Company Registration No. 02366949

ELECTRICITY NORTH WEST LIMITED

Annual Report and Consolidated Financial Statements

for the year ended 31 March 2022

Introduction

Electricity North West Limited (ENWL or ''the Company'') is the electricity distributor for the North West of England. We own, invest in, operate and maintain the network of poles, wires, transformers and cables which carry electricity from both the national grid and locally connected generation to homes and business across the North West. Our job is to keep electricity flowing safely and reliably to our customers' homes and businesses, keeping the power on 24 hours a day, seven days a week. As the country moves towards net zero carbon, this dependence on our network, and the volume of electricity that it will have to carry, will increase. We are proud of who we are, the essential role we play for our customers, our support of the move to net zero carbon, and the investment we make locally.

North West – We are champions for the North West and proud that it is our network that connects communities and will support the success of the region economically.

Service – We invest in our people and train them to be experts who ensure we provide exceptional service.

Innovation – We believe in continuous improvement and lead in energy innovation in our sector.

Move to a low-carbon economy – We are key facilitators in the UK's drive to become carbon neutral by 2050, working with key local stakeholders to support more ambitious regional targets.

We recognise the role that electricity, and the electricity distribution networks such as ourselves, play in leading and facilitating the switch of the UK to a low carbon economy in an efficient and cost effective manner.

We are pleased to present the Annual Report and Consolidated Financial Statements of the Company and its subsidiaries (together referred to as "the Group") to shareholders for the year ended 31 March 2022. Further information on the Company can be found by visiting our website: www.enwl.co.uk. The Company is limited by shares and incorporated in England, the United Kingdom under the Companies Act 2006.

Notice regarding limitations on directors' liability under English Law

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

Strategic Report

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

Cautionary statement regarding forward-looking statements

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

Regulatory reporting and regulatory audits for the year ended 31 March 2022

Certain regulatory performance data contained in this Annual Report remain subject to regulatory audit by the Office of Gas and Electricity Markets (''Ofgem''). The final regulatory reporting pack for the year ended 31 March 2022 are not due for submission to Ofgem until July 2022, and will be reviewed by Ofgem after their submission.

Website and investor relations

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

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Chairman's Statement

I am pleased to introduce the annual report and financial statements for Electricity North West Limited (ENWL) for the year ended 31 March 2022.

Taking pride in our role and the communities we serve

As we move into a time where we learn to live with Covid, we have seen our people respond to emerging challenges with great pride in the service we provide to our communities.

In November we saw the devastating damage caused by Storm Arwen. We know that the impact for our customers for extended periods without electricity was enormously challenging. During that period, I saw our colleagues rallying together to deliver a whole-company response, working tirelessly to restore supplies, to respond to calls to our contact centre, colleagues volunteering to door knock in affected areas and providing additional support to those customers in vulnerable circumstances. I saw all our colleagues pull together to support our communities and then to put in place learnings from this event when the network was further challenged by storms Dudley, Eunice and Franklin in February.

As we face political and economic uncertainty during the period of Covid recovery, the energy market being squeezed by rocketing gas prices and the invasion in Ukraine, we are ever mindful of the impact of our operations on customer bills. We have ensured customers' bills are lower than they otherwise would have been by scaling-up innovation projects such as Customer Load Active System Services (CLASS), helping to manage peak consumption periods without the need for traditional generation.

Our Board and Executive Leadership team have made it a priority to champion our consumer vulnerability strategy, supporting those customers in vulnerable circumstances, through their ongoing involvement in engagement activities. During 2021, we appointed our non-executive board member Anne Baldock as a Vulnerability Champion to work alongside our senior managers in the business. Work by the panel has revealed deep concerns regarding the surge in world energy prices, and consequent effects on energy bills. As a result, we have created a forward-looking electricity users in vulnerable circumstances strategy, including stretch levels of ambition on fuel poverty support. To deliver the long-term outcome our stakeholders value, we have already started ramping up activity. Examples include expanding our partnerships to ensure scalability, sharing our 'fuel poverty mindsets' research with 252 organisations and upskilling the workforce to recognise vulnerability to make every contact count.

Meeting the net zero challenge

The fundamental challenge that the country faces is delivering Net Zero at a price people can afford. That means the whole energy system, transport system and other interlinked systems and processes as well as domestic and business policy needs to be joined up, with each playing its part as a cohesive whole. These systems do not operate in isolation. There is very evident support in the North West for Net Zero, with Cumbria, Lancashire and Greater Manchester all committing to Net Zero before the UK's 2050 target and supporting our own plan to reach Net Zero by 2038.

To this end, in December we submitted our ambitions business plan to Ofgem covering the period 2023 to 2028. The plan was built from extensive and robust stakeholder engagement that, as a board, we saw first-hand. Our plans have to be ambitious to meet the challenges ahead, as well as meeting the needs of the thousands of customers and stakeholders whom we engaged with to develop our plans.

As a Board, we fully understand the pressures that government and regulators face when such huge commitments are required across so many sectors in a coordinated way. It is impossible to ignore the macro factors at play as we move forwards from the COVID-19 pandemic and also see the impact from the unprecedented rises in gas prices in the context of a cost of living crisis.

Chairman's Statement (continued)

The desire to protect customers from excessive bills is a fundamental requirement. As is making sure that the right amount of investment is taking place at the right time in the right areas to mitigate future risks.

Efficiency and innovation are key, as well as continued engagement. Electricity North West was the most efficient distribution network operator in ED1, is agile thanks to its size and structure and has a strong record of innovation.

It is this innovation and a laser focus on efficiency that allowed us to propose an ambitious plan where customers will pay less than they currently do for the network in ED2, while still aligned to the incredibly ambitious plans that the region and country wants and need on the path to Net Zero.

Good governance matters - more so in difficult times

I am pleased to report that despite all the many external challenges ENWL has had to cope with in the last year the Board has continued to fulfil its role of ensuring post event reviews and both provide and receive constructive criticism. The Board itself underwent a performance review by Lintstock and partners, and the INEDs were active participants with Professor Cave's (the Chair of Ofgem) review of Network companies governance. I am pleased to report that we lead on most of the aspects of Board governance that Ofgem deems important but remain open to suggestions to improve further.

The Board continues to fulfil its roles of assessing future risks, but also to assess risks in retrospect. I would like to thank Susan Cooklin, one of our independent Non-Executive Directors (INEDs), in particular for her role in both assisting ENWL on cyber and IT risks, and also for her refreshed approach to HSE committee. The latter including trips by INEDs to different locations in the region to see health and safety at first hand - and this also responded to a suggestion in the Lintstock review. The Board also takes its responsibilities seriously with regard to ' lessons learned', and in the last year we have reviewed the implementation of the Network Management system (NMS), the performance of the Company during Storm Arwen, and most importantly the fatality in our business.

We will continue to fulfil this 'constructive policing' role of the business and note that future challenges may well come with regard to independence of Distribution System Operations (DSO) activities and structures.

Chief Executive Officer Appointment

The Board are pleased to have announced the appointment of Ian Smyth as Chief Executive Officer. Ian will succeed Peter Emery, who will step down from his role later this year.

Ian brings over 25 years of experience working within major UK and international utilities and brings an established track record of delivering value and customer service for all stakeholders. The board believes that Ian is a great fit for Electricity North West and is well qualified to lead the business into ED2, its next business plan phase, leading and facilitating the switch of the North West to a low carbon economy in an efficient and cost-effective manner.

I would like to thank Peter again for his outstanding contribution to Electricity North West over the past six years. During his tenure, Peter led Electricity North West to become a leading DNO with significant improvements in safety, reliability, customer satisfaction and efficiency. The unique approach to innovation is evidenced in the successful CLASS and Smart Street technologies, and reflected in its ED2 business plan submission, which builds upon the company's commitment to stakeholder engagement.

Chairman's Statement (continued)

Final thanks

I would like to offer my thanks to my non-Executive Board members, the executive leadership team and all colleagues who have risen to the challenges that this year has given, be that in responding to the extreme weather events, supporting our vulnerable customers or in working with our stakeholders to develop our ambitious plans for ED2.

The workload associated with ED2 over 2021 and 2022 has been considerable and highly time intensive and I would, in particular, like to thank Rob Holden, our Chair of Audit Committee, who has worked very closely with the ED2 team in delivering the many layers of assurance approvals required by Ofgem.

Finally, a comment on our major investors who have supported the work of ENWL through this difficult year. Our Japanese investors (led by the second largest utility in Japan, called Kansai Electric) have in particular brought insights into our reliability assessments. We are very excited by how much further this can develop - Covid travel restrictions have only just been lifted enough for us to physically meet with them for the first time in two years! Our lead financial investors, Equitix Fund Managers, have also provided excellent macro economic and markets advice as well as assisted on the financial aspects of ED2. They have also provided fresh ideas and direction for our unregulated activities.

Alistair Buchanan CBE
Chairman

Chief Executive Officer's Statement

I am pleased to present the Annual Report and Consolidated Financial Statements for the year ended 31 March 2022.

It has been a challenging year with impacts on our operations from continued COVID-19 restrictions, significant numbers of energy suppliers failing in response to rising energy prices, rising inflation and supply chain disruption. Weather presented a significant challenge to the business this financial year, with an unprecedented seven named storms. The extreme winds during Storm Arwen caused significant damage to the overhead network and disruption to our customers.

Storm Arwen demonstrated how we can pull together as a business to support our customers when faced with some of the worst damage to our network we have ever seen. There were almost 900 individual faults which impacted 90,000 customers across our region. Our investment in network automation in recent years allowed us to restore power to over 18,000 of the 90,000 customers affected within 3 minutes. The full restoration response involved over 600 engineers including both our staff and colleagues from other distribution networks working together to carry out repairs and volunteers from around the business helped to contact our customers on the phone or in person.

The extent of the damage and difficult conditions meant a significant number of our customers were without supply for a prolonged period. Indeed, for the first 42 hours after the storm hit the region, the continuing wind meant that it was unsafe to climb. In these circumstances, there was a real focus on supporting our most vulnerable customers. This support included serving over 14,000 hot meals and making 17,000 welfare calls. The financial impact of Storm Arwen (c£10m) is reflected in our current year performance.

Despite the multiple challenges we have faced we have been able to sustain high levels of performance for network reliability, customer satisfaction and financial performance.

In the context of the current cost of living concerns we have also continued to focus on cost efficiency and keeping our bills below the GB average (ENWL at £79 compared to the average of £95 for 2021/22).

During the year we submitted our ambitious stakeholder led plans for the next regulatory period, ED2. The plan was the result of the most extensive customer engagement we have ever carried out and it sets out a clear vision around Net Zero with three headline commitments in the areas of Net Zero, Network Reliability and Customer Service. The plan also results in the lowest proposed ED2 bill of all the network groups but it is also important that our plan and the industry remains sufficiently attractive to investors so that we can deliver the investment required in the face of the Net Zero imperative. We are working closely with Ofgem to achieve this balance of an affordable but financeable plan as we currently await the draft determination.

Our vision to lead the North West to Zero

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

Our 'Go Net Zero' portal on our website helps others to embrace energy efficiency and help them understand how to adopt low carbon technologies.

This year we have made a number of important steps to support delivery of this vision, including bringing forward more than £20m of investment for projects which will drive a green recovery from Covid-19, all geared to helping the region hit its net zero carbon targets.

Chief Executive Officer's Statement (continued)

In September, we saw our new network management system (NMS) go live. This significant investment in the next generation NMS and further ongoing investment in Active Network Management (ANM) will enable granular real time control of the network at all voltage levels. It will position the business for the next stage of the transition to the low carbon economy and facilitate the provision of Distribution System Operator (DSO) activities, a key enabler to a low carbon future. ANM will enhance the flexible solutions we offer to support customers in the low carbon transition.

In December, we established a new DSO Directorate, giving us plenty of time to establish it fully in time to deliver our commitments for the next price review, RIIO-ED2.

This year we have seen a dramatic increase in connections and service alterations for Low Carbon Technologies (LCTs); we have responded by re-organising and recruiting to be able to handle the increased activity and the projected growth to ensure that we do not slow down the transition to LCTs.

At ENWL, innovation is a core strength. We have developed two leading technologies, CLASS and Smart Street, which go a long way to solving the difficulty of providing more capacity at both a reduced cost and a reduced carbon impact, compared to traditional methods. This year we won funding for a new Network Innovation project, BiTraDER which will start this year, with the aim of reducing barriers to the connection of low carbon generation and bring down whole system costs by adding value to the flexibility market.

We are not only mindful of our leading role in enabling the low carbon agenda, but also in reducing our own carbon emissions.

We have seen a further reduction in our own emissions reflecting energy efficiency investment but also with the benefit of reduced travel during the Covid restrictions. We are working hard to permanently embed many of these savings where this is possible.

This year we have introduced a scheme to make it easier for our colleagues to make the change to an electric vehicle (EV). This includes free charging facilities at our depots/offices and incentives for switching to an electric or hybrid vehicle. Our significant reduction in oil leakage that we achieved over the last few years has also been maintained.

Maintaining one of the world's most reliable networks

Our customers and stakeholders make it very clear that our fundamental role is to keep power flowing to customers and network users. Moving to Net Zero will only increase our dependency on electricity in all aspects of our lives. This year we continued to improve network reliability, achieving our lowest ever level of customer interruptions, with Customer interruptions, representing the number of interruptions our customers' experience, reducing from 30.8 to 25.8. Customer Minutes Lost, representing the length of time they are without power in the event of an interruption, were their second lowest ever at 27.4.

Our network has to withstand the external environment to ensure it continues to operate reliably even under extreme circumstances, such as severe winter storms. This year, the seven named storms have tested the resilience of our network.

We have worked hard to minimise the risk of the impact of such events and also to prepare ourselves to react quickly and effectively when severe events do happen, particularly in providing support to those more vulnerable customers. We continue to learn from these events and update our preparations and response. Since storm Arwen, we have started some additional innovation to install new technology (auto reclosers) on our low voltage circuits which feed smaller and remote locations; this should reduce the disruption for some customers who suffer from loss of supply with no permanent storm damage to the network.

Chief Executive Officer's Statement (continued)

We are also investing more in tree cutting to improve network resilience and proactively investing to prevent customers ever becoming "worst served".

The coming financial year to 31 March 2023 will represent the final year of the current price review, RIIO-ED1. We have carefully planned our final year of ED1 to ensure we fulfil the price control contract and closeout all the deliverables we have committed to for our customers. Next year, significant investment is planned in reinforcement activity to help support the growth in low carbon technology and to ensure that network constraints are not a barrier. We also continue our focus on public safety with investment programmes for rising lateral mains and blast mitigation bags for link boxes.

Customer- Delivering high levels of customer service and providing additional support to electricity users in vulnerable circumstances

We were proud that our Company is the only network operator group in the country to have achieved green ratings from Ofgem in all categories for each of the last five consecutive years. We continue to strive to improve our performance in all areas and provide the best possible service to our customers in the North West.

Affordability and cost efficiency remains a key focus area, particularly against the backdrop of significant rises in energy bills, high inflation and the impact of failing energy suppliers. We continue to work hard to deliver our obligations efficiently, including a particular focus on the use of innovation, to keep customer bills as low as possible. We are proud that our element of customer bills remains below the average GB domestic bill.

In addition, we have increased support to consumers with higher vulnerability, supported by rolling out company-wide training and the introduction of an app to allow colleagues to refer customers for additional welfare support.

We hear clearly from our customers that they want us to do even more to help alleviate fuel poverty and to make sure that customers who are already economically and socially disadvantaged are not left even further behind as we move to a zero carbon economy. We are continuing to find ways to enhance the support we provide to customers in vulnerable circumstances, including commencing a two-year pilot project with Citizens Advice Manchester which has helped improve and target the support we provide and develop our strategy in this area.

We have been able to provide more proactive support to our Priority Service Register (PSR) customers during the year, particularly during the winter storms. Due to the growing importance of this area we have also added an additional ED1 Business Plan Commitment which was endorsed by our Vulnerability panel to ensure we deliver the outcomes of this partnership with Citizens Advice Manchester.

We have continued to focus on maintaining high levels of customer satisfaction, with overall customer satisfaction for the year at 88.7% (2021: 90.8%). Customer satisfaction was impacted this year during the storms, with unusually high call volumes. We are focused on plans to recover customer satisfaction to above 90%.

Our culture and responsibility framework

Our purpose 'Together we have the energy to transform our communities' is underpinned through having high levels of employee engagement. Our two colleague surveys delivered engagement scores of 75.4% and 74.7%. Both are in line with sector peers and with the high benchmark, set at 75%. We aim to be recognised as an employer of choice and to continue our development this year we have undergone an assessment by Investor in People.

Chief Executive Officer's Statement (continued)

We deploy a clear management philosophy which is embedded in our business. This is built on fundamentals such as strong accountability and ownership, leaders being change agents focused on improvements. We continue to work to embed our safety culture which is demonstrated in our sustained low levels of lost time incidents.

This year we have been investing in carbon literacy training for our colleagues and have applied for the silver accreditation for the Carbon Literate Organisation (CLO). We were proud to win the Greater Manchester Good Employment Award in recognition of the work we have done to support our colleague's mental well-being.

Improving our levels of diversity has been a focus area for us this year and led to the launch of a new diversity strategy 'Include me'. This focus has seen increases in females in STEM roles from 7.4% to 8.8% and ethnic minority representation from 4.1% to 4.5% in FY22. Female leadership has remained at a similar level of 31.7% whilst female representation at the Executive Leadership level increased from 25% to 33.3%.

We have a strong track record of attracting apprentices and over the 8 year ED1 period we will have recruited and developed over 140 apprentices, ensuring a pipeline of talent. We champion diversity through our programs and have increased diversity of the apprenticeship program by having 21% female and 26% ethnicity, winning the Recruitment practice of the year award at the Regions Apprenticeship Awards. We have achieved this through working across our communities, engaging with schools, colleagues and local mosques.

Sadly, this year we experienced the tragic death in service of Martin Parker, who died through no fault of his own after being hit by a car driven by a member of the public whilst doing his job as a jointer. It is a reminder to us all of the risks our colleagues take whilst serving the public. I am proud to work with them. Our thoughts are with Martin's family and friends.

Finally, I would like to thank all our employees who have continued to work to secure our critical infrastructure during the challenges we have faced this year. They have each played their part in making this a successful year for our business.

Peter Emery
Chief Executive Officer

Strategic Report

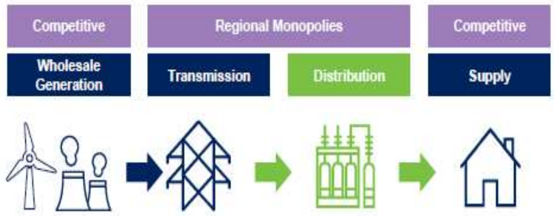
Electricity North West Limited is a private company limited by shares and incorporated in England, the United Kingdom, under the Companies Act 2066. It is ultimately owned by investors composed of funds advised by Equitix, a consortium led by KDM Power Limited and Swingford Holdings Corporation Limited, as shown in Note 29. The immediate parent company is North West Electricity Networks plc ("NWEN plc"), which is a company limited by shares and incorporated in England, the United Kingdom, under the Companies Act 2006.

Company Background

Electricity North West Limited is the electricity distribution network operator for the North West of England.

The Company serves approximately 5 million customers at 2.4 million domestic and industrial locations, has circa 1,900 employees and provides a safe and reliable electricity supply, 24 hours a day, seven days a week.

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



The role we play in serving our communities continues to evolve as we seek to transition to a low carbon economy and electricity generation becomes more distributed across our network.

Network operators are critical to the evolution of the electricity market and will need to play a more sophisticated role in managing our network in an environment of multi-directional electricity flow, as well as allowing for the integration of new technologies such as electric vehicles, heat pumps and distributed generation and storage.

How we charge customers

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

The prices that we charge our customers for distributing electricity are regulated by the Gas and Electricity Markets Authority (GEMA) which operates through the Office of Gas and Electricity Markets (Ofgem), but we recognise that ultimately it is our customers that fund the business and its investments in the network. ENWL's costs were around 13% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £79 per home for the year ended 31 March 2022; this compared to an average DNO customer bill impact of £95 per home.

Strategic Report (continued)

Regulatory framework

Charges are regulated by Ofgem through the RIIO model, which stands for Revenue = Incentives + Innovation + Outputs. This model determines how much the Company is allowed to charge its customers to fund network investment and operating costs in the RIIO-ED1 regulatory period which runs from 2015 to 2023. The RIIO model is designed to drive real benefits for customers through incentives for good performance in key performance areas.

During the year we submitted our ambitious stakeholder led plans to Ofgem for the next regulatory period, RIIO-ED2 which will govern the next price control period, from 2023 to 2028.

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

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

The RIIO price control model also incentivises cost reductions, delivering a well-maintained and efficiently invested network for the long-term, but at a lower cost, through innovation as well as efficiency. These are shared between customers and shareholders, again after an annual review.

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

The Company is committed to ensuring the sustainability of the network for our customers now and in the future. We routinely inspect the network and these inspections inform our maintenance and asset replacement programmes taking electrical load and customer numbers into account.

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

COVID-19

The COVID-19 pandemic has continued to provide a challenging backdrop for the Company, our colleagues and our customers. As ENWL is deemed a critical service provider by the UK Government, we have continued to deliver essential services to all customers throughout the pandemic, with additional support provided to those identified as vulnerable.

We have continued to be proactive in monitoring the rapidly changing COVID-19 guidelines throughout the pandemic, responding to local and national changes, adapting our policies and procedures to ensure the safety of our people, customers, partners and the public. The Company has not received any government assistance throughout the pandemic maintaining full employment for colleagues.

We continue to review our working practices and policies as we move into a period of living with COVID-19.

Supporting our colleagues

Our priorities in dealing with the exceptional challenges posed by COVID-19 has continued to be the safety of our colleagues with a continued emphasis on positive mental wellbeing, and the safety of our customers all whilst maintaining the reliability of supply and building resilience for the future.

Strategic Report (continued)

COVID-19 (continued)

During periods of pandemic restrictions, all colleagues, to the extent their roles permitted were supported to work from home. As restrictions have eased, we have continued to adapt our ways of working to allow colleagues the flexibility to balance home and office working, with the introduction of an agile working trial. To facilitate greater agile working we have significantly increased our IT investment over the last two years.

For our colleagues who work in the field, we continued to implement appropriate safety and hygiene procedures, which have been adapted as government advice has evolved, including social distancing measures and use of additional personal protective equipment. For those employees who have not been able to work effectively from home, and to facilitate the return of others, we have continued to adapt measures to ensure that we keep our colleagues safe in our offices and depots.

The commitment shown by our colleagues to the business and our customers throughout the pandemic has been exceptional. At the same time, we do recognise the impact that these unprecedented times can have on wellbeing, especially mental wellbeing. We continue to support colleagues through our mental wellbeing support mechanisms, including our Employee Assistance Programme which is available to all employees.

Maintaining supplies

In line with our role as an essential service provider, we have continued throughout the pandemic with our essential maintenance of the network, as well as responding to power cuts when these occur.

Throughout the last two years we have worked closely with Government and Ofgem as well as the industry body, the Energy Networks Association, to ensure a consistent industry-approach.

Supporting our customers and communities

Notwithstanding the pandemic we have continued to respond to issues across the network 24 hours a day, 7 days a week, to keep power flowing, including responding to power cuts, wherever and whenever they happen.

During the pandemic the Company commissioned independent research on the impact of the COVID-19 pandemic on customers with vulnerabilities to identify emerging trends and challenges.

The report was shared with our partners, and used to target actions by the Company, both independently and in collaboration with partners, to provide support and target Priority Services registration.

Maintaining financial resilience

Like most businesses, the COVID-19 pandemic had an initial direct effect on our cost base such as additional investment in remote IT access to allow colleagues to work from home. While some expenditure has been ongoing during the year ended 31 March 2022, expenditure levels directly related to the Covid-19 response have been more modest.

Our allowed revenues are set by Ofgem. While revenues recorded in any financial year are, in part, based on volume demand over the network, to the extent that we do not collect all our allowed revenues, the regulatory framework adjusts collections in future years. This, therefore, means that any short-term impact on revenue collection timing does not have a lasting economic impact on us. Revenues returned to near pre pandemic levels in the year ended 31 March 2022.

Our funding position continues to be strong, through careful management of our liquidity and working capital. As at 31 March 2022, ENWL had £59.4m (2021: £322.4m) of available cash and £50.0m (2021: £50.0m) of available but undrawn bank facilities, representing available liquidity of £109.4m (2021: £372.4m). In July 2021, the £200m inter-company loan was repaid with funding raised in the prior year. There is also headroom against all compliance ratios and there are no re-financing obligations due in the next 12 months that are not already covered by the available liquidity noted above.

Strategic Report (continued)

COVID-19 (continued)

Consideration has continued to be given to the financial impacts of COVID-19, including the disruption to supply chains, by the Directors in making the going concern and viability assessments and in determining any possible impairment of the Company's assets. The Board continues to monitor the situation, with flexible plans in place to support short-term liquidity, were that to be necessary, and to ensure the long-term stability of the Company.

Other External Factors

RIIO-ED2 Business Plan

During the year we submitted to Ofgem our ambitious stakeholder led plans for the next regulatory period, RIIO-ED2, covering the period from 2023 to 2028. The plan was the result of the most extensive customer engagement we have ever carried out and it sets out a clear vision around Net Zero with three headline commitments in the areas of Net Zero, Network Reliability and Customer Service. The plan also results in the lowest proposed ED2 bill of all the network groups but it is also important that our plan is sufficiently attractive to be able to attract the required investment funds. It is particularly important that the industry remains attractive to investors so that the industry can deliver in the face of the Net Zero imperative. We are working closely with Ofgem to achieve this balance of an affordable plan but one that remains sufficiently attractive to investors and we are currently awaiting our draft determination.

