Company Registration No. 06428372

NORTH WEST ELECTRICITY NETWORKS (UK) LIMITED

Annual Report and Consolidated Financial Statements

for the year ended 31 March 2023

Notice regarding limitations on Directors Liability under English Law

The information supplied in the Strategic Report and the Directors' Report has been drawn up and presented in accordance with English Law. The liabilities of the directors in connection with that Report 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 North West Electricity Networks (UK) group as a whole comprising North West Electricity Networks (UK) Limited (''the Company'') and its subsidiaries (together, ''the Group'').

Cautionary statement regarding forward-looking statements

The Strategic Report and Directors' Report have been prepared solely to provide additional information to the shareholders to assess the Company and the Group's strategies and the potential for those to succeed. They 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 Company does not undertake any obligation to update or revise these forward-looking statements, except as may be required by law or regulation.

Website and Investor Relations

Electricity North West Limited's website www.enwl.co.uk gives additional information on the Group. Notwithstanding the references we make in this Annual Report to Electricity North West Limited's 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.

Contents

Strategic Report

The directors present their Strategic Report on North West Electricity Networks (UK) Limited ("the Company"), together with its subsidiaries referred to as "the Group", for the year ended 31 March 2023.

Business review and principal activities

The principal activity of the Company is as an intermediary holding and financing company within the North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)") group and is a non-trading entity.

The principal activity of the Group is the operation and maintenance of the electricity distribution network in the North West of England; the key trading subsidiary of the Group is Electricity North West Limited ("ENWL"), an indirectly held subsidiary of the Company.

The strategy of the Group is outlined in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements, which are available on the website, www.enwl.co.uk.

The Group also provides specialist services to customers, including the construction, maintenance, operation and control of customer assets, through Electricity North West (Construction and Maintenance) Limited, a wholly owned subsidiary of the Company.

Electricity North West Services Limited, another wholly owned subsidiary of the Company, provides high volume, low complexity services to ENWL, including smart meter interventions and grounds maintenance.

Electricity North West Property Limited, another wholly owned subsidiary of the Company, was established to develop innovative technologies through research into electricity networks and to hold the associated intellectual property rights for license to third parties.

The Group includes three financing companies, one of which, ENW Finance plc, had debt listed on the London Stock Exchange throughout the year. The other two, ENW Capital Finance plc and NWEN Finance plc, had no debt in issue in the current year. Debt is also issued in North West Electricity Networks (Holdings) Limited ("NWEN (Holdings)") and North West Electricity Networks plc ("NWEN plc"), intermediary holding and financing companies, and in ENWL, the operating company. Following the issue of debt, the proceeds are lent down the group to finance operations in ENWL.

In January 2023, a £425m 4.893% 2032 bond was issued by ENW Finance plc and the net proceeds were on-lent to ENWL. The proceeds of the 'green bond' will be used to finance green projects in accordance with the Green Financing Framework and International Capital Market Association's ("ICMA's") Green Bond Principles, and will be used in part to repay the £135m index-linked EIB loan due to mature in February 2024 that financed similar projects.

In the year, NWEN (Holdings) drew £58.6m on a new £120m floating rate bank facility, maturing in August 2027, which was used in part to repay the £30m floating rate bank facility due to mature in June 2023. NWEN (Holdings) entered a £58.6m notional interest rate swap to fix the interest cashflows of the new drawing.

There have been no significant changes to the activity of the Group or Company in the year ended 31 March 2023.

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

Strategic Report (continued)

Regulatory framework

An Electricity Distribution Licence was granted to ENWL, under the Electricity Act 1989. ENWL's performance against the terms of this Licence is regulated by Ofgem and monitored by the Gas and Electricity Markets Authority. Ultimately, it is the customer that funds the business and investment in the network, charged through their electricity suppliers.

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

These incentive mechanisms incentivise good customer service, stakeholder engagement, delivery for connections customers and network reliability, driving benefits for the customer. Performance against the incentives is assessed annually and any positive or negative adjustments are fed into a process which modifies revenue for subsequent years.

The RIIO model encourages cost reductions, through innovation and efficiency, promoting the delivery of a well-maintained and efficiently invested network for the long-term. Cost savings are shared between customers, via price reductions, and shareholders.

In addition to the RIIO framework, ENWL charges separately for new connections to, and diversions of, the network. This activity is also regulated by Ofgem.

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

The year ended 31 March 2023 was the final year of the 8-year RIIO-ED1 regulatory period, which ran from 2015 to 2023. RIIO-ED2, a 5-year regulatory period, began on 1 April 2023.

External factors

Transition to the RIIO-ED2 regulatory period

During the year, ENWL received the final determination from Ofgem setting out the allowed revenues for the next regulatory period, RIIO-ED2, which will govern the period from 2023 to 2028.

The transition to a low carbon economy will result in significant increases in network demand from renewable generation connections, electric vehicles and heat pumps. A key challenge for RIIO-ED2 is to provide the capacity to allow customers to adopt these technologies at an affordable price.

ENWL is committed to continue to improve network reliability and resilience throughout RIIO-ED2, whilst continuing to support vulnerable customers.

Energy prices and supplier administrations

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

When an energy supplier fails, the Supplier of Last Resort ("SoLR") process is triggered and overseen by Ofgem to protect customers.

When a SoLR takes on the customers of a failed supplier, it has to finance the additional costs of doing so. The SoLR process allows the new supplier to recover these costs through a levy agreed between Ofgem and the new supplier. This levy is collected through the distribution network companies on a pass-through basis.

ENWL's allowed revenue for the year ending 31 March 2023 was £79.9m higher than it would otherwise have been, due to the collection of this levy. However, immediately at the point the levy becomes billable, the entire value of the levy is paid over to suppliers, with networks making no profit from their role in the process.

Strategic Report (continued)

Political and economic uncertainty

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

Having considered the factors noted above, there are no material impacts on the going concern statement on page 11 or the period covered by the viability statement, page 11 to 12.

Purpose, vision and principles

The Group has a purpose statement, vision statement, set of principles and focus areas embedded within the business ethos to steer business performance.

The purpose statement, ***'Together we have the energy to transform our communities'***, reflects the essential role ENWL has in the lives of customers and communicates the responsible approach the Group takes to the interactions with customers, communities, environment, people and partners.

