Balance Sheet

as at 31 March 2021

	Note	2021 £000	2020 £000
ASSETS			
Non-current assets			
Loans to group undertakings	9	**665,861**	571,271
Current assets			
Loans to group undertakings	9	**223,838**	-
Amounts due from group undertakings	10	**8,168**	4,848
Cash and cash equivalents		**12**	12
		232,018	4,860
Total assets		**897,879**	576,131
LIABILITIES			
Current liabilities			
Borrowings	12	**(199,934)**	-
Accrued interest		**(5,228)**	(2,378)
Amounts due to group undertaking	11	**(4,989)**	(4,648)
Current liabilities		**(210,151)**	(7,026)
Net current assets/(liabilities)		**21,867**	(2,166)
Total assets less current liabilities		**687,728**	569,105
Non-current liabilities			
Borrowings	12	**(299,230)**	(199,738)
Derivative financial instruments	13	**(367,643)**	(341,303)
Deferred tax liabilities	14	**(2,893)**	(4,371)
		(669,766)	(545,412)
Total liabilities		**(879,917)**	(552,438)
Net assets		**17,962**	23,693
CAPITAL AND RESERVES			
Called up share capital	15	**13**	13
Profit and loss account		**17,949**	23,680
Total shareholders' funds		**17,962**	23,693

The financial statements of ENW Finance plc (registered number 06845434) were approved and authorised for issue by the Board of Directors on 4 June 2021 and signed on its behalf by:

David Brocksom
Director

Statement of Changes in Equity

for the year ended 31 March 2021

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 April 2019	13	30,079	30,092
Loss and total comprehensive expense for the year	-	(6,399)	(6,399)
At 31 March 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**

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

There are no new or amended Standards effective from the current year that impact the Company.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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).

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.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Trade payables

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

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.

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.

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

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

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.

Notes to the Financial Statements (continued)

4. Operating result

Audit fees payable to Deloitte LLP of £7,431 for the year (2020: £7,431) were borne by another Group company and have not been recharged (2020: same). These fees relate to the auditing of the financial statements. There were no non-audit fees payable to the auditor in the year (2020: same).

The ECL charge for the year is £77,000 (2020: £14,000).

5. Directors and employees

The Company had no employees during the year (2020: same). Directors' costs are borne by another Group company and cannot be fairly apportioned to the Company (2020: same).

6. Interest receivable from group companies

	2021 £'000	2020 £'000
From parent company on loan at amortised cost	**376**	387
From affiliated company on loan at amortised cost	**2,912**	-
From affiliated company on hybrid loan asset at FVTPL	**7,124**	9,781
Interest receivable from group companies	**10,412**	10,168

7. Net interest payable and similar charges

	2021 £'000	2020 £'000
Interest payable:		
On borrowings held at amortised cost	**15,351**	12,467
Net receipts on inter-company derivatives	**(5,136)**	(2,469)
Impairment of inter-company loan (Note 9)	**77**	14
Reimbursement of inter-company loan impairment (Note 10)	**(77)**	(14)
Total interest expense	**10,215**	9,998
Fair value movements on financial instruments:		
On inter-company hybrid asset at FVTPL	**(19,274)**	1,091
On inter-company derivatives	**26,340**	6,011
Total fair value movements (Note 13)	**7,066**	7,102
Net interest payable and similar charges	**17,281**	17,100

Notes to the Financial Statements (continued)

8. Taxation

	2021 £000	2020 £000
Current tax:		
Current year	**340**	336
Deferred tax (Note 14):		
Current year	**(1,478)**	(1,485)
Prior year	**-**	616
Tax credit for the year	**(1,138)**	(533)

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profit for the year.

The Finance Bill 2021 proposes a rate increase to 25% on 1 April 2023 but as the legislation is not substantially enacted at the Balance Sheet date, the tax disclosures reflect deferred tax measured at the 19% rate from 1 April 2023.

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

	2021 £000	2020 £000
Loss before tax	**(6,869)**	(6,932)
Tax at the UK corporation tax rate of 19% (2020: 19%)	**(1,305)**	(1,317)
Non-taxable expenses	**167**	168
Reduction in current year deferred tax due to rate change	**-**	-
Impact from change in future tax rates	**-**	616
Tax credit for the year	**(1,138)**	(533)

Notes to the Financial Statements (continued)

9. Loans to group undertakings

	2021	2020
	£000	£000
Non-current:		
Loan to parent company at amortised cost	**-**	20,500
Impairment of loan (Note 10)	**-**	(14)
Loan to affiliated company at amortised cost	**299,230**	-
Impairment of loan (Note 10)	**(85)**	-
Hybrid loan to affiliated company at FVTPL (Note 13)	**366,716**	550,785
Total loans to group undertakings due > 1 year	**665,861**	571,271
Current:		
Loan to parent company at amortised cost	**20,500**	-
Impairment of loan (Note 10)	**(6)**	-
Hybrid loan to affiliated company at FVTPL (Note 13)	**203,344**	-
Loans to group undertakings due < 1 year	**223,838**	-
Total loans to group undertakings	**889,699**	571,271

On 21 July 2009, the Company lent £20.5m to the immediate parent company, NWEN plc; this loan is due for repayment in July 2021.