We note that Wales and West Utilities (WWU) has requested a Judicial Review into the decision by the Competition and Markets Authority (CMA) on its appeal against Ofgem's Final Determination for the RIIO-ED2 period. The Judicial Review, if granted by the High Court, will consider the legal interpretation of a number of statutory provisions made by the CMA, including those directly related to the financing of Energy networks, providing much needed clarity on the financing duties set out in statute. As detailed in our ED2 Business Plan submission, we consider it to be vitally important for the long-term interest of customers that Ofgem ensures that equity investors in all networks can make investment decisions, confident that efficiently incurred debt costs will be met, even in periods of rising interest rates.

Energy prices and supplier administrations

The unprecedented rise in gas and electricity prices over the last year has put energy markets under severe strain. Consequently, there were significant numbers of energy suppliers who entered administration during the year ended 31 March 2022.

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

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

As a result of the significant volume and value of SoLR claims approved by Ofgem, our allowed revenue for the financial year ending 31 March 2023 will be £79m higher that it would otherwise have been, as this levy is collected. However, immediately at the point the levy becomes billable, the entire value of the levy is paid over to suppliers, with networks making no profit from our role in the process, with this net position (nil) being recognised in turnover.

In the year ended 31 March 2022, there were bad debts recorded of £2.9m (2021: £0.8m) in relation to failing suppliers. The costs of this bad debt are recoverable through adjustments to prices in future years.

Strategic Report (continued)

Political and economic uncertainty

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

Having considered the factors noted above there are no material impacts on either the going concern statement on pages 37-38, or the period covered by the viability statement page 38.

Purpose, principles and corporate goals

ENWL is operating in a dynamic, rapidly changing environment. Customers in the North West rely on the services we provide to keep them connected with friends, family and the wider world, keep their electric cars running, ensure their homes are heated and enable them to work smarter and more flexibly. The Company aims to provide customers with an excellent service at an affordable price through a safe and reliable electricity network. The Company balances the priorities of maintaining a **reliable** network in the near term, investing to ensure this is **sustainable** in the long term, whilst keeping costs as low as reasonably practicable to meet the **affordability** challenge for our customers.

Our Purpose '**Together we have the energy to transform our communities**' articulates the contribution we make and the ambition we have for the communities we serve in our region. This Purpose is embedded within our business and helps to enable us to effectively deliver our plan. Our Principles capture the mindsets, hearts and skills required for us to deliver the Purpose and they have played a vital role in the delivery of our improved business performance.

These principles are now a well-established touchstone for behaviours within the Company and will continue to be key as we seek to consolidate and continuously improve the progress we have made.

We report on our performance against corporate goals that span these multiple priorities.

- ***Safety and Environment***
- ***Customer***
- ***Affordability***
- ***Reliability***
- ***People***

Safety and Environment

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

Operational safety

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

In the year ended 31 March 2022 we have continued to review and improve our safety management system which is certified to the international standard ISO 45001.

We finished the year ended 31 March 2022 with a lost time injury frequency rate 0.058 (2021: 0.012) having had five lost time injuries in the year.

Strategic Report (continued)

Safety and Environment (continued)

While an increase on prior year, this relatively low incident rate reflects the sustained improvement since we embarked on a company-wide initiative to create an enhanced safety culture. The total recordable injury rate was 0.175 (2021: 0.178).

We are never complacent about safety and in the year to 31 March 2023 we will embed an updated plan to further improve our safety record, including working closely with our contract partners.

As our safety journey continues, we are increasingly focused on the quality of, and learning from, safety observations and positive challenges, rather than focusing on the volume of these. Safety observations in the year were recorded at 9,438 (2021: 9,286), plus 2,447 positive challenges (2021: 1,878).

Asset safety

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

During the year ended 31 March 2022 the Company made further progress in our ED1 programmes of work designed to reduce further the risks associated with link box failure and rising and lateral mains (RLM) in multi occupancy properties.

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

We continue to use innovation to target the potential risks associated with electricity supplies in multi occupancy properties, (referred to as RLMs). We have installed innovative monitoring equipment which helps identify abnormalities and inform replacement prioritisation.

Environmental performance

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

In terms of our own direct operational impact on the environment, our principal performance indicator is the level of carbon dioxide emissions equivalent (tCO2e).

This measure covers the environmental impact both from the use of fossil fuels in vehicles and generators and of energy in buildings, as well as the impact of Sulphur Hexafluoride (SF6), which is a strong greenhouse gas historically used as insulation in electrical equipment.

At the start of the current regulatory period we made a commitment to our customers to reduce carbon emissions, in tCO2e, by 10% from a 2014/15 base year, by 2020. Through targeted investment in the efficiency of our buildings and other efficiency measures, the level of emissions reduction has exceeded this level, having been reduced by 45% from 2014/15 levels to 13,398 tCO2e in the year ended 31 March 2022. Emissions in the year reflect the benefits of energy efficiency measures but also some benefit from reduced business travel during the pandemic. However, we are working hard to embed some of the savings as permanent benefits. In addition to this reduction, our CLASS innovation has reduced carbon-based generation in the economy, by avoiding the need for traditional generation, saving approximately 4,500 tCO2e.

As the move to a low-carbon economy continues to gather pace, local authorities in the North West region are setting more challenging targets than the UK as a whole. This regional acceleration presents both challenges and opportunities for the business and has become central to our strategic thinking.

Strategic Report (continued)

Safety and Environment (continued)

Our "Leading the North West to zero carbon plan" sets out some of the actions that we are taking to decarbonise our operations but also provides exemplars, research evidence and business case information to inform the investment decisions that stakeholders need to take to decarbonise. We have been working closely with key stakeholders across the region and have produced decarbonisation pathways for Greater Manchester, Cumbria and Lancashire.

Our recently published electric vehicle strategy sets out our plans to lead and support stakeholders on the journey to decarbonise the region's transport. Our role is to facilitate this journey by preparing the electricity network for the rapid uptake of electric vehicles (EVs) and the associated charging infrastructure needed to support this.

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

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

Because the transition to carbon neutrality is as much about behavioural change as it is about technologies, we became the first bronze accredited carbon literate Distribution Network Operator and are now eligible for the silver accreditation. This involves providing carbon literacy training to all of our leadership team to ensure our people understand how they can reduce their own carbon emissions both at work and at home. We have a goal to achieve Gold during ED2.

Our website 'GoNetZero' which brings together research with businesses across the region looking at what different business types can do to decarbonise, barriers they face when adopting low carbon technologies such as EV charging and PV Solar panels. The information is available on our website and will be reviewed regularly ensuring the accuracy and relevance of the information that we provide.

Reliability

Our customers consistently say that "keeping the lights on" remains one of their top priorities. This becomes ever more important as customer dependence upon electricity continues to grow as we move to a low carbon future.

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

Performance is tracked using a variety of metrics including: delivery of the capital programme outputs, delivery against guaranteed standards of performance and network reliability measures, including customer interruptions (CIs), customer minutes lost (CMLs) and average supply interruption duration (ASID).

In the year ended 31 March 2022, the average number of interruptions per 100 customers (CIs) at 25.8 (2021: 30.7) was our best year (previously 2020) and significantly outperformed the target of 46.0 set by Ofgem.

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2022 was 27.4 (2021: 28.2), which is our second-best ever performance and significantly outperformed the target of 39.7 set by Ofgem.

These performance improvements have been driven through a combination of investment in automation and network resilience, as well as improved processes and management of operational response when faults do occur.

Strategic Report (continued)

Reliability (continued)

The interruptions numbers quoted reflect the exclusion of the two qualifying exceptional event claims during the year that have been submitted to Ofgem (relating to storms Arwen and Franklin).

This year saw the challenges of transitioning to our new network management system whilst managing seven named storms, one of which (Arwen) causing the biggest customer impact in 10 years. These events have created a challenging year for restoration performance.

The new network management system provides a strong platform for enhanced performance moving forward.

Network reliability continued to be high with a network availability of 99.995% excluding the impact of exceptional events.

This year we continued to invest in vegetation management and installation of further automation devices to support rapid restoration of customer' supply. This is a continued part of our strategy and ensures that interruption is kept to a minimum. It was as a result of this investment that we were able to restore power to over 18,000 of the 90,000 customers affected during Storm Arwen within 3 minutes.

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

Most customers enjoy excellent levels of reliability, but we recognise that there is variability in the level of service experienced by some. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. During the year we have continued to invest in schemes to aim to reduce long term the numbers of worst served customers, with the number of customers meeting this Ofgem definition decreasing in the year to 711 in the year ended 31 March 2022 (2021: 774) of which 179 were directly attributable to Storm Arwen.

Through continuing to proactively target areas experiencing poorer performance, we expect to be close to achieving our target of having no customers meeting this definition of 'worst served' by 2023, noting there can be some year on year variability caused as much by the probability of any given circuits having issues as by weather events.

In order to achieve this ambition, we are focusing on understanding customers' experience of multiple interruptions which, in turn, will allow us to identify proactively customers/circuits for early intervention. We are strengthening in this regard our capability to monitor and actively respond to multiple interruptions.

Investment in an affordable and sustainable network

In the year ended 31 March 2022, a total network investment programme of £81.4m was delivered (2021: £74.6m). In addition to the investment to improve the automation of the network and increase capacity, we continue to invest to maintain the relative health of the network. The current network has been installed over many decades and a significant proportion of the programme relates to replacing existing equipment at, or approaching, the end of its life with modern equivalents.

Innovation is essential to maintain network performance and reliability levels and to meet the increasing demands on electricity from the decarbonisation of energy, at an affordable cost. Innovation is a core competence of ENWL and we deploy the latest innovative solutions to develop an optimised investment programme and to deliver considerable cost benefits and efficiencies that are then shared with customers. Our innovative projects Customer Load Active Services (CLASS) and Smart Street are examples of our work to support decarbonisation whilst ensuring customer bills are still affordable.

Strategic Report (continued)

Customer

Supporting customers in vulnerable circumstances is core to our customer strategy. We have continued to increase our spend to support customers in vulnerable circumstances and to develop our partnership with Citizens Advice Manchester (CAM) introduced in 2021. CAM act as our Strategic Partner to support fuel poverty, energy efficiency and other conditions which may leave consumers vulnerable in the region as the result of a power cut.

Our "Electricity Users in Vulnerable Circumstances Strategy" is the framework we use to ensure that the support we are giving customers in our region is focused appropriately. It helps us respond to the complexities of the challenge of supporting those most in need in our region.

Our strategy is informed by our Advisory Panel and supported by external specialist support agencies. A good example of our work in this area is the creation of the first DNO Emergency Credit Voucher scheme to support those customers who were unable to top up their prepayment meters during the COVID-19 pandemic which is now business as usual and has been adopted by other DNO's.

We maintain a Priority Service Register (PSR) to identify those customers who are most dependent on our services. In the year ended 31 March 2022, we have continued to promote our PSR and have developed our strategy to offer more targeted services to higher risk customers, for example those who are medically dependant on electricity. Investment in staff training has also been a focus in order to help facilitate this.

We have just over one million customers on our PSR. This tells us that almost 20% of our customer base consider that they need extra support during a power cut. Support is provided through our dedicated Customer Welfare Team, over 20 external specialist support agencies, multiple partners and all our customer facing teams.

In delivering for our priority customers we have managed to reach out to over 526,499 customers this year (2021: 544,517) and contacted a further 1.4 million properties to ensure they are aware of the Priority Service Register. These communications were carried out through multiple channels including letters, email and telephony.

We recognise our role in helping to tackle fuel poverty and the particular challenges this brings in our region. During the year we have engaged with a variety of partners in a bid to offer extra support to the customers in our region who are impacted by fuel poverty.

Through the introduction of referral partnerships this year the volume of support increased to the highest level to date of 11,000 homes benefiting from the service. We are now helping to provide our customers with advice on issues such as energy saving and income maximisation, as well as offering debt advice, replacement white goods, free energy efficiency measures and referral to other relevant services.

Delivering excellent customer service is important to us. Customer satisfaction levels have improved throughout the ED1 period. However, this year there was a slight reduction in performance driven by the impacts of the seven named storms experienced across the region. These events caused a significant increase in customer contacts during the storms and with queries related to guaranteed standards compensation payments. We have also seen significant increases in contacts regarding interventions to support the connection of low carbon technology. The performance still delivered an overall score of 88.7% in 2022 (2021: 90.8%). The relative ranking among the DNOs was 12th (2021: 12th) with all DNOs showing performance at similar levels.

The Company is committed to improve further customer satisfaction levels, with clear actions in place that are monitored regularly by the Executive Leadership team. The actions focus around simplification, compliance with the customer journey, improvement in systems and resourcing strategies.

The number of complaints we receive has increased in the year, with complaint volumes up 35% compared to the prior year.

Strategic Report (continued)

Customer (continued)

The increase is attributed to the high number of severe weather incidents experienced this year, notably Storm Arwen at the end of November 2021.

We also track the time taken to resolve complaints when we do receive them. The overall complaints performance within the year continued to outperform the Ofgem penalty incentive and reflects a significant year on year reduction, with a complaint metric of 3.45 (2021: 1.76), with 80.1% of complaints resolved in 24 hours (2021: 85.7%). This complaint metric reflects the percentage of complaints resolved within 24 hours, combined with the percentage of complaints resolved within 31 days.

We continue to focus on Guaranteed Standards of Performance for Connections. While an increase in GSoP failures occurred this year due to the significant volumes in work mainly associated to Low Carbon connections such as EV's requiring network interventions. Plans are in place to improve and enhance the level of service that we want to give to our customers and will be continuing to focus on making more improvements to simplify the process.

People

The Company is a major employer in the North West of England and employs circa 2,000 people in the region. The Company also works with carefully selected local contract partners to support fluctuating work demands, providing even wider levels of employment for the region. We are committed to building careers for our people providing secure, long-term employment in an inclusive environment where everyone feels a sense of belonging.

We strive to balance the right skills and people resources to support the business now and in the long term, supported by our workforce resilience strategy, diversity and inclusion strategy and overarching people strategy to attract, develop and retain the best talent into the sector.

Our purpose and principles are underpinned by a continued commitment to our management philosophy encompassing fundamentals of leadership, ethical standards and securing competitive advantage. Together, the Purpose and Principles and 'Management Philosophy' support our corporate culture.

Climate is the measure the Company uses to quantify 'how it feels to work here' and, in turn, makes the link between this 'feeling' and how the Company performs. Half yearly colleague climate surveys are undertaken to measure engagement and levels of agreement with the Company's identified climate priorities. Leadership teams are responsible for reflecting and identifying areas for improvement between each survey to continue to drive engagement and performance.

Colleague engagement scores are high, with a survey response rate of 70.1%. The latest survey in October 2021 had an overall employee agreement rate of 74.7% which is in line with our target of 75% agreement. Our colleagues rated pride, customer focus and health and safety highest.

The Company continues to make significant investment for all employees in training and development. Facilitating three successful leadership talent development programs in 2021, commencing work on emotional intelligence for leaders and providing a learning and development portfolio to boost all employees' competencies.

We have been commended for our work on mental wellbeing though our partner Mates In Mind and we won an award for 'Best for supporting Mental Wellbeing' in February 2022 through the Greater Manchester Good Employment Awards.

The Company launched its first diversity & inclusion strategy in March 2022, the vision is to 'create a sense of belonging for our colleagues and truly reflect the communities we serve'. More information can be found on our website. Our revised people policies promote inclusion, reflecting the diverse communities we serve which act as a platform of our developing culture.

Strategic Report (continued)

People (continued)

We are committed to creating a great place to work and influencing diversity and inclusion in the Energy sector. It is crucial to integrate equality, diversity and inclusion in everything the Company does.

We have continued to take positive action on our diversity and inclusion journey, to ensure our workforce is more representative of the communities we serve, with a particular emphasis on attracting female and underrepresented groups into the business. We have achieved 32% female representation in leadership roles and 8.8% representation of females in engineering roles. While we are continuing to make good progress there is still more to be done.

Working with our local communities, including successful partnerships with local mosques, schools, colleges and universities we have seen a rise in minority ethnic candidates joining the business. Overall the percentage of minority ethnic colleagues has risen from 2% to 4.5% in the last two years. Our apprenticeship appointments in 2021 delivered a 50% split of diverse candidates into roles. We won the Recruitment Excellence Award at the National Apprentice of The Year Awards in 2021 in recognition of our program.

The Company is committed to fulfilling its obligations in accordance with the Equality Act 2010. As an equal opportunities employer, equal and fair consideration is given to all applicants regardless of their diverse backgrounds.

If necessary, the business will modify equipment and practices wherever it is safe and practical to do so, both for new and existing employees, to assist all colleagues work successfully with us.

We are committed to rewarding our colleagues equally, regardless of gender. More information on our gender pay gap reporting is available at www.enwl.co.uk.

We have been an accredited Real Living Wage Employer since 2019 and contract with our supply chain to honour the real living wage commitments for their people.

Corporate Social Responsibility

Our Responsibility Framework

Our Responsibility Framework has been embedded in the business, since its launch in 2019. It articulates the Company's Corporate Social Responsibility Strategy. The Framework demonstrates that we consider the social, environmental and economic impact in our decision-making and that our activity delivers a wide, positive, societal impact.

Aligned to our Purpose 'Together we have the energy to transform our communities', the framework is structured to deliver responsible business practices for our people and partners, our communities and our environment. Over recent years, despite the impact of the coronavirus pandemic, teams across the business have made significant progress across all areas of the framework. This year we have continued to drive forward our commitment to Lead the North West to net zero and developed our approach to diversity and inclusion and wellbeing along with significant investment in responding to consumer vulnerability.

Highlights from the strategy include:

In our **people and partners** section, this year we have continued to deliver essential services and serve our communities despite the ongoing restrictions from the coronavirus pandemic. We have prioritised our customers and our colleagues health and safety throughout, updating our approach in line with the changing legislation and industry best practice. This prudent approach led to the Company operating with minimal implications throughout the pandemic developing and promoting our colleague wellbeing programme.

This year the Company has made significant progress launching its first Diversity and Inclusion (D&I) strategy, with stretching goals to drive significant change in colleague demographics. Our inclusion vision 'We are committed to creating a sense of belonging for our colleagues and truly reflecting the communities we serve', is driven by our newly appointed D&I Manager, leaders and colleagues across the business. We have developed the functionality for 'blind' CVs and used this approach for our 2022 apprentice recruitment to reduce unconscious bias. In 2022 ethnic diversity increased (4.1% to 4.5%) and throughout the last two years, 12% of new colleagues were from ethnic diverse backgrounds. Female leaders remain high at 32% and females in engineering roles rose to 8.8%. To support D&I and drive change, six colleague resource groups have been established (Women in STEM, menopause, LGBT, ethnicity, disability, armed forces).

The Company is proud to be a Real Living Wage employer, a member of the Greater Manchester Combined Authority Good Employer Charter and a founding partner of the Utilities National Work Group on Modern Slavery. Throughout the year we have worked with our supply chain to promote good practice and will develop further opportunities to achieve our net zero science-based targets in the coming years.

In our **communities'** section, our colleague-led approach to fundraising has continued to be impacted by reduced fundraising events during the pandemic. However, we have continued to support our colleagues and communities with all funds distributed by our eleven local teams.

This year we made over 60 donations of more than £19,800. Supporting and identifying 46 individual charities. Colleagues across the Company volunteered more than 200 hours with partner organisations.

Strategic Report (continued)

Our Responsibility Framework (continued)

This year, with the developing cost of living crisis, has been a critical time for our partners supporting people in vulnerable circumstances. Our ongoing financial support for projects and links with over 100 partners has provided crucial support and over 12,400 families receiving energy efficiency advice and 11,163 fuel-poor customers supported.

Our in-school education programme continued to be impacted by the pandemic. However, we were able to continue to promote our on-line resources and we were able to attend a number of science fairs over the summer.

In our **environment** section, the Company has progressed with its ambitious plan to tackle our operational carbon footprint. We are proud to have continued our Carbon Literacy journey and now eligible for the silver accreditation. The creation of zero carbon buildings has seen the installation of energy saving and low carbon technologies at several sites and 103 electric vehicle chargers have been installed at our depots. Additionally, colleague schemes have been introduced to transition company and personal cars to electric vehicles, with 114 already taken up.

This year we have continued to develop our biodiversity and net zero commitments with the approval of our Biodiversity Action Plan. In addition, a further two tree planting sites identified for the 2021/22 season and a further eight sites completed for our successful Transforming our Spaces, wildflower and biodiversity programme.

Responsibility Benchmarks

We have benchmarked our Responsibility approach against the Business in the Community (BITC) Corporate Responsibility Index and Tracker for a number of years.

The new Tracker score (77%) showed that the Company is scored significantly higher than the cohort average (45%). The Company scored particularly highly in the core areas of purpose, governance and transparency and stakeholder engagement. It also performed well in climate action strategy, health and wellbeing action, plus nature stewardship and inclusive employment and good work. We will continue to work with BITC to assess further areas of our framework and ensure alignment to the UN Sustainability Goals.

Stakeholder engagement

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

This year we continued to develop our ongoing discussion and challenge with our stakeholders and advisory panels around our current activities, performance and RIIO-ED1 business commitments along with continued engagement around refinement of our RIIO-ED2 business plan and associated strategies, including the Stakeholder Engagement and Awareness Strategy.

We committed to giving stakeholders and customers a strong voice in shaping our ED2 business plan. Over the last two years we engaged with more than 18,500 customers, consumers and stakeholders as part of our six-stage engagement plan. In the first year the focus was understanding priorities and customer and stakeholder willingness to pay for services.

In April 2021 we published an early draft of our plan for consultation, before developing our official draft business plan that we sent to Ofgem in July, followed by further consultation and engagement and our final submission in December 2021.

During the year we completed two ‘Powering up the North’ (PUN) events engaging with over 200 stakeholders. Since September 2020 we’ve hosted nine PUN events engaging a total of 527 stakeholders including MP’s, regulators and regional stakeholders. Our stakeholder engagement work is independently reviewed by our Customer Engagement Group (CEG) and in doing so has access to the Board and the Executive Leadership Team.

Strategic Report (continued)

Stakeholder engagement (continued)

Throughout the year, the CEG met monthly until production of its final report in January 2022.The CEG has provided rigorous scrutiny of our RIIO-ED2 Business Plan throughout its development. The CEG will continue to meet on a regular basis throughout the Ofgem Open Hearings and Draft and Final Determinations processes.

Our independently-chaired Consumer Vulnerability and Sustainability Advisory Panels alongside our strategic Chief Executive Advisory Panel have continued to present robust challenge and insight into our current activities whilst also providing valuable input into key ED2 strategies, particularly the Electricity Users in Vulnerable Circumstances Strategy and the Environmental Action Plan. The panels have met 'virtually' 18 times this year giving 35 hours of engagement to the Company.

This year our three annual regional advisory panels, were co-hosted by the regional authorities in Greater Manchester, Lancashire and Cumbria enabling us to present a regional perspective and demonstrate the benefits of joint engagement and strategic regional understanding of key issues such as net zero, electricity users in vulnerable circumstances and regional economic development.

In addition to our advisory panels and comprehensive programme of market research, we deliver a multitude of topic specific events and webinars (connections, flexibility services, net zero etc), strategic bilateral meetings with key stakeholders and participation in key local and regional forums and strategic groups. This approach helps to ensure that we actively participate with stakeholders and help to shape and inform our collective strategies.

The benefit of our stakeholder engagement was demonstrated during Storm Arwen in late 2021, when our pre-existing relationships and communication channels enabled key strategic stakeholders and MPs to work proactively with us to share details of customers in vulnerable circumstances, identify areas of concern and relay updates to constituents.

This year our stakeholder satisfaction survey continued to show high levels of overall satisfaction (82%). Over 120 participants responded achieving excellent representation across our mapped stakeholder community. The survey measured overall satisfaction, attitudes towards the relationship held, future engagement preferences and improvement areas. The results continued to indicate a strong correlation between the frequency of engagement, stakeholders' familiarity with our business and overall satisfaction.

To support adherence to these initiatives, we are required to submit annually to Ofgem a 'Stakeholder Engagement and Customer Vulnerability' submission. The company has engaged auditors for a non-financial assurance of its commitment to Accountability Principles for Sustainable Development (AA1000APS). The assurance review involves an assessment of our performance against each of the best practice performance pillars resulting in a score against AccountAbility's Stakeholder Engagement Maturity Ladder. This year we demonstrated advanced performance across the pillars and achieved an 'accomplished' maturity level. In its management report AccountAbility conclude:

"This year, Electricity North West has demonstrated an enhanced stakeholder engagement 'culture' within the organisation and greater involvement from senior and executive management, with the noteworthy addition of a stakeholder engagement performance metric into its business scorecard. Year-over-year, Electricity North West implements improvements to its stakeholder processes and practices to ensure these are embedded across the organisation and that decision-making is informed by stakeholder needs."

Strategic Report (continued)

Section 172 Statement

Introduction

Throughout this Annual Report, we discuss how we take into account the likely consequences of long-term decisions; understand the importance of engaging with our employees; the need to foster relationships with stakeholders; understand the impact of our operations on the communities in our region and the environment we depend upon; attribute importance to behaving as a responsible business and the desirability of maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

The impact of Storm Arwen and the ongoing impact of the COVID-19 pandemic on the operations and finances of the business, along with the actions taken to support our employees and communities through these unprecedented times is discussed on pages 9 to 11 of the Strategic Report.