The vision statement, to ***'Lead the North West to Net Zero'*** is in acknowledgment of the climate challenge and our role in supporting the transition to a low carbon economy.

The principles, ***'We are switched on; We are adaptable; We take pride'***, capture the cultural framework required for the Group to deliver the purpose and vision.

The Group has four key focus areas: ***'Health, Safety & Environment; Network Reliability; Customer; and People'***.

More details of the Group's initiatives in these focus areas can be found on pages 8 to 13 of the Strategic Report of ENWL.

Corporate social responsibility

In addition to the purpose, vision, principles and focus areas, the Group has a Responsibility Framework in place covering corporate social responsibility, helping deliver responsible business practices and demonstrating that the social, environmental and economic impacts of the Group's decisions and activities are considered.

There are three main strands to the framework, ***'Our People & partners; Our Communities; and Our environment'***. More details of the Group's initiatives under these strands can be found on pages 14 to 15 of the Strategic Report of ENWL, as referenced above.

Environment and climate change

As the Company is solely a financing company, the activities of the Company cause no direct impact on, nor are directly impacted by, the environment or climate change.

The Group is dedicated to achieving the highest standards of environmental performance, by minimising negative impacts of activities and investing in outputs that deliver positive environmental impacts.

The Group's direct operational impact on the environment is monitored by the business carbon footprint, and the impact of sulphur hexafluoride (SF6), a greenhouse gas historically used as insulation in electrical equipment. Leakage of oil from cables is also monitored; there were no breaches of any Environmental Permits in the year ended 31 March 2023.

In 2015, the Group made a commitment to reduce carbon emissions by 10% from the 2015 level, by 2020. By 31 March 2023, the Group had reduced levels by 45% from the 2015 level, through investment in energy efficiency measures, including making two depots and two substations carbon neutral.

Strategic Report (continued)

Environment and climate change (continued)

There are further plans to decarbonise an additional depot each year over the RIIO-ED2 period. All depots have electric vehicle charging points and colleagues with company cars are incentivised to change to electric vehicles.

The Group holds the silver carbon literacy accreditation and aims to achieve the gold accreditation during RIIO-ED2.

More details of the Group's environmental performance can be found on pages 10 and 21 to 22 of the Strategic Report of ENWL, as referenced above.

Employees

The Group is a major employer in the North West of England, employing approximately 2,200 people, and works with local contractors to support fluctuating work demands, supporting further employment in the region.

The Group is committed to providing secure, long-term careers through attracting, developing and retaining talent in an inclusive environment.

Annual climate surveys are undertaken to measure colleague engagement and agreement; leadership teams are responsible for identifying areas for improvement between each survey and implementing change to continue to drive employee engagement and performance.

Significant investment in training and development continues to be made, for all employees. The Group was awarded the Investors in People Certification in April 2022.

Importantly, employees receive structured health and safety training and are encouraged to operate safely, through policy driven procedures, compliance assurance, and a behavioural approach that promotes a safety-focussed culture.

There is active promotion of initiatives to support mental well-being and diversity and inclusion, and a commitment to fulfilling obligations under the Equality Act 2010. Equal and fair consideration is given to all employees and applicants regardless of their diverse backgrounds. If necessary, the business modifies equipment and practices wherever safe and practical to do so, to accommodate the requirements of all colleagues. This year, the Company achieved the silver Forces Friendly award and Disability Confident Employer status.

The Group has been a 'Real Living Wage Employer' since 2019, has signed up to the Race at Work charter and the Ageing Better Pledge, and is a member of the Greater Manchester Combined Authority Good Employer Charter.

The Group is committed to rewarding colleagues equally and encouraging equal progression, regardless of gender. More information on our gender pay gap reporting is available at www.enwl.co.uk.

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

Workforce (Male/ Female)	**2023 Number**	2022 Number
Total employees	**1,671/ 546** ***(75%/25%)***	1,576/ 521 *(75%/25%)*
Senior managers	**36/ 12** ***(75%/25%)***	34/ 14 *(71%/29%)*
Executive leadership team*	**5/ 2** ***(71%/29%)***	6/ 3 *(62%/38%)*
Non-Executive Directors	**5/ 0** ***(100%/0%)***	5/ 0 *(100%/0%)*

** The Executive leadership team figure includes two Executive Directors.*

Strategic Report (continued)

Respect for Human Rights

The Group operates exclusively in the UK and, as such, is subject to the European Convention on Human Rights, the UK Human Rights Act 1998 and the Modern Slavery Act 2015. The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through policies and procedures, in particular, regarding employment, equality and diversity, treating customers fairly and information security. The Group is a founding partner of the Utilities National Work Group on Modern Slavery; the Modern Slavery Act Compliance Statement is available on the website: www.enwl.co.uk/misc/modern-slavery-act-compliance-statement.

Anti-corruption and anti-bribery

The Group has a strong commitment to high ethical standards, takes a zero-tolerance approach to bribery and corruption, and is committed to acting professionally, fairly and with integrity in all business dealings and relationships, implementing and enforcing effective systems to counter bribery so that Ofgem and other stakeholders can have confidence in the arrangements and integrity of the organisation.

The Group has the following policies in place: Anti-Corruption and Bribery Policy, Corporate Hospitality & Gifts Policy, Speak Up (Whistleblowing) Policy and Conflict of Interest Policy. During the year, the Group launched a revised 'Ethics in our Business' document and Ethical Framework, and Competition Law e-learning package.

These policies apply to all employees and officers of the Group and form part of the employee Code of Conduct. Other individuals performing functions for the Group, such as agency workers and contractors, are also required to adhere to the anti-bribery and anti-corruption policies. To support the Speak Up policy, employees have access to a confidential independent reporting line, Safecall.

Strategic Report (continued)

Section 172 Statement

Introduction

The principal trade and activities of the Group are carried out in ENWL and a comprehensive Section 172 Statement is contained on pages 17 to 19 of the ENWL Annual Report and Consolidate Financial Statements, available on the website, www.enwl.co.uk.

The ENWL Section 172 Statement outlines how the Group takes into account the likely long-term consequences of any decisions; the interests of employees; the need to foster relationships with stakeholders; the impact of operations on communities and the environment; the importance of maintaining a reputation for high standards of business conduct; and the need to act fairly between members of the company.

