 year	**-**	199,934
Bonds held at amortised cost due > 1 year	**299,313**	299,230
Total borrowings	**299,313**	499,164

During the year, the Company repaid at par on maturity the £200.0m 6.125% fixed rate bond guaranteed by ENWL.

As at 31 March 2022, the Company had a £300.0m 1.415% fixed rate bond in issue, maturing in July 2030 and guaranteed by ENWL (2021: same).

Borrowing facilities

The Company had no unutilised committed bank facilities at 31 March 2022 (2021: same). There was no formal bank overdraft facility in place at 31 March 2022 (2021: same).

13. Financial instruments

Fair values

All of the fair value measurements recognised in the balance sheet for the Company occur on a recurring basis.

Where available, market values have been used to determine fair values (Level 1 inputs).

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. A funding valuation adjustment (FVA) has also been made.

Whilst the majority of the inputs to the CVA, DVA and FVA 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. The estimation of the funding cost in the FVA calculation is also a Level 3 input. All other inputs to both the underlying valuation and the CVA, DVA and FVA calculations are Level 2 inputs.

The Level 3 inputs form a significant part of the fair value of the financial instruments held by the Company and, as such, these financial instruments are disclosed as Level 3.

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

The adjustment for non-performance risk as at 31 March 2022 was £56.7m (2021: £60.8m) on the hybrid asset and £56.7m (2021: £59.9m) on the derivative liability, all of which (2021: same) is classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value gain on the hybrid asset and a fair value loss on the derivative liability. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this gain and 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 instruments. The aggregate difference yet to be recognised in profit or loss is £21.9m (2021: £24.1m) on the hybrid asset and £21.9m (2021: £23.2m) on the derivative liability. The movement in the period all relates to the straight-line release to profit or loss.

There were no transfers between levels during the current year (2021: same).

	2022 **£000**	2021 £000
FV of hybrid asset pre IFRS 13 adjustment	**487,311**	630,851
CVA/DVA adjustment	**(47,206)**	(36,667)
FVA adjustment	**(9,481)**	-
Day 1 adjustment	**(21,858)**	(24,125)
IFRS 13 FV of hybrid asset (Note 9)	**408,766**	570,059
FV of derivative liability pre IFRS 13 adjustment	**(487,311)**	(427,507)
CVA/DVA adjustment	**47,206**	36,667
FVA adjustment	**9,481**	-
Day 1 adjustment	**21,858**	23,197
IFRS 13 FV of derivative liability	**(408,766)**	(367,643)

The following table shows the sensitivity of the fair values of the financial instruments to the Level 3 inputs, determined by applying a 10bps shift to the credit curve used to calculate the DVA.

	2022 **-10bps** **£000**	**2022** **+10bps** **£000**	2021 -10bps £000	2021 +10bps £000
Hybrid loan to group company at FVTPL	**3,405**	**(3,348)**	3,300	(3,373)
Inter-company derivative financial liabilities	**(3,405)**	**3,348**	(3,300)	3,373

Categories of financial instruments at FVTPL

	2022 **£000**	2021 £000
Hybrid loan to group company at FVTPL (Note 9)	**408,766**	570,060
Inter-company derivative financial liabilities	**(408,766)**	(367,643)

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

Loss for the year has been derived after charging/(crediting) the following fair value movements:

	2022 £000	2021 £000
Hybrid loan to group company at FVTPL	**(38,707)**	(19,274)
Inter-company derivative financial liabilities	**41,123**	26,340
Net charge to Profit and Loss Account (Note 7)	**2,416**	7,066

For cash and cash equivalents, trade and other receivables and trade and other payables the book values approximate to the fair values because of their short-term nature.

Financial risk management

Disclosure around the Company's risk management policies, which are the same as the Group's, can be found in NWEN plc's consolidated financial statements.

14. Deferred tax

The following are the deferred tax liabilities recognised by the Company, and the movements thereon during the current and prior year.

	2022 £000	2021 £000
At 1 April	**2,893**	4,371
Movement in short-term timing differences (Note 8)	**130**	(1,478)
Impact from change in future tax rates (Note 8)	**-**	-
At 31 March	**3,023**	2,893

The deferred tax arises on certain financing items, primarily those held at FVTPL.

There are no unrecognised deferred tax assets or liabilities in either the current or prior 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.

15. Financial commitments

There are no contracted for, but not provided for, financial commitments at the year-end (2021: same).

Notes to the Financial Statements (continued)

16. Called up share capital

	2022 £000	2021 £000
Authorised:		
50,000 ordinary shares of £1 each	**50**	50
Allotted, called up and fully paid:		
50,000 ordinary shares of £1 each of which £0.25 has been called up and paid	**13**	13

17. Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN 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 those consolidated accounts 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.

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%).