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

The Board of Directors of Electricity North West Limited consider, both individually and together, that they have acted in a way they consider 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. In particular, this can be demonstrated by reference to our RIIO-ED1 'Well Justified Business Plan' for the period 2015-2023 and 'Our plan to lead the North West to Net Zero 2023-2028' for RIIO-ED2:

- Our RIIO-ED1 plan was designed to have a long-term beneficial impact on the Company to contribute to its success in delivering a first-class service and ensuring the network is more reliable for customers in the North West of England to 2023 and beyond.
- We will continue to operate our business in line with our regulatory targets. Our plan is centred around four key themes: customer service, reliability, affordability and sustainability.
- Our 'Well Justified Business Plan' for 2015-2023 is available on our website https://www.enwl.co.uk/about-us/regulatory-information/business-plan/
- As noted on page 11, during the year ended 31 March 2022 we submitted our RIIO-ED2 business plan to Ofgem following extensive stakeholder engagement. In the year ending 31 March 2023 we will work with Ofgem in response to their draft determination and subsequent final determination of our RIIO-ED2 business plan.
- 'Our plan to lead the North West to Net Zero 2023-2028' draft business plan is available on our website at https://www.enwl.co.uk/about-us/regulatory-information/our-business-plan-2023-2028/businessplan2023-2028/

The Directors continue to monitor and approve key strategic decisions to deliver our plans for RIIO-ED1, and to support the longer-term ambitions in the draft RIIO-ED2 plans, including supporting the transition to a low carbon economy.

Employee engagement and reward

Our employees are fundamental to the delivery of our plan. We aim to be a responsible employer and are proud that we were one of the original six employers selected to move from being a supporter to members of the Greater Manchester Good Employment Charter. Our values resonate with those of the Charter and the membership recognises our efforts in providing good workplace practices and commitment to continually improving employment standards within our organisation and helping others to do the same.

Our business model is to employ over 90% of our workforce directly with clear and consistent terms and conditions so our colleagues understand their rights and benefits whilst in employment with us.

Strategic Report (continued)

Section 172 Statement (continued)

We do not use zero-hour contracts as we recognise the value to our people of ensuring that they have security of income and are able to manage non-work commitments.

In turn, we are dedicated to using our influence to help and support our contractors and suppliers and other employers in the North West to become Living Wage employers.

Safety is a key priority: it is embedded in everything we do as a business. Our Safety Output delivers absolute compliance with all relevant legislation and regulation - see further information in the safety section of the Strategic Report. We have dedicated Occupational Health partners, health surveillance, health checks and both company-funded and voluntary medical plans, discounted gym memberships and dental care to help our employees stay physically healthy and support them if they become unwell. In 2018 the Company launched a new approach to mental well-being and we were recognised as a Time to Change employer, with a focus on tackling discrimination and stigma in respect of mental health in our workplace. Guidance and support for managers was rolled out and we had 50 volunteers step forward to become Wellbeing Champions.

We have bought in the use of Cognitive Behavioural Therapy and we are developing partnerships with mental health charities who can support the work we want to do. Our Mental Health Steering Group is led by one of our Executive Team and drives the continual improvement for mental health that we wish to achieve as an organisation for our people. We are proud to win the Greater

Manchester Good Employment Award in recognition of the cumulative effect of this work to support our colleagues mental health well-being.

We work closely with our four recognised Trade Unions; Unite, Prospect, Unison and GMB, and consult and engage with them in partnership. They are a key means of engaging with our people, but we also undertake employment surveys twice a year, where individuals anonymously rate our performance on a wider range of issues. In turn this informs and influences the work we do.

Each year our Chief Executive and members of the Executive Leadership team undertake a series of employee roadshows, either in person or virtually, where they visit every depot and office to deliver updates on the company performance, our plan for the year ahead and invite questions and engagement direct from our employees.

Recognition and reward are also fundamental to how we engage with our people, highlighting our purpose and principles. Through our spotlight awards we recognise three individuals and one team every month that have gone above and beyond for their colleagues and for our communities.

We also make significant investment in training and development of employees and in developing managers into leaders.

We have a dedicated Steering Group, led by a member of the Executive Team, which focuses on addressing the diversity challenges we have as a business and as a sector. We have established partnerships with six local schools and two local mosques to raise awareness of what we do.

We are a Forces Friendly employer, a disability confident employer and have signed the social mobility pledge. We are working hard to encourage those from a diverse range of backgrounds to consider us as a potential future employer and for us to become representative of the communities we serve.

Engagement with suppliers and customers

Our plan was informed by extensive engagement with customers, enabling us to gain an understanding of their views and priorities. We have created an independent Customer Engagement Group to ensure our future business plans address the needs and preferences of our customers and puts stakeholder needs at the heart of our decision-making.

We also aim to act responsibly in how we engage with our suppliers and regulators which are integral to the successful delivery of our plan.

Strategic Report (continued)

Section 172 Statement (continued)

We operate with openness and transparency to develop a first-class supply chain; one that is high performing, ethical and safe, whilst ensuring human rights are adhered to and supporting a sustainable environment. We aim to conduct all of our business relationships with integrity and expect the same from our suppliers. We work closely with a range of suppliers and contractors from many different countries, all of whom are required to adhere to our supply chain charter that is available at https://www.enwl.co.uk/about-us/working-here/information-for-colleagues/our-supply-chain-charter/

Low carbon initiatives

Our plan takes into account the impact of the Company's operations on the community and environment and our wider societal responsibilities, and in particular how we impact the regions we serve in the North West of England. We are determined to make a positive contribution to our environment and our 'Leading the North West to Zero Carbon' plan sets out how we are investing over £60m between 2019-2023 to drive down our carbon emissions and to help business, our customers and our colleagues to do the same. Some of the work delivered so far is summarised below.

In 2019 we became the region's first company to purchase two state-of-the-art electric mini diggers which have zero exhaust emissions. Each vehicle reduces our carbon emissions by 64 tonnes CO_2 equivalent (tCO_2e) a year. Since 2019 we have purchased additional diggers and will continue to do so. As well as the environmental advantages associated with reduced carbon emissions, they are also five times quieter than traditional diesel vehicles which both reduces noise disturbance for customers and allows for better communication between our engineers whilst they work; this is safer for them and the public. We are able to charge these vehicles at our depots using electricity generated from renewable sources.

To support and encourage colleagues to make the change to electric vehicles (EVs), we are investing in charging infrastructure and incentivising colleagues to adopt EVs.

We are continuing the roll out of 118 EV charging points for colleagues and visitors to our sites. We are also working with the landlords of the sites we lease to make EV charging available there.

Electricity for our operational substations and most of our offices and depots is 100% renewable and is generated locally at Walney Wind Farm, off the coast of Cumbria. However, our aim is to achieve 'net zero carbon' by transforming our estate to be as energy efficient as possible, and to install onsite generation to meet most of our own energy demand. Starting with the completion of two zero carbon exemplar depots in 2020, we will test and demonstrate a number of solutions to assess their suitability and relative benefits, which will help other businesses in the North West understand what is achievable. More information can be found at https://www.enwl.co.uk/go-net-zero/

Responsible business

As a Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours (see Corporate Governance Report). In doing so, this will contribute to the delivery of our plan. The intention is to grow and maintain our reputation, through both the construction and delivery of our plan, in a way that reflects our responsible behaviour.

As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan.

Strategic Report (continued)

Anti-corruption and anti-bribery

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

The Company operates a number of policies governing the anti-bribery and anti-corruption matters: Anti-Corruption and Bribery Policy, Disclosure (Whistleblowing) Policy, Ethics Policy and Conflict of Interest Policy.

These policies apply to all employees and officers of ENWL and form part of the employee Code of Conduct. Other individuals performing functions for the Company, such as agency workers and contractors, are also required to adhere to our anti-bribery and anti-corruption policies.

To support our whistleblowing policy, we have in place a confidential independent reporting line called Safecall.

Gender diversity

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

Turnover

2022 – 185 leavers (2021: 156 leavers)

Training courses delivered

2022 – 402* (2021: 266*)

Training course attendee sessions

2022 – 16,240 (2021: 7,630)

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

Workforce composition at the year-end 31 March:

	2022 Males	**2022 Females**	2021 Males	2021 Females
Total employees	**1,462**	**500**	**1,440**	**482**
	75%	***25%***	***75%***	***25%***
Senior managers	**32**	**14**	**32**	**13**
	70%	***30%***	***71%***	***29%***
Executive leadership team*	**6**	**3**	**6**	**2**
	62%	***38%***	***75%***	***25%***
Non-Executive Directors	**7**	**2**	**7**	**2**
	78%	***22%***	***78%***	***22%***

* The Executive leadership team figure includes two Executive Directors.

Environment

Environmental protection continues to be one of our core values, and we remain committed to achieving the highest possible standards of environmental performance. The year ended 31 March 2022 saw the lowest ever level of carbon emissions, in part due to the operational changes the business has adopted through the COVID pandemic. Some of these business changes will continue due to the long-term carbon footprint benefit highlighted during the COVID pandemic. Other opportunities to reduce our carbon footprint will be implemented to continue a carbon reduction trajectory.

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

- Overall leakage of oil from cables was 13,266 litres which is a significant improvement over the previous year's performance of 16,998 litres. This is a 22% reduction on the previous year's performance and meets our business plan commitment target.

Strategic Report (continued)

Environment (continued)

- Overhead lines in the National Parks and Areas of Outstanding Natural Beauty were replaced with 5.7km of underground cable.
- We continue to deliver our 'Leading the North West to Zero Carbon' plan, decarbonising our own operations, and helping businesses, customers and colleagues across the region to do the same.
- Zero breaches were recorded by the Environment Agency against our Environmental Permits for the storage and treatment of electrical insulating oil, resulting in Band A ratings against all sites (Central Oil Reprocessing Department (CORD) Whitebirk, Kendal, Oldham, Workington).

Business carbon footprint

	2022 tCO_2e	2021 tCO_2e
Scope 1		
Operational transport	6,056	5,697
Business transport - road	787	925
Fugitive emissions	893	1,504
Fuel combustion	3,275	1,972
	11,012	10,098
Scope 2		
Buildings energy usage	3,628	3,995
Scope 3		
Business transport - rail	1.6	0.4
Business transport - air	7.2	1.6
	8.7	2.0
Business Carbon Footprint (excl. losses)	**14,649**	14,095
Electrical losses[1]	**268,340**	283,209
Business Carbon Footprint (incl. losses)	**282,989**	297,304

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

The Company's business carbon footprint (excluding losses) for the year was 14,649 tCO2e, which is a small increase of 3.9% from the previous year (2021: 14,095 tCO2e), which was a reduction on the previous year (2020: 18,051 tCO2e). Included in these figures is the impact of increased generator usage because of the winter storms and the impact of a decrease of 40% in emissions of SF6.

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

A total of 17,084,835 kWh of electricity, equal to 3,628 tCO2e, was purchased by the Company for its own use, including for the purposes of transportation. The tCO2e was calculated by multiplying the total consumption in kWh by the UK Government Conversion Factors for greenhouse gas emissions.

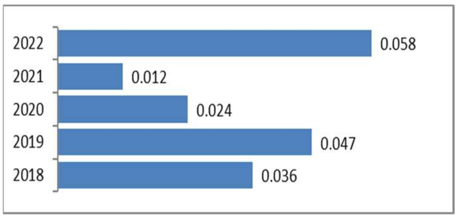
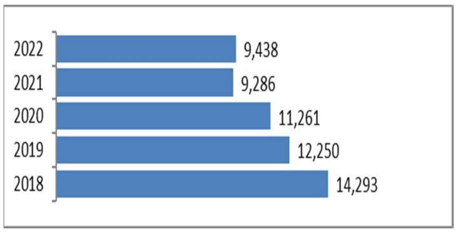
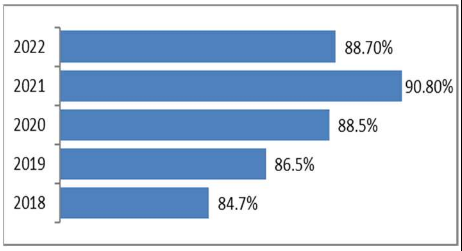
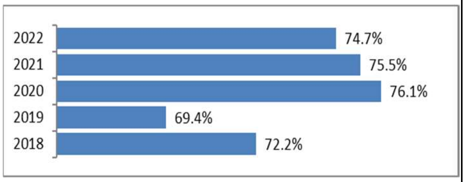
There was 26,046,936 kWh of energy consumed from the combustion of gas and consumption of fuel for operational transport. This is calculated by multiplying the litres of gas oil and diesel consumed by the conversion factor provided in the UK Government Conversion Factors for greenhouse gas emissions.

The Company's annual emissions are equivalent to 6.53 tCO2e per employee, a reduction of 0.36 tCO2e per employee against last year's consumption.

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

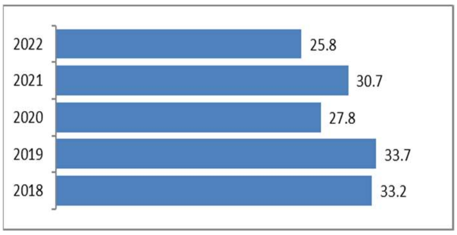
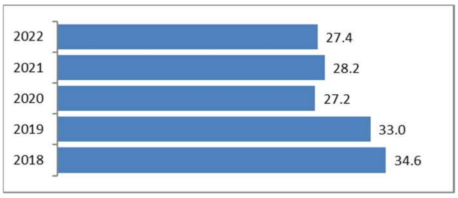
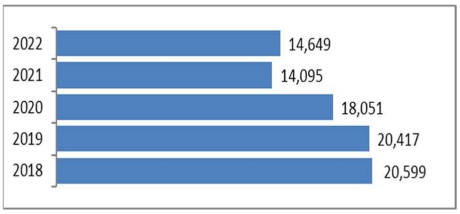
Strategic Report (continued)

Key Performance Indicators

	KPI	Definition and comment	Performance
Safety	Lost time incident frequency rate	**Definition**: The total number of reportable incidents in the period divided by the number of hours worked in that period by employees and contractors' employees, multiplied by 100,000 hours. **Performance**: Although levels remain low, during the year the Company saw an increase in lost time incidents, with three employee lost time incidents and two involving contractor employees (2021: none). The corresponding lost time incident frequency rate was 0.058 (2021: 0.012).	0.058 
	Safety observation reporting	**Definition**: Safety observations, including near miss reports, are collected to provide valuable information on hazards and behavioural attitude. Safety observations reporting is actively encouraged to promote a safety culture. **Performance**: In the year, the number of safety observations reported was 9,438 (2021: 9,286), well above the target of 8,000. During the year we have continued to place greater emphasis on improving the quality and level of 'behavioural challenge', rather than simply overall volumes.	9,438 safety observations 
Customer	Overall customer satisfaction	**Definition**: The overall customer satisfaction score is a composite score from Ofgem surveys that assesses levels of customer satisfaction for connections quotations and delivery, interruptions and general enquiries. **Performance**: Overall satisfaction fell to 88.7% for the year, down from 90.8% in the prior year. However, the score for the year was the second highest in five years following an all-time high in 2021 and reflects the ongoing focus on improvement.	88.7% 
People	Colleague engagement	**Definition**: Colleague engagement is measured via an employee survey which, through a series of questions, provides details of overall colleague engagement and how colleagues feel about the 'working climate'. **Performance**: Overall colleague engagement achieved 74.7% for the year, a slight decrease from 75.5% in the prior year.	74.7% Climate score 

Strategic Report (continued)

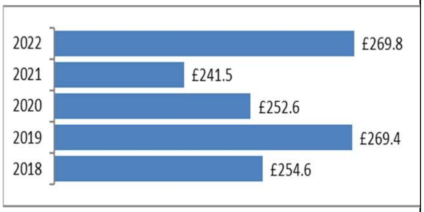
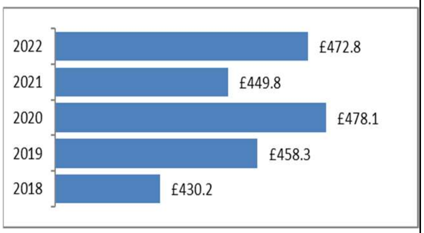
Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Reliability	Customer interruptions (CIs) [1]	**Definition**: CIs represent the number of interruptions our customers' experience. It is calculated by taking the total number of customers affected divided by the total number of customers connected to the network, multiplied by 100. It excludes exceptional events. **Performance**: The result of 25.8 for the year significantly outperforms the Ofgem target of 46.0 and represents the company's best ever performance.	25.8 CIs 
	Customer minutes lost (CMLs) [1]	**Definition**: CMLs represent the time customers are without power in the event of an interruption. It is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents, excluding exceptional events, and dividing by the number of connected customers. **Performance**: The result of 27.4 for the year significantly outperforms the Ofgem target of 39.7 and improved from 28.2 in the prior year.	27.4 CMLs 
Sustainability	Carbon footprint (excluding electrical losses)	**Definition**: Carbon footprint measures the impact of our operations on the environment and is calculated in line with Ofgem guidance. The calculation excludes electrical losses arising from the operation of the network which cannot be directly controlled or accurately measured. **Performance**: As a result of increased generator usage during the winter storms our carbon footprint increased slightly compared to the previous year. 2022 has seen the second best overall environmental performance to date due to energy efficiency initiatives and the operational changes the business continued to adopt through the COVID pandemic.	14,649 tCO_2e 

[1] The year ended 31 March 2022 figure includes assumptions for exclusion of exceptional events and is yet to be audited by Ofgem.

Strategic Report (continued)

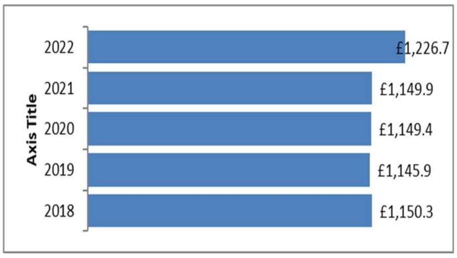
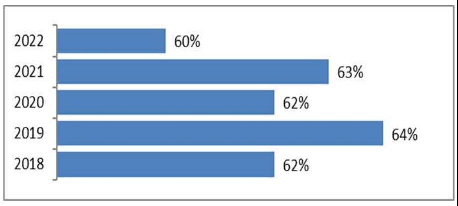
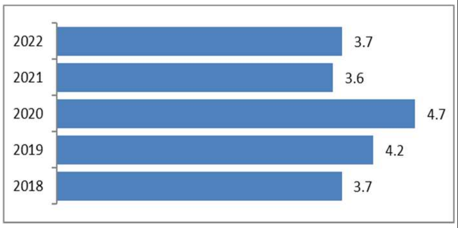
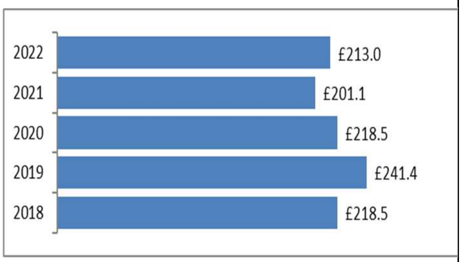
Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Affordability	Total Expenditure[2]	**Definition**: Totex is a key financial measure for the business. It is a regulatory abbreviation which stands for total expenditure. It includes the money we spend on running our business day-to-day, and the amount we invest in new assets through our network investment programme. We aim to deliver efficiencies in Totex which we share with our customers and that helps reduce customers' bills. **Performance**: Totex for the year ending 31 March 2022 was £269.8m compared to an Ofgem allowance of £306.4m in outturn prices. Expenditure was higher than the previous year due to increased operational and support costs largely due to Storm Arwen and the return to pre COVID-19 investment levels.	£269.8m 
Financial KPIs	Revenue	**Definition**: Revenue is largely fixed over time but can vary in any year as demand varies against the forecasts used to set tariffs. Revenue is determined by Ofgem to allow recovery of efficient costs to maintain the network. Additional revenue is generated through charges for new connections to the network, along with an opportunity to earn incentive revenue for delivering improved performance. **Performance**: Revenues have increased from the prior year, mainly reflecting the increase in electricity demand as we move out of the COVID-19 pandemic. The revenue over-recovery for the year was £3.6m (2021: £21.7m under-recovery). This will be corrected through adjustments in pricing in future periods.	£472.8m 
	Profit before tax and fair value movements (PBTFV)	**Definition**: PBTFV is the profit before tax of £26.0m (2021: £64.8m) adding back the £76.5m FV loss (2021: £57.9m loss), per Note 9. **Performance**: PBTFV has decreased to £102.5m (2021: £122.7m), mainly a result of costs associated with Storm Arwen and higher interest expense. PBTFV excludes the significant capital investment that we make in the network each year. Financial performance is better understood through the Totex measure comparison with allowances.	£102.5m 

[2] Totex is calculated on a regulatory basis and reported to Ofgem annually on 31 July. For management reporting purposes an approximate calculation of Totex is prepared to track performance. The final regulatory Totex figure will differ from this approximation when detailed cost allocations are performed. The number for 2020 has been updated to reflect the Ofgem annual submission.

Strategic Report (continued)

Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Financial KPIs	Net debt	**Definition**: Net debt includes the total borrowings of £1,286.1m (2021: £1,472.3m) per Note 19, net of cash and cash equivalents and money market deposits of £59.4m (2021: £322.4m) per Note 17. **Performance**: The £76.8m increase in net debt is due to the combined effect of RPI indexation on debt (£25.2m) and the reduction in cash, including the impact of dividends paid in the year.	£1,226.7m 
	RAV gearing	**Definition**: RAV gearing is measured as borrowings at nominal value, plus inflation-linked debt accretion where applicable, net of cash and short-term deposits divided by the estimated RAV of £2,159m at March 2022 (2021: £1,948m), as defined by the Financing Agreements. **Performance**: The RAV gearing is in line with target and under the Ofgem guided level of 65%.	60% 
	Interest cover	**Definition**: Interest cover is the number of times the net interest expense, adjusted for indexation and capitalisation of borrowing costs, is covered by operating profit from continuing operations, as defined by the Financing Agreements. **Performance**: Interest cover has increased due to the increased revenue collected in the year as electricity demand returned towards pre COVID-19 levels. This is despite the £19.1m increase in interest expense, reflecting the increased indexation of index-linked debt as a result of the significant increase in RPI over the year.	3.7 times 
	Capital expenditure	**Definition**: This represents investment in the network to maintain its reliability and resilience for future customers. The figure includes total additions to property, plant and equipment and software. **Performance**: We continue to invest to improve the quality and reliability of the network. The increase in spend compared to the prior year reflects the lessening impact from COVID-19.	£213.0m 

Strategic Report (continued)

Non-financial Information Statement

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

- Environmental matters – see pages 12-14 and pages 25-26,
- Employees – see pages 17-18,
- Social matters – see pages 19-21,
- Respect for human rights – see page 24, and
- Anti-corruption and bribery matters – see page 25.

Financial Performance

Overall performance reporting

Base revenue is fixed at the start of a price review period. It is set at a level that should meet our efficient operating costs and expenses over that period, as well as funding efficient investment, interest on necessary loan funding and taxes. In order to encourage investment, it allows for a return to shareholders at a level that rewards past investment and encourages future investment. This return level has been set by Ofgem at 6% p.a. real for the current regulatory period.

Actual expenditures, both capital and operating (referred to by Ofgem as Totex), vary in any given year from the original regulatory settlement agreed to be funded by Ofgem, as changes in customer needs, new innovations, and changes in network investment delivery priorities change over time. Allowed revenues are a function of the original allowance and expenditure plans, adjusted for under or overspend against allowances in earlier years, including incentives or penalties earned for performance. Actual revenues in any given year reflect these adjusted allowed revenues, although as these are collected based upon forecasts of demand over the network set two years earlier, demand experience means actual revenues vary from adjusted allowed revenues based upon demand in the year, as well as the impact of forecast variations arising from earlier years.

Actual revenues are allowed by Ofgem, not on the profiles of costs in the period, but based on the long-term cash requirements of the business. Revenues are therefore the cash funding mechanism for the business, including current investment requirements as well as the repayment of past investments, rather than the reflection of income resulting from activities that financial statements usually reflect.

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

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

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

Return on Regulated Equity

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

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

Strategic Report (continued)

Financial Performance (continued)

Return on Regulated Equity (continued)

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

Returns above this rate are delivered through above target performance, in line with the incentive structure set out within the RIIO framework. This may be, for example, through efficiencies in the delivery of our services which result in lower Totex (which savings are shared at a rate of 42% with customers).

After taking into account the timing of expenditures against the timing of allowances and outputs (referred to as an enduring value calculation), our average post-financing RoRE for the first seven years of RIIO-ED1 is at an annual rate of 7.9% on an actual equity basis.

In broad terms, this figure reflects the 6.0% allowed return, with incentives for improved performance adding an additional 2.2% and 1.9% through Totex cost efficiencies. However, the costs of servicing our debt are higher than Ofgem allow us, with these actual debt service costs reflecting the prices in the debt markets at the time our debt was issued.

This is the principal element reducing our performance to the overall 7.9% per annum, real, after tax and interest.