The Group has now entered a new five-year regulatory period. The board looked to balance the needs of all its stakeholders and recognised the Company's role in enabling the significant changes required by long term goals such as Net Zero. RIIO-ED2 brings a unique challenge for the industry and is discussed on page 2 of the Strategic Report.

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

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

(a) the likely long-term consequences of any decisions

The Company acts as a holding and financing company within the NWEN (Jersey) group of companies and is a non-trading entity. As such, the directors' principal decisions are involve reviewing and monitoring the Group's treasury activities as outlined in the Strategic Report (see page 8).

(b) the interests of employees

The Company has no direct employees. The Group encourages a working culture that recognises, respects, values and harnesses diversity for the benefit of the Group and the individual and promotes employee engagement.

(c) the need to foster relationships with stakeholders

The Company is non-trading and has no direct suppliers or customers. The Company's primary business relationships are with finance lenders and investors, relationships with whom are managed by the Head of Corporate Finance and Investor Relations.

(d) the impact of operations on communities and environment

The Company is a holding and financing company and has no direct operations that impact communities or environment.

(e) the importance of maintaining a reputation for high standards of business conduct

As the Board of Directors, the intention is to behave responsibly and ensure that management operate the activities of the Group and Company in a responsible manner, operating within the high standards of business conduct and good governance expected for such a business. The Company is subject to the policies of the Group, which are set with the aim of being a responsible business and maintaining a reputation for high standards of business conduct.

(f) the need to act fairly between members

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

Strategic Report (continued)

Financial review and key performance indicators

The performance of the Group is monitored by the Board of Directors by reference to key performance indicators. Performance against those measures for the year ended 31 March 2022 and 2023 is set out in the following table:

Financial KPIs	2023 £m	*Restated 2022 £m
Revenue	**605.4**	485.3
*(Loss)/profit before tax and fair value movements	**(18.3)**	32.6
*Net debt	**(2,271.6)**	(2,139.7)

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

Revenue

Revenue has increased to £605.4m (2022: £485.3m) during the year, with £79.9m of the increase being due to collection of SoLR levies. As a result of the significant volume and value of SoLR claims approved by Ofgem, our allowed revenue for the financial year ending 31 March 2023 was £79.9m higher than it would otherwise have been, with the collection of this levy. However, immediately at the point the levy becomes billable, the entire value of the levy is paid over to suppliers, with networks making no profit from their role in the process. The remaining year on year increase in revenue reflects the impact of inflation and allowed revenue adjustments as a result of under collection of revenue in previous periods, impacted by the COVID-19 pandemic.

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

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

Profit before tax and fair value movements

During the year, there was a loss before tax and fair value movements of £18.3m (2022: £32.6m restated profit), despite the higher revenue, primarily due to the indexation on index-linked debt being £45.5m higher than prior year, as a result of the significant increase in RPI over the year, and an accretion payment in the year of £20.1m (2022: £nil) on the index-linked swaps (Note 9).

Net debt

During the year, the net debt increased by £131.9m, due to the combined effect of the movements in the cash and debt balances. The main movements were the £89.0m increase in debt due to the indexation of index-linked debt (Note 9), the payment of £35.1m dividends (Note 11) and £20.1m accretion on index-linked swaps (Note 9), net of £303.9m net cash outflow from operating and investing activities.

Included within the total borrowings figure are £297.3m (2022: £316.5m restated) of loans from the parent company NWEN (Jersey), £116.1m (2022: £109.2m) due to mature in December 2027 and £181.2m (2022: £207.3m) in 2046.

Of the external debt, £221.8m (2022: £7.6m) is due to be repaid within the next year, under European Investment Bank loans, and £1.7m (2022: £1.4m) of lease repayments.

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £1,852.0m (2022: £1,381.1m), bank loans of £399.8m (2022: £507.2m), and leases of £2.5m (2022: £2.3m).

Note 21 provides more details on the borrowings.

Strategic Report (continued)

Treasury policy and operations

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

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

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

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

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

Liquidity

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

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

At 31 March 2023, cash balances were £186.5m (2022: £76.4m), money market deposits greater than 3 months were £316.9m (2022: £nil), and unutilised committed facilities were £164.6m (2022: £138.6m).

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

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

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

Strategic Report (continued)

Credit rating agencies

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

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

NWEN plc was rated BBB+ with negative outlook by Standard and Poor's and BBB- with negative outlook by Fitch Ratings.

NWEN (Holdings) was rated BB+ by Standard and Poor's, with negative outlook.

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

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

Derivatives

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

Fair values

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

These fair value movements are non-cash and will reverse over the life of the derivative but can be significant and result in material volatility in profit or loss. In the current year, net fair value gains totalling £133.3m have been recognised (2022: losses of £65.6m), primarily driven by the significant changes in market expectations of future interest and inflation rates.

Defined benefit pension

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

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

The most recent triennial funding valuation of the scheme was carried out as at 31 March 2022 and identified a shortfall of £19.4m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2022 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional contributions in the period to 31 March 2023, as set out in Note 24.

Strategic Report (continued)

Dividends and dividend policy

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

During the year, the Company paid dividends totalling £35.1m (2022: £42.9m) (Note 11).

The directors do not propose a final dividend for the year ended 31 March 2023.

Non-financial key performance indicators

A review of the Group's non-financial KPIs is disclosed in the Annual Report and Consolidated Financial Statements of the key trading subsidiary of the Group, Electricity North West Limited ("ENWL"), as referenced in the Non-financial Information Statement on page 23 to 24 of that report. These KPIs span the areas of the corporate goals (see page 3).

An overview of the following non-financial information is contained elsewhere in this Strategic Report, as indicated below;

- Environmental matters – see pages 3-4,
- Employees – see page 4,
- Community issues and social matters – see page 3,
- Respect for human rights – see page 5, and
- Anti-corruption and bribery matters – see pages 5.

Principal risks and uncertainties

As the principal trade and activities of the Group are carried out in ENWL, the Board considers the principal risks and uncertainties facing the Group to be those that affect ENWL, subject to any financing risks that affect the Company and the other financing companies in the Group, as noted below. A comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing ENWL, and ultimately the Group, are outlined in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements, which are available on the website, www.enwl.co.uk.