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 due in July 2021.

During the 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 9 and 10).

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

Notes to the Financial Statements (continued)

10. Amounts due from group undertakings

	2021 £000	2020 £000
Accrued interest due from parent company	**5,103**	4,727
Accrued interest due from affiliated company	**2,973**	107
Reimbursement due from parent company (Note 9)	**7**	14
Reimbursement due from affiliated company (Note 9)	**85**	-
Amounts due from group undertakings	**8,168**	4,848

11. Amounts due to Group undertaking

	2021 £000	2020 £000
Amounts falling due within one year	**4,989**	4,648

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

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.

	2021 £000	2020 £000
Bonds held at amortised cost due < 1 year	**199,934**	-
Bonds held at amortised cost due > 1 year	**299,230**	199,738

As at 31 March 2021, the Company had a £200.0m 6.125% fixed rate bond in issue, maturing in 2021 and guaranteed by ENWL (2020: same).

The Company issued £300m new borrowings during the year at 1.415%, maturing in July 2030.

Borrowing facilities

The Company had no unutilised committed bank facilities at 31 March 2021 (2020: same). There was no formal bank overdraft facility in place at 31 March 2021 (2020: same).

Notes to the Financial Statements (continued)

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.

Whilst the majority of the 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.

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.

The adjustment for non-performance risk as at 31 March 2021 was £60.8m on the hybrid asset and £59.9m on the derivative liability (2020: £62.9m on the hybrid asset and £62.9m on the derivative liability), all of which (2020: 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 £24.1m (2020: £27.3m) on the hybrid asset and £23.2m (2020: £24.5m) 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 (2020: same).

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

	2021 £000	2020 £000
FV of hybrid asset pre IFRS 13 adjustment	**630,851**	640,982
CVA/DVA adjustment	**(36,667)**	(62,893)
Day 1 adjustment	**(24,125)**	(27,304)
IFRS 13 FV of hybrid asset (Note 9 & 10)	**570,059**	550,785
FV of derivative liability pre IFRS 13 adjustment	**(427,507)**	(428,732)
CVA/DVA adjustment	**36,667**	62,893
Day 1 adjustment	**23,197**	24,536
IFRS 13 FV of derivative liability	**(367,643)**	(341,303)

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.

Group and Company	**2021 -10bps £000**	**2021 +10bps £000**	2020 -10bps £000	2020 +10bps £000
Hybrid loan to affiliated company at FVTPL	**3,300**	**(3,373)**	3,313	(3,243)
Inter-company derivative financial liabilities	**(3,300)**	**3,373**	(3,313)	3,243

Categories of financial instruments at FVTPL

	2021 £000	2020 £000
Hybrid loan to affiliated company at FVTPL (Note 9)	**570,060**	550,785
Inter-company derivative financial liabilities	**(367,643)**	(341,303)

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

	2021 £000	2020 £000
Hybrid loan to affiliated company at FVTPL	**(19,274)**	1,091
Inter-company derivative financial liabilities	**26,340**	6,011
Net charge to Profit and Loss Account (Note 7)	**7,066**	7,102

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.

Notes to the Financial Statements (continued)

13. Financial instruments (continued)

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.

	2021	2020
	£000	£000
At 1 April	**4,371**	5,240
Opening reserves adjustment on transition to IFRS 9	**-**	-
Increase in opening balance due to rate change (Note 8)	**-**	616
Movement in short-term timing differences (Note 8)	**(1,478)**	(1,485)
At 31 March	**2,893**	4,371

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 Finance Bill 2021 proposes a rate increase to 25% on 1 April 2023 but as the legislation is not substantially enacted at the Balance Sheet date, the tax disclosures reflect deferred tax measured at the 19% rate from 1 April 2023.

The rate increase, had it been reflected in the accounts, would have increased the deferred tax liability by £588,000.

15. Called up share capital

	2021	2020
	£000	£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

16. Financial commitments

There are no contracted for, but not provided for, financial commitments at the year-end (2020: same).

Notes to the Financial Statements (continued)

17. Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN plc, a company incorporated and registered in the United Kingdom. The address of the immediate parent undertaking is Borron Street, Stockport, Cheshire SK1 2JD.

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.

The largest group in which the results of the Company are consolidated is that headed by NWEN (Jersey) Limited.

The smallest group in which they are consolidated is that headed by NWEN plc. The consolidated financial statements of this Group are available to the public and may be obtained from this address.

The ownership of the shares in NWEN (Jersey) Limited 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%).