RoRE Components Expressed on notional and actual equity basis	ED1 to 2022 £m
Notional equity returns	
Allowed Equity Return	6.0%
Totex outperformance	1.9%
Incentive performance	2.2%
RoRE - Operational performance (notional)	10.1%
Debt performance	(1.5)%
Tax performance	0.0%
RoRE (Notional regulatory equity)	**8.7%**
Adjustment to actual equity	(0.8)%
RoRE (Actual equity)	**7.9%**

	2022* £m	2021 £m	2020 £m	2019 £m	2018 £m
(Loss)/profit after tax	(29.5)	53.4	102.1	71.8	116.3
Adjustments:					
RAV	(14.0)	(21.4)	(32.8)	(57.2)	(55.8)
Deferred Taxation	38.6	(11.7)	12.4	(6.9)	5.9
Indexation and Fair Value Movements	127.0	67.4	32.6	70.0	6.0
Movement in Other Regulatory Balances	(37.2)	(33.7)	(64.9)	(14.7)	(24.2)
Post - financing return	84.9	54.0	53.0	63.0	48.2
Average return for the RIIO-ED1 period	52.1				
Average RAV balance	1,811.3				
Average debt balance	1,097.8				
RoRE (actual regulatory equity)	7.9%				

**A prior year comparative of RoRE is not provided in the table above as 2022 represents a seven-year trailing average (7.9%).*

Strategic Report (continued)

Financial Performance (continued)

Reconciliation of statutory profit to regulatory performance

The calculation used to derive RoRE provides a measure of the performance of operations within the price control, including the impacts of interest and taxation, but excludes operations outside the price control. It adjusts reported profit under IFRS to reflect the impact of the regulatory framework, outlined above, when presenting financial performance. The post-financing return generated reflects the actual regulatory return made in each year and is used to derive RoRE.

Adjustments in calculating regulatory financial performance

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

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

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

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

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

The enduring value adjustment has been calculated by considering the cumulative expenditure variance by regulatory category and uses approved Company business plans to assess the extent to which these timing differences will unwind. The enduring value adjustment requires a high level of management judgement. Methodologies for calculating enduring value are evolving as we work with Ofgem and other network operators to develop a standardised approach.

Equity component:

RoRE performance has been presented on a real equity basis, representing the balance of the RAV that is not debt funded. Average equity for the period is 39%, higher than the assumed 35% notional equity funding. The difference between the actual and notional equity has the effect of reducing the allowed equity return from 8.7% to an actual equity return of 7.9%.

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[3] Regulatory adjustments for the year ended 31 March 2022 have been presented on a draft basis. Regulatory performance is reported to Ofgem on 31 July and final reported figures may differ from the reconciliation as detailed cost allocations are prepared.

Strategic Report (continued)

Financial Performance (continued)

Financial reporting measures

Revenue

Revenue has increased to £472.8m (2021: £449.8m) during the year, as a result of the return to pre COVID-19 levels of demand for electricity and also reflecting the allowed Distribution Use of System (DUoS) revenue under the RIIO-ED1 price control.

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

For the year-ended 31 March 2022 there was an over recovery of DUoS revenue of £3.6m against plan before adjustment for RPI indexation (2021: £21.7m under-recovery), reflecting variability against forecast in consumption volumes year on year, the over recovery being affected by the return of consumption to pre COVID-19 levels. This over recovery will be corrected through adjustments in revenues to be received in two years' time, in accordance with Ofgem's methodology.

Operating profit

Operating profit has decreased slightly to £175.6m (2021: £176.1m) primarily as a result of the increase in revenue detailed above, offset by higher operational costs in the year, largely as a result of Storm Arwen.

Profit before tax and fair value movements

Profit before tax and fair value movements has decreased to £102.5m (2021: £122.7m), mainly as a result of higher costs of finance during the year.

Taxation

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

Deferred tax is calculated using the rate at which it is expected to reverse. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 25% (2021: 19%) rate, except where it is known that it will reverse before 1 April 2023 when the 19% rate has been used.

The overall taxation charge for the year has increased from £11.4m in 2021 to £59.1m in 2022, mainly as a result of the additional deferred tax charges arising from the future increase in tax rate.

Dividends and dividend policy

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

During the year ended 31 March 2022, the Company declared final dividends for the year-ended 31 March 2021 of £15.9m, paid in June 2021 (2021: nil), and interim dividends for the current year of £81.2m, paid in December 2021 (2021: £30.7m).

At the Board meeting in May 2022, the Directors proposed a final dividend of £23.0m for the year ended 31 March 2022 (Note 11).

Strategic Report (continued)

Financial Performance (continued)

Property, plant and equipment and software

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

The total original cost of the Group's property, plant and equipment at 31 March 2022 was £5,608m (2021: £5,410m), with a net book value of £3,512m (2021: £3,432m). In the year ended 31 March 2022, the Group invested £200.8m (2021: £193.0m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £12.2m (2021: £8.5m) in IT systems.

New investment is financed through a combination of operating cash flows and increased borrowing capacity against the RAV.

Pension obligations

The Group's pension scheme under IAS 19, has a net surplus at 31 March 2022 of £18.4m (2021: £68.6m deficit). The main reasons for the movement are market movements, specifically an increase of 40 basis points to the future expectation of inflation and an increase of 65 basis points in the discount rate assumption.

The most recent triennial funding valuation of the scheme was carried out as at 31 March 2019 and identified a shortfall of £69.5m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2019 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions in the period to March 2023, as set out in Note 22.

Cash flow before financing activities

Net cash inflow before financing activities in the year was £40.7m (2021: £30.6m inflow), reflecting the higher cash generated from operations.

Treasury policy and operations

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

Long-term borrowings are mainly at fixed rates that provide certainty or are indexed to inflation to match the Group's inflation-linked (RPI) accretion to the RAV and to cash flows.

The Group's use of derivative instruments relates directly to the Group's debt, largely converting the fixed rates of interest on this debt to RPI-linked cashflows, in order to better match the Ofgem debt allowance structure.

The proportion of borrowings at effective fixed rates of interest for a period greater than one year is set in conjunction with the level of floating rate borrowings and projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

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

Liquidity

The Group's primary sources of liquidity are operating cash flows, cash balances and funding raised through external borrowings.

Group budgets for the year-ending 31 March 2023, forecasts to the end of the next price review in 2028 and longer-term forecasts to 2048 are used to assess the liquidity needs of the Group.

Strategic Report (continued)

Financial Performance (continued)

Short-term liquidity

Short-term liquidity requirements are met from the Group's operating cash flows, cash balances, short-term deposits and unutilised committed borrowing facilities.

As at 31 March 2022, the unutilised committed facilities were £50.0m (2021: £50.0m) and, together with £59.4m (2021: £322.4m) of cash and short-term deposits, provide short-term liquidity for the Group.

Utilisation of undrawn facilities is with reference to Regulatory Asset Value (RAV) gearing restrictions for the Group. Actual and forecast RAV gearing is monitored by the Board.

Long-term liquidity

Where a liquidity need cannot be met by existing resources as outlined above, for example the refinancing of existing debt or a demand for additional borrowing, the Group treasury function starts the process of raising the required debt at least 12 months ahead of the requirement.

The Group's long-term debt is comprised of a combination of fixed, floating and index-linked debt, taking derivatives into account, with a range of maturities and interest rates reflective of prevailing market rates at issue.

The Group issues debt in the public bond markets and maintains credit ratings with a number of leading credit rating agencies. During the period, the Group's credit ratings have been formally reviewed and affirmed. Fitch changed the outlook for ENWL to negative from stable, citing financial pressure from the upcoming price control.

Currently the Group is rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and BBB+ with negative outlook by Fitch Ratings.

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

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

Net debt

Net Debt	2022 £m	2021 £m
Cash and deposits	**59.4**	322.4
Borrowings	**(1,286.1)**	(1,472.3)
Net debt	**(1,226.7)**	(1,149.9)

During the year, the net debt increased by £76.8m, due to the combined effect of the reduction in both the cash and debt balances. Of the £263.0m reduction in cash, £206.6m reduction was due to net repayments of debt, £97.1m reduction due to dividend payments, net of £40.7m increase from activities before financing. Of the £186.2m reduction in debt, £206.6m reduction was due to the net repayments, net of £25.2m increase due to RPI indexation, plus £4.8m net decrease due to the movement in transaction costs and non-cash movements on lease liabilities.

Included in debt is an £84.2m loan from the parent company North West Electricity Networks plc (NWEN plc), due to mature in March 2023 (2021: £82.2m), a £298.6m loan from an affiliated company ENW Finance plc, maturing in July 2030 (2021: £298.5m, and £199.3m maturing in July 2021).

Of the external debt, £7.6m (2021: £7.1m) is due to be repaid within the next year, comprising European Investment Bank (EIB) loans that have an amortising repayment profile. £1.4m of leases are due to be repaid within the year (2021: £1.3m).

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £632.5m (2021: £631.9m), bank loans of £259.5m (2021: £248.2m) and leases of £2.3m (2021: £3.3m).

Note 19 provides more details on the borrowings.

Strategic Report (continued)

Financial Performance (continued)

Derivatives

The Group uses two main groups of derivatives to economically hedge exposure to fluctuations in market rates over the medium to long term; interest rates swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing. All derivatives relate directly to underlying debt. At 31 March 2022 there were no formal hedging relationships in the Group (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, with reference to the projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

Fair values

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

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

In the current year, net fair value losses totalling £76.5m have been recognised in the income statement (2021: losses of £57.9m), 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 rate and inflation rates.

Additionally, the re-measurement of the defined benefit pension scheme under IAS 19 has resulted in a £68.8m gain (2021: £48.9m loss) booked directly to other comprehensive income.

Going concern

When considering whether to continue to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements, the Directors have taken into account a number of factors, including the following:

- The Company's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating, which has been met.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.
- Management has prepared, and the Directors have reviewed and approved Group budgets for the year ending 31 March 2023. These budgets include profit projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and key sensitivities are considered when budgets are approved, including possible changes RPI and under recoveries of allowed revenue.
- Management have prepared forecasts covering the next regulatory period to 2028, based on the business plan submission for RIIO-ED2. Forecasts demonstrate that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period.
- Assessment of the significance and developments of the COVID-19 pandemic.

Strategic Report (continued)

Going concern (continued)

- Short-term liquidity requirements are forecast to be met from the Group's operating cash flows and short-term deposit balances. A further £50m of committed undrawn bank facilities are available from lenders; these have a maturity of greater than one year.
- Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12-month projections to 30 June 2023 indicate there is sufficient headroom on these covenants.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have 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 Consolidated Financial Statements.

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

Viability statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code the Directors have assessed viability over a period longer than that required for going concern and have chosen the period to the end of March 2025.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the period to 31 March 2025.

The Board has considered whether it is aware of any specific relevant factors and notes, in particular, Ofgem's RIIO-ED2 consultation document, which indicates lower equity returns and possibly a changed incentive environment for RIIO-ED2.

The Board has considered the impact of COVID-19, the current economic environment including rising inflation and supply chain disruption, the political environment, including impacts from the invasion in Ukraine and potential changes in future government policy as well as the impact from Brexit, in making the viability assessment.

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

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

In arriving at their conclusion, the Directors have considered the Company's forecast financial performance and cash flow over the viability period to 2025. Headroom to compliance ratios over the viability period is considered and the extent to which deviations in financial performance from the business plan may impact that headroom. The Directors have considered this headroom in assessing the Company's long-term viability.

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

Strategic Report (continued)

Fair, balanced & understandable

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

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

As a result of these processes together with the information and assurance provided by the day-to-day internal control processes, the information provided by the Executive Leadership Team of ENWL and the in-depth reporting required by Ofgem, both the Audit Committee of ENWL and the Board are satisfied that the Annual Report and Consolidated Financial Statements taken as a whole, provide a fair, balanced and understandable assessment of the Group's position at 31 March 2022.

Risk Management

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

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

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

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

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

Strategic Report (continued)

Risk Management (continued)

Risk appetite varies in these areas, but in line with the framework, the Company generally operates within a 'cautious' to 'very cautious' risk range, given that the achievement of the stretching business plan would not be possible without a level of measured risk taking. In **Sustainability**, a 'very cautious' risk appetite is adopted, given our desire to ensure that the company maintains its reputation for compliance and an ethical way of doing business, as well as the role the Company has in the low carbon transition. Similarly, in relation to **People**, the Company recognises the value of its people and the organisational climate in order to deliver effectively for our customers so a cautious to very cautious approach is adopted. In relation to **Safety**, the Company adopts a risk averse position on the basis that sound working practices that protect our employees and the general public are a key priority for the business and an important part of ensuring that we undertake our activities safely.

The Board has also added a new category within the framework for Systems and Data, recognising the strategic impact associated with these as we increase the automation and control of our network and introduce more sophisticated systems to deliver for our customers and stakeholders. It was agreed that the Company should adopt a ‘very cautious’ position for this category. This recognised that the introduction of new approaches is essential to enable the business to respond to the challenges of facilitating the Net Zero transition in the North West and the risks associated with these need appropriate management and controls.

The key features of the risk management system include:

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

Strategic Report (continued)

Risk Management (continued)

Principal risks and uncertainties

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

Whilst we continue to monitor the risk associated with a future widespread outbreak of Covid-19, this risk has evolved over the course of the last year. Our focus is increasingly on the consequential impacts from the pandemic such as the disruption to the supply chain, which has been further compounded by the restricted availability of key materials and components. Recent months have also highlighted the potential for certain aspects of our activities to be disrupted by other Global Events, such as the conflict in Ukraine. These events do pose a risk to our operations and are being monitored to minimise this as far as is possible.

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

	Risk	**Mitigations**
Global Events	**Global Events:** Certain aspects of ENWL's activities are affected by the impact of wider global events, including the conflict in Ukraine, disruption in the wider supply chain, Brexit and the consequences of the Coronavirus /COVID-19 pandemic, along with the measures put in place by the UK Government in response to these. There have also been some exceptional impacts to the supply chain arising from these events, including inflation and economic disruption, that also present challenges for the business.	• ENWL is recognised as a Critical National Infrastructure provider and is in regular dialogue with both the UK Government and the Regulator to minimise the effect of the mitigation measures on its abilities to provide an essential service to its customers. • ENWL has a series of existing Business Continuity and Emergency plans. These have been further developed in response to the events that have unfurled in recent years. • Control measures have been implemented to the extent possible to minimise the potential impact of the situation on ENWL's activities and are monitored by members of the ELT. • Analysis and monitoring of supply chain risk was strengthened during the COVID-19 pandemic and continues to be used to understand particular challenges facing the business in light of events such as the post COVID-19 recovery period, disruption from the invasion in Ukraine, and challenges facing key components such as microchips.

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Safety	**Health, Safety and the Environment:** Risk associated with unsafe working practices, man-made or naturally occurring hazards that could cause harm to people or the environment.	• Board Health, Safety and Environment Committee oversee this area. • Extensive policy and procedures to ensure a safe system of work and environmental management. • Behavioural safety training programme across all areas of the organisation. • Simple 'Golden Rules' to ensure strong safety approach throughout the Company's operations. • Robust 'lessons learned' exercises conducted to identify root causes when safety or environmental issues occur. • Robust authorisation process to control who works on the network and the activities that they can perform. • Annual programme of audits and an inspection regime. • Well-established hazard and safety observation (including near miss) reporting in place.
Customer	**Meeting our customers' expectations**: Failure to meet the required level of customer satisfaction performance and to achieve output deliverables, costs and efficiencies against the commitments made to our customers in the RIIO-ED1 period.	• A programme of improvement activities described in more detail on pages 16-17 is being co-ordinated by the Executive Leadership Team to optimise the Company's position against all elements of the customer satisfaction measure. • Robust plans in place to achieve other commitment targets, or outperform where possible. • Controls in place regarding the ongoing reporting of performance against targets.
People	**Developing our people:** Having an inadequately skilled and experienced workforce to deliver business objectives.	• Resource and succession plans are in place, which are subject to periodic Executive and Board level review. • Training delivered throughout the Company to ensure employees are equipped to do their roles competently and effectively.
	Ethical Behaviour: Inappropriate behaviour by Board members, executive or senior management bringing the company into disrepute	• Extensive policies in place regarding ethical conduct within the business, including Anti-Bribery and Corruption; Conflict of Interests; Ethics; Equality; Internal Control & Governance; Modern Slavery and Speak Up (Whistleblowing). • We continue to review and enhance the mitigations in this area in line with emerging best practice. We are corporate members of the Institute of Business Ethics.

Strategic Report (continued)

Risk Management (continued)

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

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Sustainability	**Government and regulator policy:** The Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the settlement for RIIO-ED2. The legal and compliance framework can change, leading to additional compliance obligations, market conditions, and reporting requirements. A changing political focus on the sector can have a significant effect on profitability.	• The Company has dedicated Regulation and Legal departments that provide advice and guidance regarding the interpretation of political, regulatory and legislative change. • There is ongoing engagement by the Company with the Regulator and Government. • Parliament, in framing the Electricity Act, imposed certain duties on Ofgem/GEMA to ensure that the networks remain financeable for the long-term benefit of customers. • There is regular engagement with the Board on political and regulatory developments which may impact the Company.
Sustainability	**Business resilience:** Events outside of our control, for example extreme weather or medical emergencies, affecting large areas, may negatively impact the business.	• The Company has comprehensive contingency plans for network emergencies, including key contract resources such as mobile generators and overhead line teams. • Business continuity testing on a regular basis. • Reciprocal arrangements with other network operators.
Sustainability	**Regulation and compliance risk**: Compliance failure leading to an adverse effect on the business.	• Overall governance and control framework in place, including established compliance routines and accountabilities, owned by the Executive Leadership Team and ultimately the Board. • Specialist teams in place to ensure compliance and assurance is carried out. • An internal audit programme focusing on the Group's key risk areas, including fraud, regulatory compliance and business processes. • Established controls in place, including segregation of duties and restricted access to systems.

Strategic Report (continued)

Risk Management (continued)

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

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

	Macro-economic factors: Factors, such as Retail Price Index (RPI), may impact negatively on the business.	• Monitoring the potential exposure to fluctuating factors through forecasts from a range of financial institutions. • Inflation sensitivities reported quarterly through the business valuation process. • A significant proportion of our Group debt is RPI-linked to provide an economic hedge between allowed revenues and some of our financing costs.

The Strategic Report, outlined on pages 8 to 45, has been approved by the Board of Directors and signed on behalf of the Board on 24 June 2022.

David Brocksom
Director

Corporate Governance Report

As is required by the Company's regulator, Ofgem, the Company reports on how the principles and provisions of the UK Corporate Governance Code ("the Code") have been applied during the year. There are some limited areas of non-compliance, all of which are considered appropriate to the privately owned status of the Company and are explained on page 52 to 53.

The Board

Board Members at 31 March 2022

Alistair Buchanan, CBE

Independent Non-Executive Director
Appointed on 25 July 2018

Alistair Buchanan has over 25 years' experience in the energy industry, including 10 years as Chief Executive of Ofgem. In 2013 he joined KPMG as Partner and UK Chairman of Power & Utilities, returning to the firm where he trained as a Chartered Accountant. During his career, Alistair became an award-winning energy sector analyst and head of research for banks in New York and London. With experience at Board level on various companies, he currently also serves as an Independent Non-Executive on the Board of Storegga Geotechnologies Limited.

Anne Baldock

Independent Non-Executive Director
Appointed on 26 September 2018

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

Susan Cooklin

Independent Non-Executive Director
Appointed on 25 July 2018

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

Rob Holden CBE

Independent Non-Executive Director
Appointed on 1 January 2016

Rob Holden combines a portfolio of Non-Executive Directorships with consultancy roles. As well as his Board role with NNB Generation Company (SZC) Limited, he is currently Chairman of London City Airport. His advisory assignments in the UK have included work on HS2, Thames Tideway Tunnel, the Type 26 Global Combat Ship and the QE Carrier programmes. Overseas he has worked in the USA and Singapore on High Speed Rail projects and in Australia on a regional rail project. Rob is a Chartered Accountant who qualified with Arthur Young & Co (now Ernst & Young LLP).

Corporate Governance Report (continued)

The Board (continued)

Peter O'Flaherty

Non-Executive Director
Appointed on 17 September 2019

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

Sion Jones

Non-Executive Director
Appointed on 20 August 2019

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

Genping Pan

Non-Executive Director
Appointed 12 December 2019

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

Shinichiro Sumitomo

Non-Executive Director
Appointed 8 January 2020

Shinichiro Sumitomo is employed by the Kansai Electric Power Company which is one of the leading electric utility companies based in Osaka, Japan. He is the General Manager for Asset Management of European and American Assets. Since he joined Kansai Electric 25 years ago, he has gained 15 years' experience in overseas investment in power assets including a hydropower project in the Philippines, fossil power projects in the south-east Asia region and in the United States, and renewable power projects in Europe.

Takeshi Tanaka

Non-Executive Director
Appointed on 25 June 2020

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

Corporate Governance Report (continued)

The Board (continued)

Peter Emery
Chief Executive Officer
Appointed on 27 May 2016

Peter is a graduate engineer with 35 years' experience in the Energy Sector. He spent twenty years with Esso and ExxonMobil specialising in strategic planning and operational management, culminating in the appointment to the position of Operations Manager at Fawley Refinery, with full operational responsibility for the UK's largest refinery (330k barrels per day) and a member of ExxonMobil's European Leadership Team for Refining and Supply.

In 2004 he joined the Board of Drax Power Limited, the owner of the largest power station in the UK (4,000 MW), as Production Director. He was a member of the executive team which completed the successful IPO (Initial Public Offering) on the London Stock Exchange in December 2005. After the flotation, Peter played a leading role in converting Drax into a major renewable generator and was Chairman of Capture Power, the joint venture vehicle responsible for the development of the White Rose Carbon Capture and Storage Project.

In 2016 he was appointed as Chief Executive Officer of Electricity North West Limited. The focus of his work is to improve customer service and the operational performance of the business, whilst reducing the cost to serve. He is also leading the change to a Distribution System Operator (DSO) enabling the transition to a low carbon economy in the North West. He is a member of the Greater Manchester Green City Region Partnership and the Greater Manchester Strategic Infrastructure Board which are helping the City region secure carbon neutrality by 2038.

In September 2012, Peter was appointed as a Non-Executive Director of N.G. Bailey Group Limited, a privately owned major electrical and mechanical contractor based at Denton near Ilkley, West Yorkshire. In 2014 he was appointed to the Board of The York, North Yorkshire and East Riding Local Enterprise Partnership (LEP) where he is currently the Vice Chair. He is a Fellow of the Institute of Materials, Minerals and Mining.

David Brocksom
Chief Finance Officer
Appointed on 5 October 2015

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

Shareholder appointed directors

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 Fukashi Kumara and Kaoru Fukushima is the alternate to Shinichiro Sumitomo. Genping Pan's alternate is Hailin Yu. Peter O'Flaherty is a shareholder appointed director and has no alternate director appointed. Alternate directors attend board meetings where the principal director would be otherwise unable to attend.

Corporate Governance Report (continued)

The Board (continued)

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year.

At the discretion of the Board, senior management were invited to attend meetings when appropriate specific items were subject to discussions.

Where a Director was unable to attend a Board meeting, their views were canvassed by the Chairman prior to the meeting.

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

Board Member Attended / Scheduled	ENWL Board	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety and Environment Committee
Alistair Buchanan	9/9	-	3/3	1/1	-
Anne Baldock	9/9	6/6	-	-	3/3
Susan Cooklin	9/9	5/6	-	-	2/3
Rob Holden	9/9	6/6	-	-	-
Peter O'Flaherty	9/9	-	3/3	1/1	3/3
Sion Jones*	9/9	-	3/3	1/1	-
Genping Pan**	9/9	-	3/3	1/1	3/3
Shinichiro Sumitomo	9/9	-	3/3	1/1	
Takeshi Tanaka	9/9	-	3/3	1/1	-
Peter Emery	9/9	-	-	-	-
David Brocksom	9/9	-	-	-	-
Alistair Buchanan	9/9	-	3/3	1/1	-

*At the 3 June 2021 Remuneration Committee meeting Peter O'Flaherty attended as alternate director in place of Sion Jones. At two Board meetings Peter O'Flaherty attended as alternate director in place of Sion Jones.

**At all the Health, Safety and Environment Committee meetings Zechao Liu attended as an alternate Director in place of Genping Pan. Zechao Liu attended the 8 October 2021 Board meeting as an alternate director in place of Genping Pan. At two Board meetings Hailin Yu attended as alternate director in place of Genping Pan.

Corporate Governance Report (continued)

The Board (continued)

Diversity

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

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

Composition

The Board comprises four Non-Executive Directors considered under the Code to be independent, one of whom is the Chairman, and five Non-Executive Directors representing the four shareholders, together with two Executive Directors. The Directors' biographies are on pages 46 to 48.

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

Leadership

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

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

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

Advice

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

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

How the Board operates

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

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

Corporate Governance Report (continued)

The Board (continued)

Evaluation

During March 2018, an externally facilitated evaluation was undertaken by Lintstock Ltd, who had no previous connection with the Company. Following the completion of the sale of the shares by the Shareholders to new shareholders, Lintstock Ltd conducted a second evaluation in June 2021. This constituted the first evaluation of the Board and its composition under the new ownership.

Training

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

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

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

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

Appointments

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

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

On his appointment, Peter Emery was a Non-Executive Director of NG Bailey Group Limited, the Board agreed to his remaining a Non-Executive Director with the proviso that when he is due for re-election, this will be discussed again with the ENWL Board.

Conflicts of interest

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

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

Corporate Governance Report (continued)

The Board (continued)

Areas of non-compliance with the UK Corporate Governance Code

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

Senior Independent Director

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

Constitution of the Board

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

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

Annual election of Directors

The Board does not subject its Directors to annual elections as the shareholder representation on the Board allows the opportunity to challenge a Director's performance directly rather than at an Annual General Meeting.