An assessment of the change in risk affecting the Company has been carried out and the principal risks are deemed comparable year on year. The principal risks facing the Company are financing risks; there has been no change in the financing risks facing the Company, nor are there any debt facilities due to expire in the next 12 months.

North West Electricity Networks (Holdings) Limited entered a new £120m bank facility during the year. This was £58.6m drawn at 31 March 2023, £30.0m of which was used to repay the £30m bank facility due to mature in June 2023, eliminating the associated refinancing risk. A £58.6m notional swap was entered to hedge the interest rate exposure on the floating rate interest basis of the bank facility.

ENW Finance plc issued a £425m 4.893% 2032 bond during the year; as this is at a fixed rate the issue has not introduced any further market risk to the Group. The proceeds of the issue will be used, in part, to repay the £135m 1.5911% index-linked bank loan on its maturity in February 2024, thus reducing the refinancing risk associated with that loan.

There are no further debt facilities of the Group due to expire in the next 12 months.

Strategic Report (continued)

Going concern

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

- ENWL's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating, which has been met;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- Management has prepared, and the directors have reviewed and approved, Group budgets for the year ending 31 March 2024. These budgets include profit projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and key sensitivities are considered when budgets are approved, including possible changes in inflation and under recoveries of allowed revenue as plausible downside scenarios;
- Management have prepared forecasts covering the next regulatory period to 2028, based on the business plan submission for RIIO-ED2. Forecasts demonstrate that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period;
- Short-term liquidity requirements are forecast to be met from the Group's operating cash flows and short-term deposit balances. A further £164.6m of committed undrawn bank facilities of £50.0m in ENWL, £53.2m in NWEN plc and £61.4m in NWEN (Holdings) are available from lenders; these have availability periods of greater than one year.
- Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12-month projections to 31 July 2024 indicate there is sufficient headroom on these covenants.

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

Viability statement

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

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

Strategic Report (continued)

Viability statement (continued)

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

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

In reaching its conclusion, the Board has taken into account Ofgem's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Group'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 Group's forecast financial performance and cash flow over the viability period to 2026. Headroom to compliance ratios over the viability period has been considered, as has the extent to which deviations from forecast financial performance may impact that headroom. The directors have considered this headroom in assessing the Group's long-term viability.

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

Fair, balanced & understandable

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

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

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

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

Ian Smyth
Director

Directors' Report

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

General information

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

Information contained in Strategic Report

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

- risk management, page 10;
- how the directors have had regard to the need to foster business relationships with stakeholders, page 6;
- employee matters, page 4; and
- greenhouse gas emissions, pages 3 and 4;

Parent, ultimate parent and controlling party

The immediate parent undertaking is North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)"), a company incorporated and registered in Jersey under Companies (Jersey) Law; NWEN (Jersey) is the ultimate parent undertaking of the Group.

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

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

Dividends

During the year, the Company declared a final dividend for the year ended 31 March 2022 of £34.8m, paid in June 2022 and declared an interim dividend for the year ended 31 March 2023 of £0.3, paid in December 2022. In the prior year, the Company declared a final dividend for the year ended 31 March 2021 of £7.2m, paid in June 2021, and declared an interim dividend for the year ended 31 March 2022 of £35.7m, paid in December 2021 (Note 11).

The directors do not propose a final dividend for the year ended 31 March 2023.

Details of the Group's dividend policy can be found in the Strategic Report, page 10.

Capital structure

The Company's capital structure is set out in Note 29.

Financial instruments

The use of financial instruments and their related risks are disclosed in the financial review and principal uncertainties sections of the Strategic Report on page 10, and in Note 23.

Financial risk management

Disclosure around the Group's principal risks can be found in the principal risks and uncertainties section of the Strategic Report on page 10, and in Note 23.

Employees

The Group's policies on employee consultation and involvement, the treatment of disabled employees and on equality and diversity across all areas of the business are contained within the Employees section of the Strategic Report on page 4.

Directors' Report (continued)

Greenhouse gas emissions and energy use

There are no greenhouse gas emissions directly attributable to the Company. Disclosures relating to the Group as a whole are reported on page 21 and page 22 of the Strategic Report of the Annual Report and Consolidated Financial Statements of ENWL, which are available on the website www.enwl.co.uk.

Research and development

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

Future developments

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

Details of the future developments of the Group can be found in the Chief Executive Officer's Statement and Strategic Report of the ENWL Annual Report and Consolidated Financial Statements, as referenced above.

Events after the Balance Sheet date

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

Corporate governance

The Group has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the entire business. Details of the internal control and risk management systems which govern the Company are outlined in the Corporate Governance Report of the ENWL Annual Report and Consolidated Financial Statements, page 34 to 40, which are available on the website www.enwl.co.uk.

Directors

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

Executive Directors

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

Non-executive Directors

- Sion Jones
- Peter O'Flaherty
- Genping Pan
- Takeshi Tanaka
- Shinichiro Sumitomo (resigned 7 July 2022)
- Masahide Yamada (appointed 7 July 2022)

Alternate Directors

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

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

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

Directors' Report (continued)

Directors' and Officers' insurance

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

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

Independent auditors

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

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

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

Registered address

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

North West Electricity Networks (UK) Limited
c/o Electricity North West
Borron Street
Stockport
England
SK1 2JD

Registered number: 06428372

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

Ian Smyth
Director

Directors' Responsibilities Statement

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

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

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

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

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

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

The directors are responsible for the maintenance and integrity of the information relating to the Company published on the ENWL website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the directors confirm that, to the best of our knowledge:

- the financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties they face.

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

(1) as far as the director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

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

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

Ian Smyth
Director

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

Report on the audit of the financial statements

Opinion

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

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

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

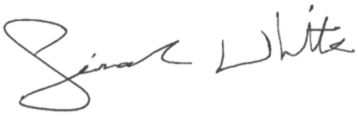
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 March 2023

	Note(s)	2023 £m	*Restated 2022 £m
Revenue	4	**605.4**	485.3
Employee costs	5,6	**(74.9)**	(67.8)
Depreciation and amortisation expense	5	**(141.3)**	(133.3)
Other operating costs		**(198.8)**	(114.1)
Total operating expenses		**(415.0)**	(315.2)
Operating profit	5	**190.4**	170.1
Finance income	8	**4.5**	0.4
*Finance expenses	9	**(79.9)**	(203.5)
***Profit/(loss) before taxation**		**115.0**	(33.0)
Tax on profit or loss	10	**(36.0)**	(77.0)
***Profit/(loss) for the financial year**		**79.0**	(110.0)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of net defined benefit scheme	24	**9.4**	68.8
Deferred tax on re-measurement of defined benefit scheme	26	**(2.3)**	(17.2)
Adjustment of brought forward deferred tax on re-measurement of defined benefit scheme due to change in future tax rates	26	**-**	12.9
Other comprehensive income for the financial year		**7.1**	64.5
***Total comprehensive income/(expense) for the financial year**		**86.1**	(45.5)

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

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

As permitted by s408 of the Companies Act 2006, the Company has not presented its own income statement. The profit after tax for the Company for the year ended 31 March 2023 was £41.2m (2022: £43.3m restated profit).