Publication of the terms and conditions of Non-Executive Directors

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

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

Engagement with stakeholders

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

Shareholders:

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

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

Corporate Governance Report (continued)

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

Workforce:

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

Stakeholders:

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

Our stakeholder engagement strategy is outlined on pages 20-21.

Our stakeholder engagement work is independently reviewed by our Customer Engagement Group (CEG) and in doing so has access to the Board and the Executive Leadership Team. Throughout the year, the CEG met monthly until production of its final report in January 2022. The CEG has provided rigorous scrutiny of our RIIO-ED2 Business Plan throughout its development and gave its support to the submitted RIIO-ED2 Business Plan. The CEG will continue to meet on a regular basis throughout the Ofgem Open Hearings and Draft and Final Determinations processes.

Board Committees

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

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

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

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

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

Corporate Governance Report (continued)

Report of the Audit Committee

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

Membership and meetings

The Committee members are all Non-Executive Directors. The Board is satisfied that the Committee Chair, Rob Holden, as a Chartered Accountant, has relevant financial experience. Attendance by individual members is detailed in the table on page 49.

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

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

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

The Committee has also conducted a series of meetings focussed on the Company's ED2 Business Plan process.

The role of the Committee

The key responsibilities of the Audit Committee are to:

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

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

- Review of the 31 March 2021 Annual Report and Consolidated Financial Statements and the September 2021 half-year report.
- Evaluation of the effectiveness and scope of the internal audit plan including management response to audit reports.
- Review of the scope and methodology of the audit work to be undertaken by the external auditor, their terms of engagement and fees.
- Overseeing the tender process for the provision of external audit services to the NWEN (Jersey) Group, resulting in a recommendation to the Board on 31 March 2022 to appoint PriceWaterhouseCoopers LLP for the audit services from the year ending 31 March 2023.
- Factors emerging from the COVID-19 pandemic, including the impact on the internal control framework, including the potential for enhanced cyber risk, and a review of the going concern and viability disclosures in this context.

During the year ended 31 March 2022, the Committee revised its terms of reference and its membership to reflect the changing requirements of the Corporate Governance Code and to ensure that the membership of the Committee consists of independent non-executive directors, and that the Chair of the Board was not a member of the Committee.

Corporate Governance Report (continued)

Report of the Audit Committee (continued)

The significant issues considered by the Committee during the approval of the financial statements to 31 March 2022 were:

- Treasury accounting, particularly fair value calculations and ensuring appropriate disclosures. There is a risk, due to the complexity of the financial instruments that they are incorrectly valued, accounted for or disclosed, resulting in a material error in the financial statements or a material disclosure deficiency. The Committee noted the specialist advice received in this area and compliance with appropriate accounting standards in valuation and disclosure, particularly with respect to the refinancing during the year.
- Management override of controls (In accordance with ISA 240) with particular consideration of controls surrounding journal entries, accounting estimates for bias of material misstatement and fraud, adjustments made in the preparation of the Group financial statements and the potential manipulation of any incentive or performance targets.
- The risk of misstatement in revenue recognition where considerations included the calculation of unbilled revenue income.
- Capital and revenue allocations and ensuring the appropriate treatment of fixed asset expenditure. The Committee considered the management's key controls and assumptions applied to the capitalisation of overhead costs. The assumptions, policies and procedures in this area were considered reasonable.
- The level of estimation in assessing the balance disclosed for group pension scheme assets, the valuation of which was negatively impacted by COVID-19 effect on asset prices immediately prior to the balance sheet date.

External audit

The external auditor is engaged to express an opinion on the Company and Group financial statements. The audit includes the review and testing of the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements. This year's audit is the twentieth conducted by Deloitte LLP.

In accordance with UK regulations, the Company's auditor adheres to a mandatory rotation policy and a new Group lead engagement partner is appointed once their predecessors have completed a term of five years. A new lead engagement partner was appointed in the year ended 31 March 2018 due to his predecessor completing her five-year term.

A tender process was completed in the year with the award of the auditing services being made to PricewaterhouseCoopers (PwC) with effect for the audit for the financial year ending 31 March 2023.

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

Auditor independence and the provision of non-audit services

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

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

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

Corporate Governance Report (continued)

Internal control framework

The Committee, on behalf of the Board, is responsible for reviewing the Company's internal control framework. This review is consistent with the Code and covers all material areas of the Group, including risk management and compliance with controls. Further details of risk management and internal controls are set out on pages 39 to 45.

Whistleblowing arrangements

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

Committee effectiveness

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

Fair, balanced and understandable

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

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

The Directors' statement on a fair, balanced and understandable Annual Report and Consolidated Financial Statements is set out on page 64.

Corporate Governance Report (continued)

Report of the Nominations Committee

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

Membership and meetings

The Committee Chair is Alistair Buchanan, Independent Non-Executive Director. Composition of the Committee and attendance by individual members at meetings is detailed on page 49.

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

Diversity

As described in the Corporate Governance report on page 50, the Board is committed to diversity in its broadest sense and the Nominations Committee ensures this remains central to recruitment and succession planning. Progress is reviewed periodically by the Board.

Report of the Remuneration Committee

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

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

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

Membership and meetings

The Committee Chair is Sion Jones, Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 49.

Role of the Committee

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

The Committee is of the opinion that the remuneration structure, designed for the RIIO-ED1 period, reflects the strategic direction of the business and will promote the long-term success of the Company.

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

Corporate Governance Report (continued)

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

Element	Purpose and link to strategy	Framework
Basic Salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked and will also reflect the Director's experience and time at Director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, Directors are provided with a car allowance and private medical insurance.
Executive Incentive Plan (EIP)	Executive Directors are members of the Executive Incentive Plan which was introduced in April 2015 to reward both in-year performance and incentivise strategic and innovative behaviours over the longer-term, aligned to shareholder objectives.	The EIP works on a balanced scorecard approach, containing short-term metrics to evaluate in-year performance and longer-term measures promoting a strategic focus and sustainable performance. Partial payments are made each year based on achievement against the balanced scorecard, with additional payments made following years 4 and 8 of the regulatory period to ensure the balance of short and long-term incentivisation is retained. Following Health & Safety best practice, Safety is considered to be an essential part of any role and Directors, therefore, receive no Health & Safety related incentives. However, a range of safety performance measures act as a gateway to the earning of bonuses.
Pension	Directors are offered the same level of defined contribution benefits as all other employees, or a taxable payment in lieu.	No Director is a member of the defined benefit scheme which is now closed to new members.

Corporate Governance Report (continued)

CEO pay ratio

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

There are three methodologies that companies can choose to report their pay ratio, known as Option A, B and C. The government preference, and most accurate reporting method, is Option A. ENWL have elected to use this method, consistent with previous years, which enables us to compare total remuneration for the financial year ended 31 March 2022, in line with the pay gap requirements.

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

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

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

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

	25th percentile	50th percentile	75th percentile
2022 Pay excluding bonus	**1:13**	**1:9**	**1:7**
2022 Total remuneration including bonus	**1:23**	**1:17**	**1:12**
2021 Pay excluding bonus	1:13	1:9	1:7
2021 Total remuneration including bonus	1:20	1:14	1:10

Employee total remuneration is shown in the table below.

	25th percentile	50th percentile	75th percentile
2022 Pay excluding bonus	**£39,172**	**£53,838**	**£72,193**
2022 Total remuneration	**£40,849**	**£56,407**	**£76,193**
2021 Pay excluding bonus	£36,781	£52,542	£71,031
2021 Total remuneration	£38,296	£54,753	£74,364

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

Corporate Governance Report (continued)

Report of the Health, Safety and Environment Committee

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

Membership and meetings

The Committee Chair is Susan Cooklin, Independent Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 49.

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

The role of the Committee

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

The primary purpose of the Committee is to:

- Set the corporate health, safety and environment strategy, objectives, targets and programmes. Monitor performance in these areas with a view to:
  - minimising risk;
  - ensuring legal compliance;
  - responding to significant events; and
  - ensuring significant resources are allocated for the control of health, safety and environmental risks.
- Report to the Board developments, trends and/or forthcoming legislation in relation to the health, safety and environmental matters which may be relevant to the Company's operations, assets or employees.
- Review the Company's external reporting in this area and regulatory disclosures.

At every meeting, the Committee receives and discusses in detail a Health, Safety and Environment performance report for the preceding period, prepared and presented by the Head of Safety and Policy who attends every meeting.

The Health and Safety committee has reviewed the Company's COVID-19 health and safety strategy at each meeting. The Board continue to be regularly updated on the situation.

At each meeting the Committee reviews Health and Safety risks recorded on the Company's risk register.

Directors' Report

The Directors present their Annual Report and Consolidated Financial Statements of Electricity North West Limited ("the Company") and its subsidiaries (together referred to as "the Group") for the year ended 31 March 2022.

Information contained in Strategic Report

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

• information in respect of employee matters (including actions taken to introduce, maintain or develop arrangements aimed at employees, details on how the directors have engaged with employees and had regard to employee interests, our approach to investing in and rewarding the workforce, employee diversity and the employment, training and advancement of disabled persons)

• likely future developments

• risk management

• details on how the directors have had regard to the need to foster business relationships with stakeholders

• greenhouse gas emissions

Dividends

During the year ended 31 March 2022, the Company declared an interim dividend of £81m, paid in December 2021 (2021: £31m). There Company declared a final dividend for the year ended 31 March 2021 of £16m that was paid in June 2021; the Company did not declare a final dividend for the year ended 31 March 2020.

The Directors have proposed a final dividend of £23.0m for the year ended 31 March 2022.

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

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 North West Electricity Networks (Jersey) Limited ("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%).

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

A E Baldock
A Buchanan
S Cooklin
R D Holden
S Jones
G Pan
S Sumitomo
P O'Flaherty
T Tanaka

Directors' Report (continued)

Alternate Directors during the year were:

A Bhuwania
K Fukushima
F Kumura
H Yu

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 Fukashi Kumara and Shinichiro Sumitomo's alternate is Kaoru Fukushima. 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 Group's business.

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 the ultimate parent North West Electricity Networks (Jersey) Ltd ("NWEN (Jersey)") and is for the benefit of that company and all its subsidiaries.

People

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

Engagement with employees

Details of Director engagement with employees can be found within the Strategic Report.

Engagement with suppliers, customers and others

Details of the Directors' approach to fostering the Company's business relationships with suppliers, customers and others can be found within the Strategic Report.

Corporate Social Responsibility

Details of the Group's approach to Corporate Social Responsibility can be found in the Strategic Report.

Research and development

The Group is committed to developing innovative and cost-effective solutions for providing high quality services and reliability to our customers, and for the benefit of the wider community and the development of the network, as further detailed in the Strategic Report. During the year ended 31 March 2022 the Group incurred £2.5m of expenditure on research and development (2020: £2.3m), see Note 5.

Greenhouse gas emissions

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

Financial instruments

The risk management objectives and policies of the Group in relation to the use of financial instruments can be found in the Strategic Report and in Note 21.

Capital structure

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

Events after the Balance Sheet date

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

Future developments

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

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

Directors' Report (continued)

Information given to the auditor

Each of the persons who are a Director at the date of approval of this Annual 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.

Independent auditor

Deloitte LLP, Statutory Auditor, Manchester, United Kingdom has been the auditor of the Group since 2002, and in accordance with legal and regulatory requirements, 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 Group'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:

Electricity North West Limited
Borron Street
Stockport
Cheshire
SK1 2JD

Registered number: 02366949

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 adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). 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, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 International Financial Reporting Standards as adopted by the relevant financial reporting 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 and the undertakings included in the consolidation taken as a whole, 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 Electricity North West Limited

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Electricity North West Limited (the 'parent company', 'ENWL') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statements of profit or loss;
- the consolidated and company statements of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements;
- the statement of accounting policies; and
- the related Notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 group and the parent 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 group and parent company for the year are disclosed in Note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent 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 Electricity North West Limited (continued)

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: 1. Treasury accounting 2. Inappropriate capitalisation of costs 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 for the group financial statements was £4.5m which was determined on the basis of 4.3% of adjusted profit before tax.
Scoping	All audit work for the Group was performed directly by the Group 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 group's and parent 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 energy supplier failures in FY22 and the Supplier of Last Resort regime;
- 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 group's and parent 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.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

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

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. Treasury accounting

Key audit matter description	Treasury is a complex area and includes the accounting for material financial instruments including index-linked swaps and the application of the credit risk under IFRS13. Due to the complexity of the accounting, there is a risk that these instruments are incorrectly valued, accounted for or disclosed in the financial statements which may result in a material error. The areas of focus are the assumptions in management's derivative valuation model and the fair value of the index-linked swap portfolio, including any credit adjustment made under IFRS 13. As at 31 March 2022 ENWL held derivative financial instruments, being a portfolio of index-linked swaps liabilities, with a fair value of £551.4m (2021: £475.8m) as disclosed in Note 21 to the financial statements. Total fair value movements in the year were £76.5m loss (2021: £57.9m loss) as per Note 9 to the financial statements. See also the Audit Committee's Report on page 55 where treasury accounting is discussed as a significant risk, the accounting policy on financial instruments in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the inputs used within the calculation of the fair value of derivatives. In performing the procedures below, we involved our financial instrument specialists due to the complexity of the financial instruments held in the Group. We performed work on management's derivative valuation model and the assumptions employed, and performed a recalculation of fair value of the index-linked swap portfolio, including an assessment of the application of credit risk under IFRS 13. We also evaluated the disclosures in the financial statements.
Key observations	From the work performed we are satisfied that the valuation, accounting and disclosures of the Group's portfolio index-linked swaps is appropriately stated as at 31 March 2022.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

5.2. Inappropriate capitalisation of costs

Key audit matter description	This key audit matter relates to the judgmental overhead absorption percentage rates applied to costs initially recorded as overhead expenditure and subsequently capitalised into fixed assets. In particular we focused on those judgmental areas of overhead absorption, for example employee costs and fault costs, where the split between capital projects and repair and maintenance is judgemental. Given the significant level of judgement involved, we considered this a potential fraud risk area. The effect of inappropriate capitalisation of costs from a financial statement perspective is that items which are capital in nature are expensed, whilst items which are expenditure in nature are, conversely, capitalised. Given the magnitude of overheads capitalised in the business the impact could be material. Total employee costs are £134.1m in the year (2021: £133.7m), of which £73.2m (2021: £74.6m) has been capitalised directly to fixed assets. Fault costs totalled £40.9m (2021: £33.4m) of which £23.6m (2021: £22.1m) had been capitalised. See also the Audit Committee's Report on page 55 where overhead absorption is discussed as a significant issue, the accounting policy for tangible fixed assets in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the inputs used within the calculation of overhead absorption rates for employee costs and judgemental areas such as fault costs. We have reviewed the Company's assumptions, policies and procedures with regards to overhead absorption and compared these to the balances capitalised. In respect of overhead absorption we have considered the relative percentage capitalisation by function/operational area in the business and reviewed the key assumptions made by management including testing on a sample basis to appropriate support. As part of our audit of tangible fixed assets we tested a sample of additions to consider whether those items are capital in nature. A sample of capital projects were reviewed in detail, with discussions and supporting documentation obtained from project managers in order to better understand those projects and determine the specific nature of the spend and method of overhead absorption.
Key observations	From the work performed we are satisfied that the assumptions made in respect of the rates of overhead absorption applied in the business are reasonable as at 31 March 2022.

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.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

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

	Group financial statements	Parent company financial statements
Materiality	£4.5m (2021: £4.1m)	£4.49m (2021: £4.09m)
Basis for determining materiality	4.3% of adjusted pre-tax profit, being profit pre-tax and fair value movements.	Parent company materiality equates to 99% of net assets, which is capped at 99% of Group materiality.
Rationale for the benchmark applied	Adjusted pre-tax profit is deemed suitable as this removes the volatile fair value movements of the financial derivatives held, for which no formal hedge accounting is applied, and therefore creates a stable basis for the determination or our materiality. Adjusted pre-tax profit is further determined to be a key metric used by the users of the financial statements of regulated utilities.	As the parent company contains almost all of the group's net assets, this is deemed a suitable benchmark for the determination of materiality.

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.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our risk assessment, including our assessment of the group'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.	

Independent Auditor’s Report to the Members of Electricity North West Limited (continued)

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. Identification and scoping of components

The scope of our audit work was determined by obtaining an understanding of the group and its environment, and assessing the risks of material misstatement at the group level. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Given the nature of the Group’s corporate structure where all evidence relating to each entity is compiled at the Group’s head office and statutory audits are required for the non-dormant entities within the Group, we performed a full scope audit covering 100% (PY: 100%) of the Group’s companies and accordingly our audit work achieved coverage of 100% of the Group’s total assets, revenue and profit.

Component materiality level was capped at £4.49m (2021:£4.09m).

We have also tested the consolidation process.

8. 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.

9. 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.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

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

10. 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.

11. 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.

11.1. 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 group'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 group'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;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, IT and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the inappropriate capitalisation of costs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group 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 group's ability to operate or to avoid a material penalty. These included the group's operating licence.

11.2. Audit response to risks identified

As a result of performing the above, we identified inappropriate capitalisation of costs as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, 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 external 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 the licensing authority Ofgem; 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.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

Report on other legal and regulatory requirements

12. 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. 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.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders in 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 March 2003 to 31 March 2022.

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

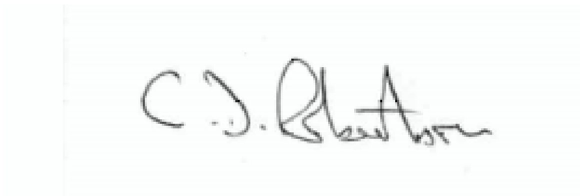
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

15. 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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Christopher Robertson (Senior statutory auditor)

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

Financial Statements

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

for the year ended 31 March 2022

	Note	**Group and Company 2022 £m**	Group and Company 2021 £m
Revenue	4	**472.8**	449.8
Employee costs	5,6	**(60.9)**	(59.1)
Depreciation and amortisation expense	5	**(132.7)**	(125.9)
Other operating costs		**(103.6)**	(88.7)
Total operating expenses		**(297.2)**	(273.7)
Operating profit	5	**175.6**	176.1
Investment income	8	**0.4**	0.9
Finance expense	9	**(150.0)**	(112.2)
Profit before taxation		**26.0**	64.8
Taxation	10	**(59.1)**	(11.4)
(Loss)/ profit for the year attributable to equity shareholders of the Company		**(33.1)**	53.4
Other comprehensive income/ (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of net defined benefit scheme	22	**68.8**	(55.7)
Deferred tax on re-measurement of defined benefit scheme	24	**(17.2)**	10.6
Adjustment of brought forward deferred tax on re-measurement of defined benefit scheme due to change in future tax rates	24	**12.9**	-
Other comprehensive income/ (expense) for the year		**64.5**	(45.1)
Total comprehensive income for the year attributable to shareholders of the Company		**31.4**	8.3

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

Consolidated Statement of Financial Position

as at 31 March 2022

	Note	**2022** £m	Restated* 2021 £m	Restated* 1 April 2020 £m
ASSETS				
Non-current assets				
Intangible assets and goodwill	12	**58.9**	59.5	53.8
Property, plant and equipment	13	**3,512.1**	3,431.5	3,361.6
Inter-company derivative asset	21	**408.8**	367.6	341.3
Retirement benefit surplus	22	**18.4**	-	-
		3,998.2	3,858.6	3,756.7
Current assets				
Inventories	15	**18.1**	14.0	10.8
Trade and other receivables	16	**80.0**	75.3	63.4
Cash and cash equivalents	17,21	**59.4**	322.4	56.2
		157.5	411.7	130.4
Total assets		**4,155.7**	4,270.3	3,887.1
LIABILITIES				
Current liabilities				
Trade and other payables	18	**(164.2)**	(142.7)	(126.2)
Current income tax liabilities		**(6.2)**	(9.0)	(4.8)
Borrowings	19	**(93.2)**	(208.2)	(8.9)
Provisions	25	**(0.6)**	(0.4)	(0.1)
		(264.2)	(360.3)	(140.0)
Net current (liabilities)/assets		**(106.7)**	51.4	(9.6)
Non-current liabilities				
Borrowings	19	**(1,192.9)**	(1,264.1)	(1,196.7)
Derivative liabilities	21	**(960.2)**	(842.5)	(758.2)
Retirement benefit deficit	22	**-**	(68.6)	(26.3)
Customer contributions	23	**(686.5)**	(667.8)	(656.1)
Deferred tax	24	**(186.7)**	(135.8)	(155.8)
Provisions	25	**(1.0)**	(1.3)	(1.7)
		(3,027.3)	(2,980.1)	(2,794.8)
Total liabilities		**(3,291.5)**	(3,340.4)	(2,934.8)
Total net assets		**864.2**	929.9	952.3
EQUITY				
Called up share capital	26,27	**238.4**	238.4	238.4
Share premium account	27	**4.4**	4.4	4.4
Revaluation reserve	27	**74.1**	81.9	84.1
Capital redemption reserve	27	**8.6**	8.6	8.6
Retained earnings	27	**538.7**	596.6	616.8
Total equity		**864.2**	929.9	952.3

*The comparative information has been restated; for more details see Note 1.

The financial statements of Electricity North West Limited (registered number 02366949) were approved and authorised for issue by the Board of Directors on 24 June 2022 signed on its behalf by:

David Brocksom,
Director

Company Statement of Financial Position

as at 31 March 2022

	Note	2022 £m	Restated* 2021 £m	Restated* 1 April 2020 £m
ASSETS				
Non-current assets				
Intangible assets and goodwill	12	**58.9**	59.5	53.8
Property, plant and equipment	13	**3,512.1**	3,431.5	3,361.6
Inter-company derivative asset	21	**408.8**	367.6	341.3
Investment in subsidiaries	14	**15.4**	15.4	15.4
Retirement benefit surplus	22	**18.4**	-	-
		4,013.6	3,874.0	3,772.1
Current assets				
Inventories	15	**18.1**	14.0	10.8
Trade and other receivables	16	**80.0**	75.3	63.4
Cash and cash equivalents	17,21	**59.4**	322.4	56.2
		157.5	411.7	130.4
Total assets		**4,171.1**	4,285.7	3,902.5
LIABILITIES				
Current liabilities				
Trade and other payables	18	**(179.9)**	(158.4)	(141.9)
Current income tax liabilities		**(6.2)**	(9.0)	(4.8)
Borrowings	19	**(93.2)**	(208.2)	(8.9)
Provisions	25	**(0.6)**	(0.4)	(0.1)
		(279.9)	(376.0)	(155.7)
Net current (liabilities)/assets		**(122.4)**	35.7	(25.3)
Non-current liabilities				
Borrowings	19	**(1,192.9)**	(1,264.1)	(1,196.7)
Derivative liabilities	21	**(960.2)**	(842.5)	(758.2)
Retirement benefit deficit	22	**-**	(68.6)	(26.3)
Customer contributions	23	**(686.5)**	(667.8)	(656.1)
Deferred tax	24	**(186.7)**	(135.8)	(155.8)
Provisions	25	**(1.0)**	(1.3)	(1.7)
		(3,027.3)	(2,980.1)	(2,794.8)
Total liabilities		**(3,307.2)**	(3,356.1)	(2,950.5)
Total net assets		**863.9**	929.6	952.0
EQUITY				
Called up share capital	26,27	**238.4**	238.4	238.4
Share premium account	27	**4.4**	4.4	4.4
Revaluation reserve	27	**74.1**	81.9	84.1
Capital redemption reserve	27	**8.6**	8.6	8.6
Retained earnings	27	**538.4**	596.3	616.5
Total equity		**863.9**	929.6	952.0

*The comparative information has been restated; for more details see Note 1.

The financial statements of Electricity North West Limited (registered number 02366949) were approved and authorised for issue by the Board of Directors on 24 June 2022 signed on its behalf by:

David Brocksom,
Director

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

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m
At 1 April 2020	238.4	4.4	84.1	8.6	616.8	952.3
Profit for the year	-	-	-	-	53.4	53.4
Other comprehensive expense for the year	-	-	-	-	(45.1)	(45.1)
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Total comprehensive (expense)/ income for the year	-	-	(2.2)	-	10.5	8.3
Transactions with owners recorded directly in equity						
Dividends (Note 11)	-	-	-	-	(30.7)	(30.7)
At 31 March 2021	238.4	4.4	81.9	8.6	596.6	929.9
Loss for the year	**-**	**-**	**-**	**-**	**(33.1)**	**(33.1)**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**64.5**	**64.5**
Transfer from revaluation reserve	**-**	**-**	**(7.8)**	**-**	**7.8**	**-**
Total comprehensive (expense)/ income for the year	**-**	**-**	**(7.8)**	**-**	**39.2**	**31.4**
Transactions with owners recorded directly in equity						
Dividends (Note 11)	**-**	**-**	**-**	**-**	**(97.1)**	**(97.1)**
At 31 March 2022	**238.4**	**4.4**	**74.1**	**8.6**	**538.7**	**864.2**

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

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m
At 1 April 2020	238.4	4.4	84.1	8.6	616.5	952.0
Profit for the year	-	-	-	-	53.4	53.4
Other comprehensive expense for the year	-	-	-	-	(45.1)	(45.1)
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Total comprehensive (expense)/ income for the year	-	-	(2.2)	-	10.5	8.3
Transactions with owners recorded directly in equity						
Dividends (Note 11)	-	-	-	-	(30.7)	(30.7)
At 31 March 2021	238.4	4.4	81.9	8.6	596.3	929.6
Loss for the year	**-**	**-**	**-**	**-**	**(33.1)**	**(33.1)**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**64.5**	**64.5**
Transfer from revaluation reserve	**-**	**-**	**(7.8)**	**-**	**7.8**	**-**
Total comprehensive (expense)/ income for the year	**-**	**-**	**(7.8)**	**-**	**39.2**	**31.4**
Transactions with owners recorded directly in equity						
Dividends (Note 11)	**-**	**-**	**-**	**-**	**(97.1)**	**(97.1)**
At 31 March 2022	**238.4**	**4.4**	**74.1**	**8.6**	**538.4**	**863.9**

Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2022

	Note	**Group and Company 2022 £m**	Group and Company 2021 £m
Operating activities			
Cash generated from operations	31	**266.2**	256.4
Interest paid		**(54.1)**	(51.2)
Interest portion of lease liabilities	20	**(0.2)**	(0.2)
Tax paid		**(15.2)**	(16.6)
Net cash generated from operating activities		**196.7**	188.4
Investing activities			
Interest received and similar income		**0.4**	0.8
Purchase of property, plant and equipment		**(196.5)**	(185.3)
Purchase of intangible assets		**(12.2)**	(8.6)
Customer contributions received		**51.8**	35.0
Proceeds from sale of property, plant and equipment		**0.5**	0.1
Net cash used in investing activities		**(156.0)**	(158.0)
Net cash flow before financing activities		**40.7**	30.4
Financing activities			
Proceeds from external borrowings	19	**30.0**	-
Repayment of external borrowings	19	**(37.4)**	(37.0)
Repayment of lease liabilities	19	**(1.2)**	(1.3)
Increase in inter-company loan from parent	19	**2.0**	4.8
(Decrease)/increase in inter-company loan from group	19	**(200.0)**	300.0
Dividends paid	11	**(97.1)**	(30.7)
Net cash (used in)/generated from financing activities		**(303.7)**	235.8
Net (decrease)/increase in cash and cash equivalents		**(263.0)**	266.2
Cash and cash equivalents at the beginning of the year	17	**322.4**	56.2
Cash and cash equivalents at the end of the year	17	**59.4**	322.4

Notes to the Financial Statements

Electricity North West Limited 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 and Group. All values are stated in million pounds (£'m) unless otherwise indicated.

The financial statements are prepared on the going concern basis. Further detail on the going concern assessment is contained in the Strategic Report.

1. Adoption of new and revised Standards

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

In the current year, the Group has applied the following amendments to IFRS Standards issued by the International Accounting Standards Board (IASB) for an accounting period that begins on or after 1 January 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 Group has no formal hedging relationships in place; as such, Phase 1 was not relevant to the Group.

In the current year, the Group 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 Group 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 Group 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 Group, all of which extend beyond 31 December 2021:

- Derivatives;
  - External index-linked swaps, where the receive leg is GBP LIBOR-linked,
  - External interest rate swap, where the receive leg is GBP LIBOR-linked,
  - Inter-company index-linked swap, where the pay leg is GBP LIBOR-linked, and
  - Inter-company hybrid liability, where the receive leg of the embedded derivative is GBP LIBOR-linked, and
- Bank borrowings;
  - Revolving credit facility.

Notes to the Financial Statements

1. Adoption of new and revised Standards (continued)

Derivatives

None of the contractual terms of the Group's derivatives affected by the interest rate benchmark reform have been amended, rather the Group 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 Group 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.

Bank borrowings

The contractual terms of the GBP LIBOR-linked revolving credit facility in the Company were amended in December 2021, ahead of the transition. This was replaced with a GBP SONIA-linked revolving credit facility.

Amendments to other standards:

Amendments to other IFRS Standards and interpretations issued by the International Accounting Standards Board (IASB) that are effective in the year are listed below; their adoption has not had any material impact on the disclosures or the amounts reported in these financial statements:

- Amendments to IFRS 16 *Leases – Covid-19-Related Rent Concessions beyond 30 June 2021*.

New and revised IFRS Standards in issue but not yet effective

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

- IFRS 17 *Insurance Contracts,* effective year-ending 31 March 2024 but is not applicable to the Group,
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* effective date not yet set,
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*, effective and will be applied by the Group from year-ending 31 March 2024,
- Amendments to IFRS 3: *Reference to the Conceptual Framework,* effective and will be applied by the Group from year-ending 31 March 2023,
- Amendments to IAS 16: *Property, Plant and Equipment—Proceeds before Intended Use,* effective and will be applied by the Group from year-ending 31 March 2023,
- Amendments to IAS 37: *Onerous Contracts – Cost of Fulfilling a Contract,* effective and will be applied by the Group from year-ending 31 March 2023,
- Annual Improvements to IFRS Standards 2018-2020 Cycle, effective and will be applied by the Group from year-ending 31 March 2023,
- Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies,* effective date not yet set,
- Amendments to IAS 8: *Definition of Accounting Estimates*, effective and will be applied by the Group from year-ending 31 March 2024,
- Amendments to IAS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* effective and will be applied by the Group from year-ending 31 March 2024.

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

Notes to the Financial Statements (continued)

1. Adoption of new and revised Standards (continued)

Prior period restatement

In the year ended 31 March 2022, there has been a presentational change to the derivative assets and liabilities balances reported on as at 31 March 2021.

There has been a reclassification adjustment to gross up an inter-company embedded derivative and an inter-company back-to-back derivative agreement between Electricity North West Limited and ENW Finance plc. which were previously presented on a net basis. Whilst in practice the arrangements are net settled, there exists no legal right to offset.

The comparative information in the statement of financial position has been restated, recognising an inter-company derivative asset of £367.6m and a corresponding increase to the derivative liabilities of £367.6m, with a net nil impact on total net assets. This derivative asset of £367.6m was offset against a derivative liability of £366.7m.

The comparative fair value movement in the finance expense note (Note 5) has been restated to show the movement on the inter-company derivative asset, inter-company derivative liability and derivative liabilities separately, with a net nil impact on the total finance expense recognised in the income statement.

The restatement has had a net nil impact on the prior year income statement and the prior year opening and closing retained earnings. As the prior year adjustment would affect the statement of financial position at the beginning of the preceding period an additional statement of financial position has been presented as at 1 April 2020. The impact on the opening financial position similarly grosses up the derivative financial assets and liabilities with no impact on opening net assets.

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 accounting

The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group 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.

Basis of consolidation

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

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

Accounting policies are consistent in all Group companies.

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

Business combinations and goodwill

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

Goodwill is measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed and is recognised as an asset. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the consideration transferred, the excess is recognised immediately in profit or loss.

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

Investment in subsidiaries (Company only)

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Revenue recognition

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

Revenue from the distribution of electricity

The recognition of revenue from the distribution of electricity includes an assessment of the volume of unbilled energy distributed as at the year end. Non-distribution sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

Where turnover received or receivable in the year exceeds the maximum amount permitted by regulatory agreement, adjustments will be made to future prices to reflect this over-recovery; no liability is recognised, as such an adjustment to future prices relates to the provision of future services. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Incentive income earned or adjustments for under or over-spend on Totex, or over or under delivery of outputs, all in the financial year are not adjusted as adjustments to revenues in the period. These are adjusted through the regulatory mechanism in revenues two years later. Similarly, adjustments in respect of comparable performance measures are reflected in the current year's financial statements.

The Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred revenue.

Customer contributions

The current accounting treatment for customer contributions towards distribution system assets is to defer revenue and release over the life of the asset. The income is released to the statement of profit or loss on a straight-line basis, in line with the useful economic life of the distribution system assets. This amortisation of contributions received is recognised in revenue.

Under IFRS 15, revenue is recognised as each performance obligation within the contract is satisfied. If performance obligations are not satisfied over time, revenue will not be recognised.

Identification of contract with customer: The written quotation provided by ENWL and accepted by the customer (the Agreement), has commercial substance in that ENWL's future cash flows are expected to change as a result, and it is considered probable that ENWL will collect the consideration to which it is entitled under the Agreement in exchange for completion of the connection.

Identification of performance obligation: As the performance obligation relating to the ongoing maintenance is not covered by the Agreement, in relation to the revenue arising from the customer contribution, there is only one performance obligation. This obligation is considered to be distinct because the following criteria are met:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and readily available other resources being the existing network
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The connection is separately identifiable from maintenance as maintenance is not covered by the Agreement.

The existing distribution network is considered to be a readily available resource.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Determination of transaction price: Ordinarily the expected transaction price will be that of the quoted price in the Agreement. Generally, the price is fixed by Ofgem regulations. Variations may arise when the customer has certain specifications and changes are reviewed on a contract by contract basis to establish whether they should be treated as variable consideration. Variable consideration is accounted for based on the best estimate of the transaction price if it is highly probable that the revenue will be received. Given the variations on contracts are relating to a single performance obligation and do not constitute distinct services, these should be accounted for as a continuation of the original contract resulting in additional or reduced revenue.

Allocation of transaction price: For the Agreements being considered there is only one performance obligation to allocate the transaction price to. The transaction price is stated within the Agreement.

Recognition of revenue when performance obligation is satisfied: The performance obligation is regarded as satisfied over time as ENWL creates a bespoke asset for which they have no alternative use other than to provide electricity to the customer's premises. ENWL has an enforceable right to payment for the performance completed to date. Revenue is, therefore, recognised over the life of the asset.

Refundable customer deposits

Refundable customer deposits received in respect of property, plant and equipment are held as a liability until repayment conditions come into effect and the amounts are repaid to the customer or otherwise credited to customer contributions.

Government levies

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

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

Revenue from SoLR levies, net of the associated costs are therefore recognised proportionately over time in the income statement.

Dividend income

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

Investment income

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Leases

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

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

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

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

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

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

Borrowing costs

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

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

Retirement benefit costs

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

The defined benefit retirement benefit scheme is provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2019; agreed actuarial valuations are carried out thereafter at intervals of not more than three years.

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Retirement benefit costs (continued)

Defined benefit costs are split into three categories:

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

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

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

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

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 Income Statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred taxation

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Deferred Taxation (continued)

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

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

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

Intangible assets

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

Amortisation periods for categories of intangible assets are:

Computer software	1-12 years

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

The Licence has an indefinite useful economic life and, therefore, is tested annually for impairment.

Property, plant and equipment

Property, plant and equipment comprise operational structures, non-operational land and buildings, fixtures and equipment, vehicles and other assets.

Operational structures

Infrastructure assets are depreciated by writing off their deemed cost, less the estimated residual value, evenly over their useful lives, which range from 5 to 80 years. Employee costs incurred in implementing the capital schemes of the Group are capitalised within operational structure assets.

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Assets other than operational structures

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

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

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

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

Buildings	30-60 years
Fixtures and equipment, vehicles and other	2-40 years

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

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

Impairment of tangible and intangible assets

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

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

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

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

Where an impairment loss subsequently reverses, the reversal is recognised immediately in the income statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Research and development

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

Inventories

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

Financial instruments

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

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

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

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

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

Financial assets

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Classification of financial assets

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

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

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

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

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.

Financial assets at FVTPL

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets; the Group holds no lease receivables or financial guarantee 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 Group always recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

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

a) Significant increase in credit risk

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

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

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

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

b) Definition of default

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

c) Credit-impaired financial assets

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

d) Measurement and recognition of expected credit losses

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

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

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

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

Derecognition of financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents 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.

Money market deposits

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

Financial liabilities and equity

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Equity instruments

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

Financial liabilities

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

Financial liabilities measured subsequently at FVTPL

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

Financial liabilities measured subsequently at amortised cost

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

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

Trade payables

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

Derecognition of financial liabilities

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Derivative financial instruments

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

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss 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 Group considers hedge accounting when entering any new derivative, however, there are currently no formal hedging relationships in the Group.

Provisions

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

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

Notes to the Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Property, Plant and Equipment

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

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.

Impairment of tangible and intangible assets (including goodwill)

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

Fair values of derivative financial instruments

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

Notes to the Financial Statements (continued)

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

Retirement benefit schemes

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

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

Notes to the Financial Statements (continued)

4. Revenue

Group and Company	2022 £m	2021 £m
Revenue	**472.8**	449.8

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is, therefore, regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues from three customers (2021: three), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £174.3m (2021: £158.8m). No other customer represented more than 10% of revenues either this year or in the prior year.

In the current year £19.5m (2021: £18.9m) of customer contributions amortisation has been amortised through revenue in line with IFRS 15 (Note 23 & 31).

5. Operating profit

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

Group and Company	2022 £m	2021 £m
Employee costs (Note 6)	**60.9**	59.1
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (Note 13 & 31) *	**119.9**	119.8
Amortisation of intangible assets (Note 12 & 31)	**12.8**	6.1
	132.7	125.9
Loss allowance on trade receivables written off (Note 16)	**(1.0)**	(0.1)
Loss allowance on trade receivables (Note 16)	**2.9**	1.3
Profit on disposal of property, plant and equipment	**(0.1)**	(0.1)
Provision (credit)/charge (Note 25)	**(0.2)**	0.1
Research and development	**2.5**	2.3

*Includes depreciation on Right of Use assets of £1.5m (2021: £1.4m).

Analysis of the auditor's remuneration is as follows:

Group and Company	2022 £m	2021 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements*	**0.2**	0.2
Audit-related assurance services	**0.1**	0.1
Total fees	**0.3**	0.3

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

There are no non-audit related services in either the current or prior year.

Notes to the Financial Statements (continued)

6. Employee costs

Group and Company	2022 £m	2021 £m
Wages and salaries	**108.6**	102.5
Social security costs	**11.5**	11.0
Pension costs (Note 22)	**14.0**	20.2
Employee costs (including Directors' remuneration)	**134.1**	133.7
Costs transferred directly to fixed assets	**(73.2)**	(74.6)
Charged to operating expenses	**60.9**	59.1

All employees and employee costs relate to the Company.

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

Group and Company	2022 Number	2021 Number
Electricity distribution	**1,935**	1,918

7. Directors' remuneration

Group and Company	2022 £m	2021 £m
Salaries and other short-term employee benefits	**1.2**	1.3
Accrued bonus	**0.5**	0.5
Amounts receivable under long-term incentive schemes	**0.5**	0.5
Total fees	**2.2**	2.3

The aggregate emoluments of the Directors in 2022 amounted to £2,219,000 (2021: £2,360,000). Emoluments comprise salaries, fees, taxable benefits, and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid Director in 2022 in respect of services to the Group amounted to £1,145,000 (2021: £1,150,000). Under the Executive Incentive Plan bonuses are awarded and either paid in the following financial year (accrued bonus) or paid in subsequent years (amounts receivable under long-term incentive schemes). There were no amounts payable for compensation for loss of office in the year (2021: £nil).

The pension contributions for the highest paid Director for the year-ended 31 March 2022 were £nil (2021: £nil). The accrued pension at 31 March 2022 for the highest paid Director was £nil (2021: £nil).

As at 31 March 2022 the Directors have no interests in the ordinary shares of the Company (2021: same).

Notes to the Financial Statements (continued)

8. Investment income

Group and Company	2022 £m	2021 £m
Interest receivable on short-term bank deposits	**0.4**	0.9

9. Finance expense

Group and Company	2022 £m	*Restated 2021 £m
Interest payable:		
Interest on group borrowings at amortised cost (Note 30)	**10.2**	17.5
Interest on borrowings at amortised cost	**40.6**	40.9
Net interest settlements on derivatives at FVTPL	**(3.1)**	(9.5)
Indexation of index-linked debt (Note 19)	**25.2**	5.7
Reimbursement of inter-company loan impairment	**0.3**	0.1
Interest on leases	**0.2**	0.2
Interest cost on pension plan obligations (Note 22)	**1.1**	0.3
Capitalisation of borrowing costs under IAS 23	**(1.0)**	(0.9)
Total interest expense	**73.5**	54.3
Fair value movements on financial instruments:		
Fair value movement on inter-company derivative asset	**(41.2)**	(26.3)
Fair value movement on inter-company derivative liability	**42.1**	28.2
Fair value movement on derivative liabilities	**75.6**	56.0
Total fair value movement	**76.5**	57.9
Total finance expense	**150.0**	112.2

*The comparative fair value movement has been restated to show the movement on the inter-company derivative asset, inter-company derivative liability and external derivative liabilities separately, with a net nil impact on the total fair value movement and total finance expense recognised in the income statement.

Borrowing costs capitalised in the year under IAS 23 were £1.0m (2021: £0.9m), using an average annual capitalisation rate of 3.99**%** (2021: 4.19%), derived from the total general borrowing costs for the year divided by the average total general borrowings outstanding for the year.

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

Notes to the Financial Statements (continued)

9. Finance expense (continued)

There has been £nil (2021: £nil) accretion payments on the index-linked swaps in the year; these are scheduled five-yearly, seven-yearly and ten-yearly with the next payment due in July 2022. The amount of accretion accrued over the year was £29.8m (2021: £4.7m), split as follows:

	PAYG 5 £m	PAYG 7 £m	PAYG 10 £m	Total £m
Accumulated Accretion 1 April 2020	6.7	35.5	12.7	54.9
Accrued in Year	1.1	2.2	1.4	4.7
Paid in Year	-	-	-	-
Accumulated Accretion 31 March 2021	7.8	37.7	14.1	59.6
Accrued in Year	**7.0**	**14.2**	**8.6**	**29.8**
Paid in Year	-	-	-	-
Accumulated Accretion 31 March 2022	**14.8**	**51.9**	**22.7**	**89.4**

No new derivatives were entered during the year; in the prior year, a £200m interest rate swap, effective date July 2021, maturity date July 2030, was entered. No swaps were closed out during the year (2021: none).

Notes to the Financial Statements (continued)

10. Taxation

Group and Company	2022 £m	2021 £m
Current tax		
Current year	**12.3**	21.6
Adjustment in respect of prior year	**0.2**	(0.9)
	12.5	20.8
Deferred tax (Note 24)		
Current year	**46.4**	(10.2)
Adjustments in respect of prior year	**0.2**	0.8
	46.6	(9.4)
Tax charge for the year	**59.1**	11.4

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.

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 Group.

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

Group and Company	2022 £m	2021 £m
Profit before tax	**26.0**	64.8
Tax at the UK corporation tax rate of 19% (2021: 19%)	**4.9**	12.3
Non-taxable income	**(0.5)**	(0.8)
Prior year tax adjustments	**0.4**	(0.1)
Increase in deferred tax due to rate change	**54.3**	-
Tax charge for the year	**59.1**	11.4

Notes to the Financial Statements (continued)

11. Dividends

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

Group and Company	2022 £m	2021 £m
Final dividends for the year ended 31 March 2021 of 3.33 pence (31 March 2020 of nil pence per share)	**15.9**	-
Interim dividends for the year ended 31 March 2022 of 17.03 pence per share (31 March 2021: 6.44 pence)	**81.2**	30.7
	97.1	30.7

In the year ended 31 March 2022, the Company declared interim dividends of £81.2m, which were paid in December 2021 (2021: £30.7m). The Company declared a final dividend for the year ended 31 March 2021 of £15.9m that was paid in June 2021; the Company did not declare a final dividend for the year ended 31 March 2020.

At the Board meeting in May 2022, the Directors proposed a final dividend of £23.0m for the year ended 31 March 2022, subject to approval by equity holders of the Company, that is not a liability in the financial statements at 31 March 2022.

Notes to the Financial Statements (continued)

12. Intangible assets and goodwill

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
Cost				
At 1 April 2020	10.1	90.2	28.2	128.5
Additions	-	1.8	6.7	8.5
Transfers	-	3.7	(3.7)	-
Reclassification from tangible to intangible	-	3.3	-	3.3
At 31 March 2021	**10.1**	**99.0**	**31.2**	**140.3**
Additions		**6.6**	**5.6**	**12.2**
Transfers	**-**	**31.8**	**(31.8)**	**-**
At 31 March 2022	**10.1**	**137.4**	**5.0**	**152.5**
Amortisation				
At 1 April 2020	-	74.7	-	74.7
Charge for the year	-	5.9	-	5.9
Reclassification from tangible to intangible	-	0.2	-	0.2
At 31 March 2021	**-**	**80.8**	**-**	**80.8**
Charge for the year	**-**	**12.8**	**-**	**12.8**
At 31 March 2022	**-**	**93.6**	**-**	**93.6**
Net book value				
At 31 March 2022	**10.1**	**43.8**	**5.0**	**58.9**
At 31 March 2021	10.1	18.2	31.2	59.5

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

At 31 March 2022, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £5.2m (2021: £12.5m).

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

Notes to the Financial Statements (continued)

13. Property, plant and equipment

Group and Company	Operational Structures £m	Non-operational land and buildings £m	Fixtures, equipment, vehicles and other £m	Assets under the course of construction £m	Right of use assets (Note 20) £m	Total £m
Cost or valuation						
At 1 April 2020	4,915.5	34.2	149.6	120.3	6.3	5,225.9
Additions	151.2	1.2	10.7	29.3	0.6	193.0
Transfers	12.1	0.5	18.1	(30.7)	-	-
Disposals	(3.2)	-	(2.0)	-	(0.3)	(5.5)
Reclassification from tangible to intangible	-	-	(3.3)	-	-	(3.3)
At 31 March 2021	**5,075.6**	**35.9**	**173.1**	**118.9**	**6.6**	**5,410.1**
Additions	**131.2**	**0.2**	**5.7**	**63.0**	**0.7**	**200.8**
Transfers	**37.9**	**0.5**	**1.1**	**(39.5)**	**-**	**-**
Disposals	**(2.5)**	**-**	**(0.2)**	**-**	**(0.6)**	**(3.3)**
At 31 March 2022	**5,242.2**	**36.6**	**179.7**	**142.4**	**6.7**	**5,607.6**
Accumulated depreciation and impairment						
At 1 April 2020	1,746.9	11.4	104.8	-	1.2	1,864.3
Charge for the year	103.0	1.0	14.6	-	1.4	120.0
Disposals	(3.2)	-	(2.0)	-	(0.3)	(5.5)
Reclassification from tangible to intangible	-	-	(0.2)	-	-	(0.2)
At 31 March 2021	**1,846.7**	**12.4**	**117.2**	**-**	**2.3**	**1,978.6**
Charge for the year	**103.9**	**1.0**	**13.5**	**-**	**1.5**	**119.9**
Disposals	**(2.1)**	**-**	**(0.2)**	**-**	**(0.7)**	**(3.0)**
At 31 March 2022	**1,948.5**	**13.4**	**130.5**	**-**	**3.1**	**2,095.5**
Net book value						
At 31 March 2022	**3,293.7**	**23.2**	**49.2**	**142.4**	**3.6**	**3,512.1**
At 31 March 2021	3,228.9	23.5	55.9	118.9	4.3	3,431.5

At 31 March 2022, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £108.7m (2021: £97.2m).

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

At 31 March 2022, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £3,407.6m (2021: £3,325.9m). The revaluation reserve is disclosed in Note 27, net of deferred tax. The revaluation reserve arose following North West Water's acquisition of Norweb, in 1997.

Impairment testing of intangible assets and property plant and equipment

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

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

For the purposes of impairment testing the Group have determined that there is only one cash generating unit (CGU). The key assumptions for the value in use calculations are those regarding discount rates and the outcomes of future Ofgem price control settlements.

The Group has prepared cash flow forecasts for a 26-year period, including a terminal value, which represents the planning horizon used for management purposes, being aligned to the end of a RIIO regulatory period. No real growth rate is assumed in projecting cash flows beyond the period covered by most recent budgets/forecast, however, the impact of inflation is considered.

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

Notes to the Financial Statements (continued)

14. Investment in subsidiaries

Company	2022 £m	2021 £m
Cost and net book value	**15.4**	15.4

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

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

Company	Description of holding	Proportion held	Nature of business
Subsidiary undertakings			
Electricity North West Number 1 Company Ltd	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Ltd	Ordinary shares of £1 each	100%	Dormant
Joint venture			
Nor.Web DPL Ltd *(dissolved in year)*	Ordinary shares of £1 each	50%	Dormant

There have been no changes to these shareholdings during the year, with the exception of Nor.Web DPL Ltd that was dissolved in February 2022; there was no gain or loss on dissolution. The address of the registered office of the investments above is Borron Street, Stockport, Cheshire, SK1 2JD, with the exception of Nor.Web DPL Ltd whose registered office was 304 Bridgewater Place, Birchwood Park, Warrington, WA3 6XG.

15. Inventories

Group and Company	2022 £m	2021 £m
Raw material and consumables	**18.1**	14.0

Notes to the Financial Statements (continued)

16. Trade and other receivables

Group and Company	2022 £m	2021 £m
Trade receivables	**7.8**	7.7
Amounts owed by affiliated undertakings (Note 30)	**4.8**	6.1
Prepayments and accrued income	**67.4**	61.5
Total trade and other receivables	**80.0**	75.3

The average credit period taken on sales is 14 days (2021: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £4.4m (2021: £2.5m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

At 31 March 2022, 59% of the Group trade receivables are past due but not impaired (2021: 81%). A balance of £2.2m (2021: £3.1m) is less than 30 days past due, against which an allowance for doubtful debt of £nil (2021: £0.4m) has been made; a balance of £6.9m is greater than 30 days past due (2021: £5.7m), against which an allowance for doubtful debt of £4.4m (2021: £2.1m) has been made.