The above consolidated income statement should be read in conjunction with the notes.

Consolidated Statement of Financial Position
as at 31 March 2023

	Note(s)	**2023** **£m**	*Restated 2022 £m	*Restated 2021 £m
ASSETS				
Non-current assets				
Intangible assets and goodwill	12	**242.3**	246.0	246.7
Property, plant and equipment	13	**3,648.5**	3,522.4	3,442.0
Derivative assets	23	**30.2**	8.4	-
Retirement benefit surplus	24	**42.6**	18.4	-
Total non-current assets		**3,963.6**	3,795.2	3,688.7
Current assets				
Inventories	16	**22.5**	18.8	15.7
Trade and other receivables	17	**100.1**	80.2	74.3
Current tax asset		**16.0**	3.5	-
Cash and cash equivalents	18,23	**186.5**	76.4	343.3
Money market deposits > 3 months	18,23	**316.9**	-	-
Total current assets		**642.0**	178.9	433.3
Total assets		**4,605.6**	3,974.1	4,122.0
LIABILITIES				
Current liabilities				
Trade and other payables	19	**(179.8)**	(145.3)	(141.5)
Borrowings	21	**(223.4)**	(9.0)	(423.4)
Customer contributions	25	**(76.6)**	(38.3)	(24.7)
Current tax liabilities		**-**	-	(0.2)
Provisions	27	**(0.6)**	(0.6)	(0.4)
Total current liabilities		**(480.4)**	(193.2)	(590.2)
Non-current liabilities				
*Borrowings	21	**(2,551.6)**	(2,207.1)	(1,980.1)
Derivative liabilities	23	**(450.0)**	(561.5)	(487.5)
Retirement benefit deficit	24	**-**	-	(68.6)
Customer contributions	25	**(449.1)**	(438.7)	(411.6)
*Deferred tax liabilities	26	**(352.8)**	(302.3)	(224.0)
Provisions	27	**(0.4)**	(1.0)	(1.3)
***Total non-current liabilities**		**(3,803.9)**	(3,510.6)	(3,173.1)
***Total liabilities**		**(4,284.3)**	(3,703.8)	(3,763.3)
***Net assets**		**321.3**	270.3	358.7
EQUITY				
Called up share capital	28	**3.0**	3.0	3.0
*Retained earnings		**318.3**	267.3	355.7
***Total equity**		**321.3**	270.3	358.7

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

The above consolidated statement of financial position should be read in conjunction with the notes.

The financial statements on pages 21 to 94 were approved and authorised for issue by the Board of Directors on 10 July 2023 and signed on its behalf by:

Ian Smyth,
Director

Company Statement of Financial Position

as at 31 March 2023

	Note(s)	**2023**	*Restated 2022	*Restated 2021
		£m	£m	£m
ASSETS				
Non-current assets				
*Investments in subsidiaries	14	**152.5**	152.5	152.5
*Loans to group undertakings	15	**355.0**	368.6	360.9
Total non-current assets		**507.5**	521.1	513.4
Current assets				
Loans to group undertakings	15	**0.3**	-	1.0
Trade and other receivables	17	**7.8**	8.7	9.3
Cash and cash equivalents	18,23	**0.9**	0.6	0.1
Total current assets		**9.0**	9.3	10.4
Total assets		**516.5**	530.4	523.8
LIABILITIES				
Current liabilities				
Trade and other payables	19	**(8.1)**	(8.9)	(9.1)
Current tax liabilities	19	**-**	-	(0.1)
Total current liabilities		**(8.1)**	(8.9)	(9.2)
Non-current liabilities				
*Borrowings	21	**(297.3)**	(316.5)	(310.0)
Total non-current liabilities		**(297.3)**	(316.5)	(310.0)
Total liabilities		**(305.4)**	(325.4)	(319.2)
Net assets		**211.1**	205.0	204.6
EQUITY				
Called up share capital	28	**3.0**	3.0	3.0
*Retained earnings**		**208.1**	202.0	201.6
Total equity		**211.1**	205.0	204.6

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

**As permitted by s408 of the Companies Act 2006, the Company has not presented its own income statement. The profit after tax for the Company for the year ended 31 March 2023 was £41.2m (2022: £43.3m restated profit).

The above company statement of financial position should be read in conjunction with the notes.

The financial statements on pages 21 to 94 were approved and authorised for issue by the Board of Directors on 10 July 2023 and signed on its behalf by:

Ian Smyth,
Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2023

	Note(s)	Called up share capital £m	*Restated Retained earnings £m	Total Equity £m
Original at 1 April 2021		3.0	303.3	306.3
*Restatement		-	52.4	52.4
*Restated at 1 April 2021		3.0	355.7	358.7
*Restated loss for the year		-	(110.0)	(110.0)
Other comprehensive income for the year		-	64.5	64.5
***Restated total comprehensive expense for the financial year**		-	(45.5)	(45.5)
Transactions with owners recorded directly in equity				
Equity dividends	11	-	(42.9)	(42.9)
***Restated at 31 March 2022**		3.0	267.3	270.3
Original at 1 April 2022		**3.0**	**221.4**	**224.4**
*Restatement		**-**	45.9	45.9
*Restated at 1 April 2022		**3.0**	267.3	270.3
Profit for the year		**-**	**79.0**	**79.0**
Other comprehensive income for the year		**-**	**7.1**	**7.1**
Total comprehensive income for the financial year		**-**	**86.1**	**86.1**
Transactions with owners recorded directly in equity				
Equity dividends	11	**-**	**(35.1)**	**(35.1)**
At 31 March 2023		**3.0**	**318.3**	**321.3**

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

The above consolidated statement of changes in equity should be read in conjunction with the notes.