The movement on the provision for impairment of trade receivables is as follows:

Group and Company	2022 £m	2021 £m
At 1 April	**2.5**	1.3
Amounts written off in the year	**(1.0)**	(0.1)
Amounts recognised in the income statement	**2.9**	1.3
At 31 March	**4.4**	2.5

The Group is required by Ofgem to accept any company as a counterparty that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to.

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value (RAV) of the Company. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level, under the contract, the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2022 £3.4m (2021: £2.6m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of RIIO-ED1 (1 April 2015 to 31 March 2023) and for the year ended 31 March 2022 is £2,159m (2021: £1,948m) based on the actual retail price index (RPI) for March.

At 31 March 2022, £162.0m (2021: £143.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £7.6m (2021: £7.4m). All of the customers granted credit of this level must have a credit rating of at least BBB+ from Standard and Poor's and Baa1 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

Notes to the Financial Statements (continued)

16. Trade and other receivables (continued)

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

17. Cash and cash equivalents and money market deposits

Group and Company	2022 £m	2021 £m
Cash in bank accounts	**19.7**	10.8
Cash in liquidity funds	**39.6**	60.9
Cash in short-term deposit accounts	**0.1**	250.7
Cash and cash equivalents	**59.4**	322.4

Cash and cash equivalents comprise cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less, net of any bank overdrafts which are payable on demand. Money market deposits with terms to maturity in excess of three months are not included as cash or cash equivalents and are separately disclosed on the face of the Statement of Financial Position.

The effective interest rate on all short-term deposits was a weighted average of 0.51% (2021: 0.33%) and these deposits had an average maturity of 1.1 day (2021: 1.0 day).

18. Trade and other payables

	Group 2022 £m	Company 2022 £m	Group 2021 £m	Company 2021 £m
Trade payables	**13.4**	**13.4**	26.3	26.3
Amounts owed to affiliated undertakings (Note 30)	**5.2**	**5.2**	7.0	7.0
Amounts owed to subsidiary undertakings (Note 30)	**-**	**15.5**	-	15.5
Other taxation and social security	**13.4**	**13.4**	11.1	11.1
Customer contributions (Note 23)	**38.3**	**38.3**	24.7	24.7
Refundable customer deposits	**3.4**	**3.4**	2.6	2.6
Accruals and deferred income	**90.5**	**90.7**	71.0	71.2
Total trade and other payables	**164.2**	**179.9**	142.7	158.4

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 20.2 days from receipt of invoice (2021: 19.7 days).

Refundable customer deposits are those customer contributions which may be partly refundable, dependent on contractual obligations.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the Financial Statements (continued)

19. Borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's financial risk management and exposure to credit risk, liquidity risk and market risk see Note 21.

Group and Company	2022 £m	2021 £m
Current liabilities		
Bank and other term borrowings	**7.6**	7.1
Lease liabilities (Note 20)	**1.4**	1.3
Amounts owed to parent undertaking (Note 30)	**84.2**	-
Amounts owed to affiliated undertaking (Note 30)	**-**	199.8
	93.2	208.2
Non-current liabilities		
Bonds	**632.5**	631.9
Bank and other term borrowings	**259.5**	248.2
Lease liabilities (Note 20)	**2.3**	3.3
Amounts owed to parent undertaking (Note 30)	**-**	82.2
Amounts owed to affiliated undertaking (Note 30)	**298.6**	298.5
	1,192.9	1,264.1
Total borrowings	**1,286.1**	1,472.3

Carrying value by category

The carrying values by category of financial instruments were as follows:

Group and Company	Nominal value £m	Interest rate %	Maturity year	2022 Carrying value £m	2021 Carrying value £m
Borrowings measured at amortised cost:					
Bond	200.0	8.875%	2026	**198.2**	197.8
Bond	250.0	8.875%	2026	**275.7**	281.3
Index-linked bond	100.0	1.4746%+RPI	2046	**158.6**	152.8
Index-linked loan	135.0	1.5911%+RPI	2024	**187.7**	174.6
Index-linked loan	50.0	0.38% +RPI	2032	**38.1**	38.8
Index-linked loan	50.0	0%+RPI	2033	**41.4**	41.9
Revolving credit facility	50.0	Libor+0.35%	2022	**-**	-
Revolving credit facility	50.0	Sonia+0.35%	2024	**(0.1)**	-
Lease liabilities (Note 20)				**3.7**	4.6
Amounts owed to parent undertaking	125.0	2.53%	2023	**84.2**	82.2
Amounts owed to affiliated undertaking	200.0	6.125%	2021	**-**	199.8
Amounts owed to affiliated undertaking	300.0	1.415%	2030	**298.6**	298.5
Total borrowings				**1,286.1**	1,472.3

Notes to the Financial Statements (continued)

19. Borrowings (continued)

The following table provides a reconciliation of the opening and closing debt amounts.

Group and Company	2022 £m	2021 £m
At 1 April	**1,472.3**	1,205.6
Proceeds from external borrowings	**30.0**	-
Repayments of external borrowings	**(37.4)**	(37.0)
Repayments of lease liabilities - capital	**(1.2)**	(1.3)
Repayments of lease liabilities - interest	**(0.2)**	(0.2)
Lease liabilities reclassified to provisions (Note 25)	**(0.3)**	-
New lease liabilities	**0.8**	0.5
Increase in inter-company loan from parent	**2.0**	4.8
(Decrease)/increase in inter-company loan from group company	**(200.0)**	300.0
Indexation (Note 9)	**25.2**	5.7
Transaction costs on new RCF	**(0.1)**	(1.6)
Amortisation of transaction costs, bond discounts and premiums	**(5.0)**	(4.2)
At 31 March	**1,286.1**	1,472.3

As at 31 March 2022 all loans and borrowings are unsecured and are in sterling (2021: same). There were no formal bank overdraft facilities in place (2021: same). The fair values of the Group's financial instruments are shown in Note 21.

Borrowing facilities

The Group and Company had £50.0m (2021: £50.0m) unutilised committed bank facilities at 31 March 2022; nil (2021: £50.0m) expires within one year, nil (2021: nil) expires after one year but less than two years and £50.0m (2021: £nil) expires in more than two years.

Notes to the Financial Statements (continued)

20. Leases

	Group 2022 £m	Company 2022 £m	Group 2021 £m	Company 2021 £m
Lease assets:				
Land and buildings	**2.0**	**2.0**	2.3	2.3
Telecoms	**0.1**	**0.1**	0.1	0.1
Vehicles	**1.5**	**1.5**	1.9	1.9
Total assets (Note 13)	**3.6**	**3.6**	4.3	4.3
Lease liabilities:				
Land and buildings	**1.9**	**1.9**	2.6	2.6
Telecoms	**0.1**	**0.1**	0.1	0.1
Vehicles	**1.7**	**1.7**	1.9	1.9
Total liabilities (Note 19)	**3.7**	**3.7**	4.6	4.6

The Company's leasing activities include land and buildings used for office space and substations, telecoms fibre-optic cables for technical equipment communications, and vehicles including trucks and cars for the use of employees.

The lease liabilities have been discounted at 5% for land and buildings, and telecoms; and at 6% for vehicles (2021: same).

The following is an analysis of the maturity profile of the lease liabilities.

Group and Company	**<1 year £m**	**1 – 2 years £m**	**2 – 3 years £m**	**3 – 4 years £m**	**>4 years £m**	**Total £m**
At 31 March 2022:	**1.4**	**0.9**	**0.4**	**0.2**	**0.8**	**3.7**
At 31 March 2021:	1.3	1.3	0.3	0.4	1.3	4.6

Notes to the Financial Statements (continued)

21. Financial instruments

The Group uses financial instruments to invest liquid asset balances, raise funding and manage the risks arising from its operations.

The principal risks to which the Group is exposed and which arise in the normal course of business include credit risk, liquidity risk and market risk, in particular interest rate risk and inflation risk. Derivative financial instruments are used to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons.

The accounting policy for derivatives is provided in Note 2.

Categories of financial instruments

	Group 2022 £m	Company 2022 £m	Restated Group 2021 £m	Restated Company 2021 £m
Financial assets:				
Inter-company derivative asset	**408.8**	**408.8**	367.6	367.6
Cash and cash equivalents (Note 17)	**59.4**	**59.4**	322.4	322.4
Trade receivables (Note 16)	**7.8**	**7.8**	7.7	7.7
Amounts owed by group undertakings (Note 16)	**4.8**	**4.8**	6.1	6.1
Financial liabilities:				
Inter-company derivative liability	**(408.8)**	**(408.8)**	(366.7)	(366.7)
Derivative liabilities	**(551.4)**	**(551.4)**	(475.8)	(475.8)
Financial liabilities at amortised cost (Note 19)	**(1,286.1)**	**(1,286.1)**	(1,472.3)	(1,472.3)
Trade and other payables (exc. accruals) (Note 18)	**(73.7)**	**(89.2)**	(60.6)	(76.1)

Control over financial instruments

The Group has a formal risk management structure, which includes the use of risk limits, reporting and monitoring requirements, mandates, and other control procedures. It is currently the responsibility of the Board to set and approve the risk management procedures and controls.

Risk management

All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most significant types of financial risk are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation and equity price risks.

The only material exposure the Group has to foreign exchange risk or equity price risk relates to the assets of the defined benefit pension scheme, that are managed by the pension scheme investment managers.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Group's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee.

The Group's processes for managing risk and the methods used to measure risk have not changed since the prior year. In the year, the Group's policies in relation to the management of credit risk, risk limits and minimum credit ratings of counterparties have been reviewed and updated as appropriate to reflect changes to market conditions and the associated level of perceived risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk.

Treasury activities

The counterparties under treasury activities consist of financial institutions. In accordance with IFRS, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and a credit risk adjustment is made where required (see the section on Fair Values below). The exposure to counterparty credit risk is updated at each reporting date. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

The Directors do not believe that the Group is exposed to any material concentrations of credit risk in relation to treasury investments, including amounts on deposit with counterparties. As at 31 March 2022, none (2021: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been re-negotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

The table below provides details of the ratings of the Group's treasury portfolio, including cash and cash equivalents, money market deposits and derivative asset positions (prior to IFRS 13 credit risk adjustment):

Group and Company	**2022 £m**	**2022 %**	2021 £m	2021 %
AAA	**39.6**	**64.7**	60.9	17.9
AA	**-**	**-**	-	-
AA-	**-**	**-**	-	-
A+	**21.5**	**35.2**	159.3	46.8
A	**0.1**	**0.1**	120.4	35.3
	61.2	**100.0**	340.6	100.0

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Trade receivables

Significant changes in the economy or in the utilities sector could result in losses not necessarily provided for at the statement of financial position date. Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers; there are only three (2021: three) principal customers, see Note 4. Each of these customers has a contract in place with the Group, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management, therefore, closely monitor adherence to this process, including closely monitoring the credit worthiness of each of these customers.

At 31 March 2022 there was £9.1m receivables past due (2021: £8.8m) against which an allowance for doubtful debts of £4.4m has been made (2021: £2.5m).

Exposure to credit risk

The table below shows the maximum exposure to credit risk, represented by the carrying value of each financial asset in the statement of financial position. For trade receivables, the value is net of any collateral held in cash deposits (see Note 16 for further details).

Group and Company	**2022 £m**	Restated 2021 £m
Inter-company derivative asset	**408.8**	367.6
Trade receivables (Note 16)	**7.8**	7.7
Amounts owed by group undertakings (Note 16)	**4.8**	6.1
Cash and cash equivalents (Note 17)	**59.4**	322.4
Balance at 31 March	**480.8**	703.8

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which currently project cash flows out 26 years ahead, to the end of the Regulatory Period ending 31 March 2048. A medium-term view is provided by the Group business plan covering the remainder of the current Regulatory Period ending 31 March 2023, which is updated and approved annually by the Board. The Board has approved a liquidity framework within which the business operates, including the maintenance of a minimum of 18 months liquidity, subject to excluding any ENWL and ENW Finance plc debt maturing between 12 and 18 months whilst maintaining appropriate credit ratings.

Available liquidity at 31 March was as follows:

Group and Company	**2022 £m**	2021 £m
Cash and cash equivalents (Note 17)	**59.4**	322.4
Committed undrawn bank facilities	**50.0**	50.0
Balance at 31 March	**109.4**	372.4

Cash and cash equivalents comprise cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of less than three months, net of any unpresented cheques. There was no formal bank overdraft facility in place during the year (2021: none).

At 31 March 2022, the Group and Company had committed undrawn bank facilities of £50.0m (2021: £50.0m), including nil (2021: £50.0m) expiring within one year, nil (2021: nil) expiring after one year but less than two years and £50.0m (2021: nil) expiring in more than two years.

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cash flows within particular time periods. The Group uses economic hedges to ensure that certain cash flows can be matched.

The following is an analysis of the maturity profile of contractual cash flows of financial liabilities, including principal and interest payable under financial liabilities and derivative financial instruments on an undiscounted basis. Derivative cash flows have been shown net; all other cash flows are shown gross.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Group and Company	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
At 31 March 2022:						
Trade payables	**(13.4)**	**-**	**-**	**-**	**-**	**(13.4)**
Refundable customer deposits	**(3.4)**	**-**	**-**	**-**	**-**	**(3.4)**
Amounts owed to parent undertaking	**(86.9)**	**-**	**-**	**-**	**-**	**(86.9)**
Amounts owed to affiliated companies	**(4.2)**	**(4.2)**	**(4.2)**	**(4.2)**	**(321.2)**	**(338.0)**
Bonds	**(42.3)**	**(42.4)**	**(42.4)**	**(492.4)**	**(216.5)**	**(836.0)**
Borrowings and overdrafts	**(10.8)**	**(200.0)**	**(7.8)**	**(7.7)**	**(49.9)**	**(276.2)**
Derivative financial instruments	**(23.1)**	**(67.0)**	**(12.0)**	**(12.0)**	**(363.3)**	**(477.4)**
	(184.1)	**(313.6)**	**(66.4)**	**(516.3)**	**(950.9)**	**(2,031.3)**
At 31 March 2021:						
Trade payables	(26.3)	-	-	-	-	(26.3)
Refundable customer deposits	(2.6)	-	-	-	-	(2.6)
Amounts owed to parent undertaking	(2.0)	(84.9)	-	-	-	(86.9)
Amounts owed to affiliated companies	(210.3)	(4.3)	(4.3)	(4.3)	(325.5)	(548.7)
Bonds	(42.2)	(42.2)	(42.2)	(42.2)	(692.3)	(861.1)
Borrowings and overdrafts	(10.0)	(9.9)	(184.9)	(7.2)	(53.3)	(265.3)
Derivative financial instruments	3.2	(11.4)	(45.5)	(2.7)	(366.3)	(422.7)
	(290.2)	(152.7)	(276.9)	(56.4)	(1,437.4)	(2,213.6)

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk, and these are explained below.

The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered into. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Treasurer under delegated authority from the Board.

The Group has no significant foreign exchange, equity or commodity exposure.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's fixed rate borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk due to their short-term nature.

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile. The cash flows exchanged under the derivatives are calculated by reference to a notional principal amount. The notional principal reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

Sensitivity analysis on interest

The following sensitivity analysis is used by Group management to monitor interest rate risk and shows the amount by which the fair value of items recorded on the statement of financial position at fair value would be adjusted for a given interest rate movement. As fair value movements are taken to the income statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve, a range in outcomes that management deem reasonably possible within the next financial year.

						Restated
			2022			2021
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in interest rates	**£m**	**£m**	**£m**	£m	£m	£m
Inter-company derivative asset	**31.5**	**(33.6)**	**(57.0)**	33.2	(30.9)	(61.1)
Inter-company derivative liability	**(31.5)**	**33.6**	**57.0**	(33.2)	30.9	61.1
Inflation-linked swaps	**(54.3)**	**47.9**	**97.3**	(39.8)	52.7	93.3
Interest rate swaps	**(17.2)**	**(28.8)**	**(38.7)**	8.2	(7.7)	(15.0)
Total finance expense impact	**(71.5)**	**19.1**	**58.6**	(31.6)	45.0	78.3

The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The analysis below shows the impact on profit for the year if interest rates over the course of the year had been different from the actual rates; in the prior year.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Group and Company Change in interest rates	**-0.5%** **£m**	**+0.5%** **£m**	**2022** **+1%** **£m**	-0.5% £m	+0.5% £m	Restated 2021 +1% £m
Inter-company derivative asset **	**(0.5)**	**0.5**	**1.0**	-	-	-
Inter-company derivative liability **	**0.5**	**(0.5)**	**(1.0)**	-	-	-
Inflation-linked swaps **	**0.5**	**(0.5)**	**(1.0)**	-	-	-
Interest rate swaps *	**(0.5)**	**0.5**	**1.0**	-	-	-
Floating rate borrowings ***	**-**	**-**	**0.1**	-	-	-
Total cash flow impact	**-**	**-**	**0.1**	-	-	-

* effective date 21 July 2021
** receive leg was a fixed rate until 21 July 2021
*** no floating rate borrowings in prior year

Although the above measures provide an indication of the Group's exposure to market risk, such measures are limited due to the long-term nature of many of the financial instruments and the uncertainty over future market rates.

Index-linked debt is carried at amortised cost and as such the Statement of Financial Position in relation to this debt is not exposed to movements in interest rates.

Inflation risk

The Group's revenues are linked to movements in inflation, as measured by the Retail Prices Index (RPI). To economically hedge exposure to RPI, the Company links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's index-linked swaps are exposed to a risk of change in their fair value and future cash flows due to changes in inflation rates. The Group's revenues are linked to RPI via returns on the Regulated Asset Value (RAV) and an increase in RPI would increase revenues, mitigating any increase in finance expense.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Sensitivity analysis on inflation

The Group's inflation-linked derivatives are exposed to a risk of change in their fair value due to changes in inflation rates. The following sensitivity analysis is used by Group management to monitor inflation rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve, a range in outcomes that management deem reasonably possible within the next financial year.

						Restated
			2022			2021
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in inflation rates	**£m**	**£m**	**£m**	£m	£m	£m
Inter-company derivative asset	**(35.9)**	**40.3**	**82.4**	(38.3)	42.5	87.6
Inter-company derivative liability	**35.9**	**(40.3)**	**(82.4)**	38.3	(42.5)	(87.6)
Inflation-linked swaps	**66.2**	**(69.6)**	**(144.8)**	67.0	(73.2)	(153.2)
Total finance expense impact	**66.2**	**(69.6)**	**(144.8)**	67.0	(73.2)	(153.2)

The sensitivity analysis above shows the amount by which the fair value of items recorded on the statement of financial position at fair value would be adjusted for a given inflation rate movement. As fair value movements are taken to the Income Statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

The Group's inflation-linked borrowings and derivatives are exposed to a risk of change in cash flows due to changes in inflation rates. The analysis below shows the impact on profit for the year if inflation rates over the course of the year had been different from the actual rates. The change in indexation has a corresponding impact on the carrying value of the inflation-linked debt.

						Restated
			2022			2021
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in inflation rates	**£m**	**£m**	**£m**	£m	£m	£m
Inflation-linked borrowings – indexation charge	**2.1**	**(2.1)**	**(4.3)**	2.0	(2.0)	(4.1)
Inflation-linked borrowings – interest charge	**-**	**-**	**(0.1)**	-	-	(0.1)
Inter-company derivative asset – interest charge	**(0.1)**	**0.1**	**0.2**	(0.1)	0.1	0.1
Inter-company derivative liability – interest charge	**0.1**	**(0.1)**	**(0.2)**	0.1	(0.1)	(0.1)
Inflation-linked swaps – interest charge	**0.1**	**(0.1)**	**(0.2)**	0.1	(0.1)	(0.1)
Total finance expense impact	**2.2**	**(2.2)**	**(4.6)**	2.1	(2.1)	(4.3)

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Capital risk management

The Group manages it's capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance (see the Dividend Policy page 34).

The capital structure of the Group consists of net debt (borrowings net of cash, Notes 18 and 20), and equity of the Group (share capital and reserves, see the Statement of Changes in Equity).

The Group is subject to externally imposed capital requirements, by both Ofgem and financial lenders and investors. These capital requirements are based on gearing levels, being the ratio of net debt (as above) to the regulatory asset value (RAV). The forecast gearing position is closely monitored by the Board against the external capital requirements (see page 36).

The RAV (2012/13 prices) is taken from the most recent Price Control Financial Model (PCFM) published by Ofgem on its website and is calculated in accordance with the RIIO-ED1 methodology (1 April 2015 to 31 March 2023). For the year-ended 31 March 2022, the nominal RAV is £2,159m (2021: £1,948m) and has been indexed using the retail price index (RPI) for March 2022.

Notes to the Financial Statements (continued)

Change in liabilities arising from financing activities

The table below shows changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

			Non-cash changes			
Group and Company	**At 31 March 2021 £m**	**Financing cash flows £m**	**Fair value movement £m**	**Indexation £m**	**Other changes £m**	**At 31 March 2022 £m**
Bonds	**631.9**	**-**	**-**	**5.9**	**(5.3)**	**632.5**
Bank borrowings	**255.3**	**(7.4)**	**-**	**19.3**	**(0.1)**	**267.1**
Lease liabilities	**4.6**	**(1.4)**	**-**	**-**	**0.5**	**3.7**
Amounts owed to parent	**82.2**	**2.0**	**-**	**-**	**-**	**84.2**
Amount owed to affiliate	**498.3**	**(200.0)**	**-**	**-**	**0.3**	**298.6**
Inter-company derivative liability	**366.7**	**-**	**42.1**	**-**	**-**	**408.8**
Derivative liabilities	**475.8**	**-**	**75.6**	**-**	**-**	**551.4**
	2,314.8	**(206.8)**	**117.7**	**25.2**	**(4.6)**	**2,246.3**

			Non-cash changes			
Group and Company	Restated At 1 April 2020 £m	Financing cash flows £m	Fair value movement £m	Indexation £m	Other changes £m	Restated At 31 March 2021 £m
Bonds	634.4	-	-	2.4	(4.9)	631.9
Bank borrowings	289.0	(37.0)	-	3.3	-	255.3
Lease liabilities	5.5	(1.5)	-	-	0.6	4.6
Amounts owed to parent	77.4	4.8	-	-	-	82.2
Amount owed to affiliate	199.3	300.0	-	-	(1.0)	498.3
Inter-company derivative liability	338.5	-	28.2	-	-	366.7
Derivative liabilities	419.8	-	56.0	-	-	475.8
	1,963.9	266.3	84.2	5.7	(5.3)	2,314.8

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to inflation-linked to more accurately match the revenue profile. The table below summarises the various external derivatives held by the Group at 31 March 2022; each category includes multiple instruments and the rates stated are the aggregate rate for that category. The table excludes the inter-company derivate asset and the inter-company derivative liability as the cash flows on these instruments net to nil.

Notional	Number	Type	Maturity	Pay Leg	Receive Leg	Accretion
£200m[1]	14	Index-linked	2038	3.56% + RPI, semi-annual	6m Sonia, semi-annual	5-yearly, next due July 2022 7-yearly, next due July 2023
£100m[2]	4	Index-linked	2050	1.51%+RPI, semi-annual	8.875%, annual	10-yearly, next due Sept 2030
£200m[3]	1	Fix/ float	2030	6m Sonia, semi-annual	0.283%, Semi-annual	None

[1]6.125% up to and including the 21 July 2021 settlement date, then changes to 6m Sonia for the remaining term of the instruments. The original contract references Libor, but transitioned to Sonia under the ISDA Protocol during the year (see Note 1).
[2]8.875% up to and including the 26 March 2026 settlement date, then changes to 6m Sonia for the remaining term of the instruments. The original contract references Libor, but transitioned to Sonia under the ISDA Protocol during the year (See Note 1).
[3]Entered in prior year, effective date 21 July 2021. The original contract references Libor, but transitioned to Sonia under the ISDA Protocol during the year (see Note 1).

The Company entered a £200m notional interest rate swap during the prior year. This swap has an effective date of July 2021 and a maturity date of July 2030. It has been entered to hedge the Sonia exposure on the above £200m index-linked swaps, from July 2021.

The Company also has two inter-company swaps with ENW Finance plc. The first is a back-to-back swap, mirroring the terms of the £200m notional external swaps. The second is a mirror of that back-to-back swap, the terms of which are defined in the £200m inter-company loan between the two entities; this is an embedded derivative that is bifurcated from the host contract and recorded as a separate instrument in the Company.

Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. At 31 March 2022, the Group's derivatives are not designated in formal hedging relationships (2021: same), and instead are measured at fair value through the income statement.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the statement of financial position date. Cash and cash equivalents, trade and other receivables and trade and other payables are excluded as the book values approximate to the fair values because of their short-term nature.

Group and Company	**2022 Carrying value £m**	**2022 Fair value £m**	Restated 2021 Carrying value £m	Restated 2021 Fair value £m
Non-current assets:				
Inter-company derivative assets	**408.8**	**408.8**	367.6	367.6
Current liabilities:				
Borrowings measured at amortised cost (Note 19)	**(7.6)**	**(7.6)**	(7.1)	(7.1)
Amounts due to parent company (Note 19)	**(84.2)**	**(84.2)**	-	-
Amounts due to affiliated companies (Note 19)	**-**	**-**	(199.8)	(203.3)
Lease liabilities (Note 19)	**(1.4)**	**(1.4)**	(1.3)	(1.3)
Non-current liabilities:				
Borrowings measured at amortised cost (Note 19)	**(892.0)**	**(1,072.6)**	(880.1)	(1,107.7)
Amounts due to parent undertaking (Note 19)	**-**	**-**	(82.2)	(82.2)
Amounts due to affiliated companies (Note 19)	**(298.6)**	**(271.3)**	(298.5)	(290.2)
Lease liabilities (Note 19)	**(2.3)**	**(2.3)**	(3.3)	(3.3)
Inter-company derivative liability	**(408.8)**	**(408.8)**	(366.7)	(366.7)
Derivative liabilities	**(551.4)**	**(551.4)**	(475.8)	(475.8)
	(1,837.5)	**(1,975.0)**	(1,947.2)	(2,170.0)

The value of derivatives is disclosed gross of any collateral held. At 31 March 2022, the group held £nil (2021: £nil) as collateral in relation to derivative financial instruments, included within current liabilities (see Note 18). The cash collateral does not meet the offsetting criteria in IAS 32:42, but it can be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy above).