Company Statement of Changes in Equity

for the year ended 31 March 2023

	Note(s)	**Called up share capital £m**	***Restated Retained earnings £m**	**Total Equity £m**
Original at 1 April 2021		3.0	96.3	99.3
*Restatement		-	105.3	105.3
*Restated at 1 April 2021		3.0	201.6	204.6
*Restated profit for the year		-	43.3	43.3
***Restated total comprehensive income for the financial year**		-	43.3	43.3
Transactions with owners recorded directly in equity				
Equity dividends	11	-	(42.9)	(42.9)
***Restated at 31 March 2022**		3.0	202.0	205.0
Original at 1 April 2022		**3.0**	**91.3**	**94.3**
*Restatement		**-**	110.7	110.7
*Restated at 1 April 2022		**3.0**	202.0	205.0
Profit for the year		**-**	**41.2**	**41.2**
Total comprehensive income for the financial year		**-**	**41.2**	**41.2**
Transactions with owners recorded directly in equity				
Equity dividends	11	**-**	**(35.1)**	**(35.1)**
At 31 March 2023		**3.0**	**208.1**	**211.1**

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

The above company statement of changes in equity should be read in conjunction with the notes.

Consolidated and Company Statements of Cash Flows

for the year ended 31 March 2023

	Note(s)	**Group 2023 £m**	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Cashflows from operating activities					
Cash generated from operations	32	**304.4**	**-**	268.2	-
Customer contributions received*	25	**60.6**	**-**	51.8	-
Interest paid		**(98.7)**	**(17.3)**	(95.4)	(17.6)
Interest portion of lease liabilities		**(0.2)**	**-**	(0.2)	-
Accretion on index linked swap	9	**(20.1)**	**-**	-	-
Income taxes paid		**(0.4)**	**-**	(6.6)	(0.1)
Net cash generated from/ (used in) operating activities		**245.6**	**(17.3)**	217.8	(17.7)
Investing activities					
Interest received and similar income		**2.1**	**17.2**	0.5	18.1
Transfer to money market deposits > 3 months		**(316.9)**	**-**	-	-
Dividend received		**-**	**35.6**	-	38.0
Purchase of property, plant and equipment		**(244.7)**	**-**	(196.9)	-
Purchase of intangible assets		**(10.6)**	**-**	(12.2)	-
Proceeds from sale of property, plant and equipment		**0.5**	**-**	0.5	-
Net cash (used in)/generated from investing activities		**(569.6)**	**52.8**	(208.1)	56.1
Net cash flow before financing activities		**(324.0)**	**35.5**	9.7	38.4
Financing activities					
Investment in joint venture		**0.1**	**-**	-	-
Proceeds from external borrowings	21	**572.0**	**-**	210.0	-
Repayment of external borrowings	21	**(75.3)**	**-**	(442.4)	-
Repayment of lease liabilities	21	**(1.5)**	**-**	(1.3)	-
Decrease in inter-company loan from parent	21	**(26.1)**	**(26.1)**	-	-
Decrease in inter-company loans to subsidiaries	21	**-**	**26.0**	-	5.0
Dividends paid	11	**(35.1)**	**(35.1)**	(42.9)	(42.9)
Net cash generated from/(used in) financing activities		**434.1**	**(35.2)**	(276.6)	(37.9)
Net increase/(decrease) in cash and cash equivalents		**110.1**	**0.3**	(266.9)	0.5
Cash and cash equivalents at the beginning of the year	18	**76.4**	**0.6**	343.3	0.1
Cash and cash equivalents at the end of the year	18	**186.5**	**0.9**	76.4	0.6

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

The above consolidated and company statements of cash flows should be read in conjunction with the notes.

Notes to the Financial Statements

North West Electricity Networks (UK) Limited is a Company incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006.

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

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

1. Adoption of new and revised Standards and Prior Year Restatements

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

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

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

New and revised IFRS Standards in issue but not yet effective

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

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

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

Notes to the Financial Statements (continued)

1. Adoption of new and revised Standards and Prior Year Restatements (continued)

Prior period restatement

In the year ended 31 March 2023, there has been a prior period restatement to correct the accounting treatment of an inter-company loan from the parent company and an inter-company loan to a subsidiary.

In the prior year financial statements the loan from the parent company was carried at £155.1m, being the net amount of proceeds received under the loan, with interest accrued at 0% and a maturity date of December 2027, in accordance with the loan documentation. Similarly, the loan to subsidiary was carried at £285.4m, 0% interest and a maturity date of December 2027.

In the year ended 31 March 2023, these loans were reassessed and deemed to be loans at off-market rates. Such loans are required to be initially recognised at the present value of all future cash flows, discounted at a market rate of interest determined at the time of initial recognition, with the difference between the present value and the net proceeds received treated as a capital contribution by the borrower and as an investment by the lender. Subsequent measurement is required to be at amortised cost using the effective interest method, with the interest rate used being the market rate determined at initial recognition.

There is no impact on corporation tax or deferred tax.

The following tables show the impact of the restatement on the affected financial statement line items:

Consolidated Statement of Profit or Loss and Other Comprehensive Income	2022 £m	Impact 2022 £m	Restated 2022 £m
Finance expenses	(197.0)	(6.5)	(203.5)
Loss before taxation	**(26.5)**	**(6.5)**	**(33.0)**
Tax on profit or loss	(77.0)	-	(77.0)
Loss for the financial year	**(103.5)**	**(6.5)**	**(110.0)**
Other comprehensive income for the financial year	64.5	-	64.5
Total comprehensive expense for the financial year	**(39.0)**	**(6.5)**	**(45.5)**

Consolidated Statement of Financial Position	2022 £m	Impact 2022 £m	Restated 2022 £m	2021 £m	Impact 2021 £m	Restated 2021 £m
Non-current liabilities						
Borrowings	(2,253.0)	45.9	(2,207.1)	(2,032.5)	52.4	(1,980.1)
Net assets	**224.4**	**45.9**	**270.3**	**306.3**	**52.4**	**358.7**
Retained earnings	221.4	45.9	267.3	303.3	52.4	355.7
Total equity	**224.4**	**45.9**	**270.3**	**306.3**	**52.4**	**358.7**

Notes to the Financial Statements (continued)

1. Adoption of new and revised Standards and Prior Year Restatements (continued)

Company Statement of Profit or Loss and Other Comprehensive Income	**2022 £m**	**Impact 2022 £m**	**Restated 2022 £m**
Finance income	17.3	11.9	29.2
Finance expenses	(17.4)	(6.5)	(23.9)
Profit before taxation	**37.9**	**5.4**	**43.3**
Tax on profit or loss	-	-	-
Profit for the financial year	**37.9**	**5.4**	**43.3**
Other comprehensive income for the financial year	-	-	-
Total comprehensive income for the financial year	**37.9**	**5.4**	**43.3**

As permitted by s408 of the Companies Act 2006, the Company has not presented its own income statement. Prior to restatement, the profit after tax for the Company for the year ended 31 March 2022 was £37.9m; the restated profit is £43.3m.

Company Statement of Financial Position	**2022 £m**	**Impact 2022 £m**	**Restated 2022 £m**	**2021 £m**	**Impact 2021 £m**	**Restated 2021 £m**
Non-current assets						
Investments in subsidiaries	3.1	149.4	152.5	3.1	149.4	152.5
Loans to group undertakings	453.2	(84.6)	368.6	457.4	(96.5)	360.9
Non-current liabilities						
Borrowings	(362.4)	45.9	(316.5)	(362.4)	52.4	(310.0)
Net assets	**94.3**	**110.7**	**205.0**	**99.3**	**105.3**	**204.6**
Retained earnings	91.3	110.7	202.0	96.3	105.3	201.6
Total equity	**94.3**	**110.7**	**205.0**	**99.3**	**105.3**	**204.6**

Notes to the Financial Statements (continued)

2. Significant accounting policies

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

Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. More details on the fair value measurements of financial instruments are given in Note 23.

Going concern

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

- ENWL’s electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating, which has been met;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- Management has prepared, and the directors have reviewed and approved, Group budgets for the year ending 31 March 2024. These budgets include profit projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and key sensitivities are considered when budgets are approved, including possible changes in inflation and under recoveries of allowed revenue as plausible downside scenarios;
- Management have prepared forecasts covering the next regulatory period to 2028, based on the business plan submission for RIIO-ED2. Forecasts demonstrate that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period;
- Short-term liquidity requirements are forecast to be met from the Group’s operating cash flows and short-term deposit balances. A further £164.6m of committed undrawn bank facilities of £50.0m in ENWL, £53.2m in NWEN plc and £61.4m in NWEN (Holdings) are available from lenders; these have availability periods of greater than one year.
- Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12-month projections to 31 July 2024 indicate there is significant headroom on these covenants.

Notes to the Financial Statements (continued)

2. Significant accounting policies

Going concern (continued)

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

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.

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement for the Company alone.

Business combinations and goodwill

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

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

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

Investments in subsidiaries (Company only)

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

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

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

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

Government levies

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Connections revenue

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

Customer contributions

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

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

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

Construction contracts

When the outcome of a construction contract can be reliably estimated, contract revenue and costs are recognised by the stage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred for work performed to date as a proportion of estimated total contract costs; this is considered to be the most appropriate method to reflect the stage of completion. In instances where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred to the extent that it is probable those costs will be recoverable.

The principal estimation technique used by the Company in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn of each contract. Consistent contract review procedures are in place in respect of contract forecasting. Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the income statement revenue and related costs as contract activity progresses.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as due from customers on construction contracts within inventory. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as due to customers on construction contracts within trade and other payables.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Dividend income

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

Finance income

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

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The 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 Group 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Retirement benefit costs

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

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

Results are affected by the actuarial assumptions used, which are disclosed in Note 24. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Defined benefit costs are split into three categories:

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

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

IFRIC 14: '*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. IFRIC 14 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Taxation

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

Current taxation

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

Deferred taxation

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

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

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

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

Intangible assets

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

Amortisation periods for categories of intangible assets are:

Computer software	1-12 years

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Property, plant and equipment

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

Operational structures

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

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

Assets other than operational structures

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of tangible and intangible assets

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

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

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

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

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

Research and development

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

Inventories

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial instruments

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

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

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

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

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

Financial assets

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial assets (continued)

Classification of financial assets

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

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

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

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

The Company and Group have no financial assets at FVTOCI.

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

Amortised cost and effective interest method

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

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

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically, the financial assets held by the Group classified as at FVTPL are derivatives and are stated at fair value, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedge accounting relationship. Fair value is determined in the manner described in Note 23.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

a) *Significant increase in credit risk (continued)*

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

b) *Definition of default*

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

c) *Credit-impaired financial assets*

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

d) *Measurement and recognition of expected credit losses*

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

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

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

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

Derecognition of financial assets

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

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

Cash and cash equivalents

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial assets (continued)

Money market deposits

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities measured subsequently at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The Group has no financial liabilities designated at FVTPL. Fair value is determined in the manner described in Note 23.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial liabilities and equity (continued)

Derecognition of financial liabilities

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

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

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 23.

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

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

Embedded derivatives

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

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

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

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Hedge accounting

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

Provisions

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Property, Plant and Equipment

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

Notes to the Financial Statements (continued)

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

Impairment of tangible and intangible assets (including goodwill)

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

Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Group uses market-observable data (Level 1 and 2 inputs) to the extent it is available. Where such data is not available, certain estimates (Level 3 inputs) regarding inputs to the valuation are required to be made. Level 3 inputs form a significant part of the fair value of the financial instruments held by the Group. Information about the valuation techniques, inputs used and sensitivities are disclosed in Note 23.

Retirement benefit schemes

The Group's defined benefit obligation is derived using various assumptions, as disclosed in Note 24. 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 24, along with sensitivities of certain key inputs.

4. Revenue

Group	2023 £m	2022 £m
Revenue	**605.4**	485.3

Predominantly all Group revenues arise from one operating segment, electricity distribution in the North West of England and associated activities. This is regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues from three customers (2022: three), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £173.3m (2022: £174.3m). No other customer represented more than 10% of revenues either this year or in the prior year.

In the current year £11.9m (2022: £11.1m) of customer contributions have been amortised through revenue in line with IFRS 15 (Note 25 & 32).