Where market values are not available, fair values have been calculated by discounting future cash flows at prevailing interest and RPI rates sourced from market data (Level 2 inputs). In accordance with IFRS 13, an adjustment for non-performance risk has then been made to give the fair value.

The non-performance risk has been quantified by calculating either a credit valuation adjustment (CVA) based on the credit risk profile of the counterparty, or a debit valuation adjustment (DVA) based on the credit risk profile of the relevant group entity, using market-available data. 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.

For certain derivatives, the Level 3 inputs form an insignificant part of the fair value and, as such, these derivatives are disclosed as Level 2. Otherwise, the derivatives are disclosed as Level 3.

The adjustment for non-performance risk, as at 31 March 2022, is £121.2m (2021: £76.4m), of which £120.3m (2021: £73.4m) is classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value loss. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. This difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised in profit or loss is £49.7m (2021: £53.0m). The movement in the period all relates to the straight-line release to profit or loss.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following table provides an analysis of the component parts of the fair values for the derivative assets and derivative liabilities.

Group and Company	2022 £m	Restated 2021 £m
FV of derivatives pre IFRS 13 adjustment	**487.3**	427.5
CVA/DVA adjustment	**(47.2)**	(36.7)
FVA adjustment	**(9.5)**	-
Day 1 adjustment	**(21.8)**	(23.2)
IFRS 13 FV of inter-company derivative asset	**408.8**	367.6
FV of derivatives pre IFRS 13 adjustment	**(487.3)**	(426.6)
CVA/DVA adjustment	**47.2**	36.7
FVA adjustment	**9.5**	-
Day 1 adjustment	**21.8**	23.2
IFRS 13 FV of inter-company derivative liability	**(408.8)**	(366.7)
FV of derivatives pre IFRS 13 adjustment	**(722.3)**	(605.2)
CVA/DVA adjustment	**101.3**	76.4
FVA adjustment	**19.8**	-
Day 1 adjustment	**49.7**	53.0
IFRS 13 FV of derivative liabilities	**(551.4)**	(475.8)

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2022:				
Inter-company derivative asset	**-**	**-**	**408.8**	**408.8**
Inter-company derivative liability	**-**	**-**	**(408.8)**	**(408.8)**
Derivative liabilities:				
-£300m notional inflation-linked swaps	**-**	**(10.2)**	**(517.1)**	**(527.3)**
-£200m notional interest rate swaps	**-**	**(24.1)**	**-**	**(24.1)**
	-	**(34.3)**	**(517.1)**	**(551.4)**
At 31 March 2021 restated:				
Inter-company derivative asset	-	-	367.6	367.6
Inter-company derivative liability	-	-	(366.7)	(366.7)
Derivative liabilities:				
-£300m notional inflation-linked swaps	-	(47.6)	(415.9)	(463.5)
-£200m notional interest rate swaps	-	(12.3)	-	(12.3)
	-	(59.9)	(415.0)	(474.9)

The following table provides a reconciliation of the fair value amounts disclosed as Level 3.

Group and Company	2022 £m	2021 £m
At 1 April	**(415.0)**	(404.3)
Transfers into Level 3 from Level 2	**(35.6)**	-
Transfers from Level 3 into Level 2	**5.1**	33.1
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	**5.5**	-
- On instruments carried forward in Level 3	**(77.1)**	(43.8)
At 31 March	**(517.1)**	(415.0)

The movement in the fair values of the derivative portfolio was largely due to fair value movements. No additional swaps were entered during the year, and no swaps were closed out during the year.

Notes to the Financial Statements (continued)

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

Group and Company	2022 -10bps £m	2022 +10bps £m	2021 -10bps £m	2021 +10bps £m
Inflation-linked swaps	**(5.9)**	**5.6**	(2.1)	2.0

Fair value measurements disclosed but not recognised in the Statement of Financial Position

Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2022:				
Borrowings measured at amortised cost	**(1,080.2)**	**-**	**-**	**(1,080.2)**
Amounts due to affiliated companies	**(271.3)**	**-**	**-**	**(271.3)**
	(1,351.5)	**-**	**-**	**(1,351.5)**
At 31 March 2021:				
Borrowings measured at amortised cost	(1,118.1)	-	-	(1,118.1)
Amounts due to affiliated companies	(493.5)	-	-	(493.5)
	(1,611.6)	-	-	(1,611.6)

Notes to the Financial Statements (continued)

22. Retirement benefit schemes

Group and Company

Nature of Scheme

The Group's retirement benefit arrangement is the Electricity North West Group of the ESPS ("the Scheme") and forms part of the Electricity Supply Pension Scheme (ESPS). The Scheme contains both a defined benefit section and a defined contribution section. The defined benefit section of the Scheme closed to new entrants on 1 September 2006, with new employees of the Group subsequently provided with access to the defined contribution section.

The defined benefit section is a UK funded final salary arrangement providing pensions and lump sums to members and dependants. The defined benefit section is a separate fund that is legally separated from the entity. The Trustee board of the Scheme is composed of representatives from both the employer and members of the Scheme. Under the Pensions Act 2004 at least one third of the Trustee Board must be member nominated and the Trustee Board has made the necessary arrangements to fulfil this obligation. The Trustee Board of the Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e. active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme.

During the year the Group made contributions of £28.1m (2021: £28.5m) to the defined benefit section of the Scheme. This includes £19.4m (2021: £18.9m) of deficit contributions. The Group estimates that contributions for the year ending 31 March 2023 will amount to around £30.0m which includes £20.0m of expected deficit contribution payments. The total defined benefit pension expense for the year was £9.9m (2021: £15.1m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2022 contributions of £2.5m (2021: £2.4m) relating to the current reporting period had not been paid over to the defined benefit Scheme.

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

The most recent triennial funding valuation of the scheme was carried out as at 31 March 2019 and identified a shortfall of £69.5m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2019 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions in the period to March 2023.

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Funding the liabilities

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation was carried out as at 31 March 2019 and identified a shortfall of £69.5m against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2019 actuarial valuation the Group agreed to remove the shortfall by paying annual contributions to 2023.

The results of the 2019 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 *'Employee Benefits'* in order to assess the position as at 31 March 2022 for the purpose of these financial statements. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension surplus under IAS 19 (revised 2011) of £18.4m is included in the statement of financial position at 31 March 2022 (2021: deficit of £68.6m).

The weighted average duration of the defined benefit obligation is approximately 16 years (2021: 18 years).

Investment risks

The Scheme has an investment strategy to aim to match pensioner and other liabilities with lower risk cash flow investments and to invest liabilities in respect of active members into return seeking assets. As active members retire, then a switch of investments would be carried out.

The Company recognises that the interests of customers, who ultimately fund pension costs, should be given full recognition in determining the investment strategy. The Company works in collaboration with the Scheme Trustee to ensure these interests are considered alongside those of the members of the pension scheme.

Other risks

In addition to investment risk, the Scheme exposes the Group to other risks, such as longevity risk, inflation risk and interest rate risk. As the Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

These risks are managed through de-risking and hedging strategies and are measured and reported at Board level. In particular, in October 2019 the Scheme completed a pensioner buy-in with Scottish Widows for around 80% of the Scheme's pensioner liabilities. This had the effect of removing longevity and investment risks for this part of the membership.

Winding up

Although currently there are no plans to do so, the Scheme could be wound up in which case the benefits would have to be bought out with an insurance company. The cost of buying-out benefits would be significantly more than the defined benefit obligation calculated in accordance with IAS 19 (revised 2011).

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Defined Contribution arrangements

All assets within the defined contribution section of the Scheme are held independently from the Group.

The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2022 was £6.7m (2021: £6.3m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2022 contributions of £nil (2021: £nil) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

Defined Benefits employee benefits

The reconciliation of the opening and closing statement of financial position is as follows:

Group and Company	2022 £m	2021 £m
At 1 April	**(68.6)**	(26.3)
Expense recognised in the income statement	**(9.9)**	(15.1)
Contributions paid	**28.1**	28.5
Total re-measurement included in other comprehensive income	**68.8**	(55.7)
At 31 March	**18.4**	(68.6)

The balance recognised in the statement of financial position is as follows:

Group and Company	2022 £m	2021 £m
Present value of defined benefit obligations	**(1,259.3)**	(1,434.9)
Fair value of plan assets	**1,277.7**	1,366.3
Net surplus/ (deficit) arising from defined benefit obligation	**18.4**	(68.6)

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Movements in the fair value of the defined benefit obligations are as follows:

Group and Company	2022 £m	2021 £m
At 1 April	**1,434.9**	1,317.9
Current service cost	**15.7**	13.9
Interest expense	**27.9**	28.3
Member contributions	**1.4**	1.5
Past service credit	**(8.4)**	-
Re-measurement:		
Effect of changes in demographic assumptions	**(73.1)**	(1.2)
Effect of changes in financial assumptions	**(50.5)**	144.1
Effect of experience adjustments	**(10.2)**	-
Benefits paid	**(78.4)**	(69.6)
At 31 March	**1,259.3**	1,434.9

The liability value as at 31 March is made up of the following approximate splits:

Group and Company	2022 £m	2021 £m
Liabilities owing to active members	**448.8**	490.2
Liabilities owing to deferred members	**68.2**	76.7
Liabilities owing to pensioner members	**742.3**	868.0
Total liability at 31 March	**1,259.3**	1,434.9

Movements in the fair value of the Pension Scheme assets were as follows:

Group and Company	2022 £m	2021 £m
At 1 April	**1,366.3**	1,291.7
Interest income	**26.8**	28.0
Return on plan assets (net of interest income)	**(65.0)**	87.1
Employer contributions	**28.1**	28.5
Member contributions	**1.4**	1.5
Benefits paid	**(78.4)**	(69.6)
Administration expenses	**(1.5)**	(0.9)
At 31 March	**1,277.7**	1,366.3

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

The net pension expense before taxation recognised in the income statement, before capitalisation, in respect of the Scheme is summarised as follows:

Group and Company	2022 £m	2021 £m
Current service cost	**(15.7)**	(13.9)
Past service credit	**8.4**	-
Interest income on plan assets	**26.8**	28.0
Interest expense on Scheme obligations	**(27.9)**	(28.3)
Administration expenses	**(1.5)**	(0.9)
Net pension expense before taxation	**(9.9)**	(15.1)

The above amounts are recognised in arriving at operating profit except for the interest on Scheme assets and interest on Scheme obligations which have been recognised within finance expense (Note 9).

The £8.4m past service credit has arisen in the Group due to the £1.5m past service cost from the Guaranteed Minimum Pension (GMP) conversion exercise for pensioner and dependant members net of the £9.9m past service credit from the Pension Increase Exchange (PIE) exercise for the year-ended 31 March 2022 (2021: nil).

The amount recognised in other comprehensive income is as follows:

Group and Company	2022 £m	2021 £m
Return on scheme assets excluding interest income	**(65.0)**	87.1
Actuarial gain arising from changes in demographic assumptions	**73.1**	1.2
Actuarial gain/(loss) arising from changes in financial assumptions	**50.5**	(144.1)
Experience gain on liabilities	**10.2**	-
Total gain/(loss) recognised in other comprehensive income	**68.8**	(55.7)

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

The main financial assumptions used by the actuary (in determining the deficit) were as follows:

Group and Company	2022 %	2021 %
Discount rate	**2.65**	2.00
Pensionable salary increases	**3.80**	3.40
Pension increases (RPI)	**3.65**	3.20
Price inflation (RPI)	**3.80**	3.40
Price inflation (CPI)	**3.30**	2.90

The mortality rates utilised in the valuation are based on the standard actuarial tables S2PA (birth year) tables with a loading of 110% for male pensioners (2021: 100%), 105% for female pensioners (2021: 95%), 110% for male non-pensioners/future pensioners (2021: 110%) and 105% for female non-pensioners/future pensioners (2021: 105%). These loading factors allow for differences in expected mortality between the Scheme population and the population used in the standard tables. A long-term improvement rate of 1.25% p.a. is assumed within the underlying CMI 2021 model (2021: 1.50% CMI 2020 model). The A factor for mortality was 0.25%.

The current life expectancies underlying the value of the accrued liabilities for the Scheme are:

Group and Company Life expectancy	2022 Years	2021 Years
Male - Non-retired member (current age 45)	**26.6**	27.7
Male - Retired member (current age 60)	**25.6**	27.1
Female - Non-retired member (current age 45)	**29.4**	30.3
Female - Retired member (current age 60)	**28.2**	29.7

The following table presents a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension deficit, the measurement of which depends on a number of factors including the fair value of Scheme assets. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase.

Group and Company Increase in Defined Benefit Obligation	2022 £m	2021 £m
Discount rate: decrease by 25 basis points	**48.3**	**65.9**
Price inflation: increase by 25 basis points	**27.7**	**43.7**
Life expectancy: increase longevity by 1 year	**57.2**	**64.2**

Notes to the Financial Statements (continued)

As at 31 March 2022, the fair value of the Scheme's assets and liabilities recognised in the statement of financial position were as follows:

Group and Company	**Scheme assets**	**Quoted**	**Unquoted**	**Total Value**	Scheme assets	Quoted	Unquoted	Total Value
		2022				2021		
At 31 March	**%**	**£m**	**£m**	**£m**	%	£m	£m	£m
Cash	**3.6**	**45.7**	**-**	**45.7**	3.2	43.9	-	43.9
Equity instruments	**4.3**	**54.8**	**-**	**54.8**	3.6	48.7	-	48.7
Debt instruments	**33.3**	**337.7**	**88.2**	**425.9**	30.6	333.0	84.8	417.8
Real estate	**11.1**	**-**	**141.6**	**141.6**	9.4	-	128.0	128.0
Distressed debt	**0.4**	**-**	**5.1**	**5.1**	0.9	-	11.9	11.9
Pensioner buy-in	**47.3**	**-**	**604.6**	**604.6**	52.3	-	716.0	716.0
Fair value of assets	**100.0**	**438.2**	**839.5**	**1,277.7**	100.0	425.6	940.7	1,366.3
Present value of liabilities				**(1,259.3)**				(1,434.9)
Net retirement benefit surplus/ (obligation)				**18.4**				(68.6)

The fair values of the assets set out above are as per the quoted market prices in active markets.

23. Customer Contributions

Customer contributions are amounts received from a customer in respect of the provision of a new connection to the network. Customer contributions are amortised through the Income Statement over the expected lifetime of the relevant asset.

Group and Company	**2022 £m**	2021 £m
At 1 April	**692.5**	676.4
Additions during the year	**51.8**	35.0
Amortised through revenue (Note 4 & 31)	**(19.5)**	(18.9)
At 31 March	**724.8**	692.5
Split:		
Amounts due in less than one year (see Note 18)	**38.3**	24.7
Amounts due after more than one year	**686.5**	667.8
At 31 March	**724.8**	692.5

Notes to the Financial Statements (continued)

24. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and Company, and the movements thereon, during the current and prior years.

Group and Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2020	219.3	(5.2)	(58.3)	155.8
(Credited)/charged to income statement (Note 10)	(0.1)	2.5	(11.8)	(9.4)
Deferred tax on re-measurement of defined benefit pension scheme	-	(10.6)	-	(10.6)
Adjustment due to change in future tax rates brought forward deferred tax in OCI	-	-	-	-
At 31 March 2021	219.2	(13.3)	(70.1)	135.8
Charged/(credited) to income statement (Note 10)	**69.8**	**13.3**	**(36.5)**	**46.6**
Deferred tax on re-measurement of defined benefit pension scheme	**-**	**17.2**	**-**	**17.2**
Adjustment due to change in future tax rates brought forward deferred tax in OCI	**-**	**(12.9)**	**-**	**(12.9)**
At 31 March 2022	**289.0**	**4.3**	**(106.6)**	**186.7**

There are no significant unrecognised deferred tax assets or liabilities for either the Group or Company in either the current or prior year.

Other timing differences relates primarily to derivative instruments, but also includes general provision, pension contributions not paid, rollover relief, IFRS9 and IFRS16 transitional adjustments.

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

Deferred tax is calculated using the rate at which it is expected to reverse. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 25% (2021: 19%) rate, except where it is known that it will reverse before 1 April 2023 when the 19% rate has been used.

Notes to the Financial Statements (continued)

25. Provisions

Group and Company	2022 £m	2021 £m
At 1 April	**1.7**	1.8
Amounts (released)/charged to the income statement (Note 5)	**(0.2)**	0.1
Lease liabilities under IFRS 16 reclassified as provision	**0.3**	-
Utilisation of provision	**(0.2)**	(0.2)
At 31 March	**1.6**	1.7

Group and Company	2022 £m	2021 £m
Current	**0.6**	0.4
Non-current	**1.0**	1.3
At 31 March	**1.6**	1.7

ENWL is part of a Covenanter Group (CG) which is party to a Deed of Covenant under which certain guarantees over the benefits of members of the EATL Group of the Electricity Supply Pension Scheme have been given. The closing provision at 31 March 2022 of £1.2m (2021: £1.5m) on a discounted basis relates to the Company's 6.7% share of the liabilities. £1.0m of this balance is due after more than one year and £0.2m of it is due in less than one year.

The remainder of the provision relates to onerous lease provisions and is all due in less than one year.

26. Called up share capital

Group and Company	2022 £	2021 £
Authorised:		
569,999,996 ordinary shares of 50 pence each	**284,999,998**	284,999,998
4 'A' ordinary shares of 50 pence each	**2**	2
Special rights redeemable preference share of £1	**1**	1
At 31 March	**285,000,001**	285,000,001

Group and Company	2022 £	2021 £
Allotted, called up and fully paid:		
476,821,341 ordinary shares of 50 pence each	**238,410,671**	238,410,671
4 'A' ordinary shares of 50 pence each	**2**	2
At 31 March	**238,410,673**	238,410,673

The 'A' ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

Notes to the Financial Statements (continued)

27. Shareholders' Equity

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
Group:						
At 1 April 2021	238.4	4.4	81.9	8.6	596.6	929.9
Loss for the year	-	-	-	-	**(33.1)**	**(33.1)**
Other comprehensive income for the year	-	-	-	-	**64.5**	**64.5**
Transfer from revaluation reserve	-	-	**(7.8)**	-	**7.8**	-
	-	-	**(7.8)**	-	**39.2**	**31.4**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	**(97.1)**	**(97.1)**
At 31 March 2022	**238.4**	**4.4**	**74.1**	**8.6**	**538.7**	**864.2**
Company:						
At 1 April 2021	238.4	4.4	81.9	8.6	596.3	929.6
Loss for the year	-	-	-	-	**(33.1)**	**(33.1)**
Other comprehensive income for the year	-	-	-	-	**64.5**	**64.5**
Transfer from revaluation reserve	-	-	**(7.8)**	-	**7.8**	-
	-	-	**(7.8)**	-	**39.2**	**31.4**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	**(97.1)**	**(97.1)**
At 31 March 2022	**238.4**	**4.4**	**74.1**	**8.6**	**538.4**	**863.9**

In 1997 the Company undertook a revaluation of certain assets, following North West Water's acquisition of Norweb. This resulted in the creation of a revaluation reserve of £234.9m. The additional depreciation created as a result of the revaluation is transferred from the revaluation reserve to retained earnings on an annual basis.

The capital redemption reserve is a non-distributable reserve specifically for the purchase of own shares.

Notes to the Financial Statements (continued)

28. Capital structure

Details of the authorised and allotted share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 27. The Company has Ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The Company also has 'A' ordinary shares which rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

There exists an unissued special rights redeemable preference share which does not carry any voting rights and can only be held by one of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of her Majesty's Treasury or any other person acting on behalf of the Crown. This share is a legacy from the privatisation of the Company and was issued on 19 November 1990 and redeemed on 31 March 1995.

There are no specific restrictions on the size of a holding or on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions in the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid up.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, copies of which are available on request; and in the Corporate Governance Report on pages 46 to 60.

29. 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 these 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%).

Notes to the Financial Statements (continued)

30. Related party transactions

During the year the following transactions with related parties were entered into:

	Group 2022 £m	**Company 2022 £m**	Group 2021 £m	Company 2021 £m
Recharges to:				
Electricity North West (Construction and Maintenance) Ltd	**0.1**	**0.1**	1.7	1.7
Electricity North West Services Ltd	**0.9**	**0.9**	1.2	1.2
Recharges from:				
Electricity North West (Construction and Maintenance) Ltd	**-**	**-**	(0.4)	(0.4)
Electricity North West Services Ltd	**(7.3)**	**(7.3)**	(5.0)	(5.0)
Interest payable to:				
North West Electricity Networks plc	**(2.1)**	**(2.1)**	(2.0)	(2.0)
ENW Finance plc	**(8.1)**	**(8.1)**	(15.5)	(15.5)
Total interest payable to Group (Note 9)	**(10.2)**	**(10.2)**	(17.5)	(17.5)
Fair value movement on inter-company derivative asset with ENW Finance plc (Note 9)	**(41.1)**	**(41.1)**	(26.3)	(26.3)
Fair value movement on inter-company derivative liability with ENW Finance plc (Note 9)	**42.1**	**42.1**	28.2	28.2
Dividends paid to North West Electricity Networks plc (Note 11)	**(97.1)**	**(97.1)**	(30.7)	(30.7)
Directors' remuneration (Note 7)	**(2.2)**	**(2.2)**	(2.3)	(2.3)

For disclosure relating to executive directors' remuneration see Note 7. The Company's key management personnel comprise solely of its directors.

Notes to the Financial Statements (continued)

30. Related party transactions (continued)

Amounts outstanding with related parties are as follows:

	Group 2022 £m	**Company 2022 £m**	Group 2021 £m	Company 2021 £m
Amounts owed by:				
North West Electricity Networks plc	**3.5**	**3.5**	3.4	3.4
Electricity North West (Construction and Maintenance) Ltd	**0.6**	**0.6**	1.1	1.1
Electricity North West Services Ltd	**0.3**	**0.3**	0.4	0.4
Electricity North West Property Ltd	**0.1**	**0.1**	0.1	0.1
North West Electricity Networks (Jersey) Ltd	**0.1**	**0.1**	0.9	0.9
North West Electricity Networks (Holdings) Ltd	**0.2**	**0.2**	0.2	0.2
Total amounts owed by Group (Note 16)	**4.8**	**4.8**	6.1	6.1
Amounts owed to subsidiaries:				
Electricity North West Number 1 Company Ltd (Note 18)	**-**	**(15.5)**	-	(15.5)
Interest payable to Group:				
North West Electricity Networks plc	**(0.6)**	**(0.6)**	(0.6)	(0.6)
ENW Finance plc	**(3.4)**	**(3.4)**	(5.5)	(5.5)
Other amounts payable to Group:				
Electricity North West Services Ltd	**(0.9)**	**(0.9)**	(0.7)	(0.7)
North West Electricity Networks (Holdings) Ltd	**(0.2)**	**(0.2)**	(0.1)	(0.1)
North West Electricity Networks (Jersey) Ltd	**(0.1)**	**(0.1)**	(0.1)	(0.1)
Total amounts owed to Group (Note 18)	**(5.2)**	**(5.2)**	(7.0)	(7.0)
Borrowings payable to:				
North West Electricity Networks plc (Note 19)	**(84.2)**	**(84.2)**	(82.2)	(82.2)
ENW Finance plc (Note 19)	**(298.6)**	**(298.6)**	(498.3)	(498.3)
Group tax relief to:				
North West Electricity Networks plc	**(10.2)**	**(10.2)**	(8.7)	(8.7)
Inter-company derivative asset with ENW Finance plc (Note 21)	**408.8**	**408.8**	367.6	367.6
Inter-company derivative liability with ENW Finance plc (Note 21)	**(408.8)**	**(408.8)**	(366.7)	(366.7)

The loan from NWEN plc accrues weighted average interest at 2.47% (2021: 2.53%) and is repayable in March 2023. Of the loans from ENW Finance plc, £300m accrues interest at 1.415% (2021: £200m at 6.125%; £300m at 1.415%). The £200m at 6.125% was repaid in July 2021.

Notes to the Financial Statements (continued)

31. Cash generated from operations

Group and Company	2022 £m	2021 £m
Operating profit	**175.6**	176.1
Adjustments for:		
Depreciation of property, plant and equipment (Note 5 & 13)	**119.9**	119.8
Amortisation of intangible asset (Note 5 & 12)s	**12.8**	6.1
Amortisation of customer contributions (Note 4 & 23)	**(19.5)**	(18.9)
Profit on disposal of property, plant and equipment	**(0.1)**	(0.1)
Cash contributions in excess of pension charge to operating profit	**(23.7)**	(20.7)
Operating cash flows before movements in working capital	**265.0**	262.3
Changes in working capital:		
Increase in inventories	**(4.1)**	(3.2)
Increase in trade and other receivables	**(4.7)**	(11.8)
Increase in payables	**10.0**	9.1
Cash generated from operations	**266.2**	256.4