Included within the total revenue above, £19.4m (2022: £20.9m) relates to Electricity North West (Construction and Maintenance) Limited. This includes £15.5m (2022: £17.2m) from construction contracts.

Notes to the Financial Statements (continued)

4. Revenue (continued)

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

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

5. Operating profit

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

Group **Expense/(income)**	**2023** **£m**	2022 £m
Employee costs (Note 6)	**74.9**	67.8
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (Note 13) *	**127.1**	120.5
Amortisation of intangible assets (Note 12)	**14.2**	12.8
	141.3	133.3
Loss allowance on trade receivables written off (Note 17)	**(0.4)**	(1.0)
Loss allowance on trade receivables (Note 17)	**0.1**	2.9
Profit on disposal of property, plant and equipment	**(0.5)**	(0.1)
Provision released to profit or loss (Note 27)	**(0.4)**	(0.2)
Research and development	**3.0**	2.5

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

Analysis of the auditors' remuneration is as follows:

Group	**2023** **£m**	2022 £m
Fees payable to the Company's auditors and their associates for the audit of the Company and Group's annual financial statements *	**-**	-
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries annual financial statements	**0.4**	0.3
Audit-related assurance services	**0.1**	0.1
Total fees	**0.5**	0.4

* Fees payable for the audit of the Company's financial statements are £11,000 (2022: £4,452).

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

Notes to the Financial Statements (continued)

6. Employee costs

Group	2023 £m	2022 £m
Wages and salaries	**126.2**	114.3*
Social security costs	**14.6**	12.1
Other pension costs (Note 24)	**22.8**	14.7
Employee costs (including directors' remuneration)	**163.6**	141.1
Costs transferred directly to fixed assets	**(88.7)**	(73.3)
Charged to operating expenses	**74.9**	67.8

* Amounts in wages and salaries as at 31 March 2022 have been updated to include £0.1m of which was as a result of a casting error

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

Group	2023 Number	2022 Number
Average number of employees	**2,178**	2,061

There are no employees of the Company (2022: none).

7. Directors' remuneration

Group	2023 £m	2022 £m
Salaries and other short-term employee benefits	**0.9**	0.9
Accrued bonus	**1.0**	0.5
Amounts receivable under long-term incentive schemes	**0.9**	0.5
Total fees	**2.8**	1.9

The aggregate emoluments of the directors in 2023 amounted to £2.8m (2022: £1.9m). Emoluments comprise salaries, fees, taxable benefits and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid director in 2023 in respect of services to the Group amounted to £1.1m (2022: £1.1m). Under the Executive Incentive Plan bonuses are awarded and either paid in the following financial year (accrued bonus) or paid in subsequent years (amounts receivable under long-term incentive schemes); no shares were received or receivable by any director.

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

As at 31 March 2022 and 2023, the directors had no interests in the ordinary shares of the Company. At 31 March 2022 and 2023, all remuneration was borne by ENWL and full disclosures have been made in ENWL Annual Report and Consolidated Financial Statements, page 94.

Notes to the Financial Statements (continued)

8. Finance income

Group	2023 £m	2022 £m
Interest receivable on short-term bank deposits	**4.5**	0.4

9. Finance expenses

Group	2023 £m	*Restated 2022 £m
Interest payable:		
*Interest on group borrowings at amortised cost (Note 31)	**23.5**	23.7
Interest on borrowings at amortised cost	**78.4**	71.7
Net interest settlements on derivatives at FVTPL	**4.1**	(1.5)
Indexation of index-linked debt (Note 21)	**89.0**	43.5
Accretion paid on index-linked swaps	**20.1**	-
Interest on leases (Note 21)	**0.2**	0.2
Reimbursement of inter-company loan impairment (Note 15 & 30)	**(0.1)**	0.2
Net Interest cost on pension plan (see Note 24)	**(0.8)**	1.1
Capitalisation of borrowing costs under IAS 23	**(1.2)**	(1.0)
Total interest expense	**213.2**	137.9
Fair value movements on financial instruments:		
Derivative assets	**(21.8)**	(8.4)
Derivative liabilities	**(111.5)**	74.0
Total fair value movement	**(133.3)**	65.6
Finance expenses	**79.9**	203.5

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

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

Interest rate swaps with £58.6m notional were entered by the Group in the year. These were entered to hedge the interest rate exposure on the £120.0m floating rate bank facility, also entered in the year. No swaps were closed out, in the Company or Group, during 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 23 provides more detail on this.

Notes to the Financial Statements (continued)

9. Finance expenses (continued)

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

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

Notes to the Financial Statements (continued)

10. Tax on profit or loss

Group	**2023** **£m**	2022 £m
Current tax		
Current tax on profits for the year	**(10.4)**	2.8
Adjustment in respect of prior year	**(1.8)**	0.2
	(12.2)	3.0
Deferred tax (Note 26)		
Current tax on profits for the year	**43.9**	73.8
Adjustment in respect of prior year	**4.3**	0.2
	48.2	74.0
Tax on profit or loss	**36.0**	77.0

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

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

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

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

Group	**2023** **£m**	*Restated 2022 £m
***Profit/(loss) before tax**	**115.0**	(33.0)
*Tax at the UK corporation tax rate of 19% (2022: 19%)	**21.9**	(6.3)
*Non-taxable income/expense	**2.2**	0.8
Prior year tax adjustments	**2.5**	0.4
Accelerated capital allowances and other timing differences	**9.4**	-
Increase in current year deferred tax due to rate change	**-**	82.1
Tax on profit or loss	**36.0**	77.0

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

Notes to the Financial Statements (continued)

11. Dividends

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

Group and Company	2023 £m	2022 £m
Final dividend for the year ended 31 March 2021 of 240.0 pence per share, paid June 2021	-	7.2
Interim dividend for the year ended 31 March 2022 of 1,190.0 pence per share, paid December 2021	-	35.7
Final dividend for the year ended 31 March 2022 of 1,160.0 pence per share, paid June 2022	34.8	-
Interim dividend for the year ended 31 March 2023 of 10.0 pence per share, paid December 2022	0.3	-
	35.1	42.9

The directors do not propose a final dividend for the year ended 31 March 2023.

Notes to the Financial Statements (continued)

12. Intangible assets and goodwill

Group	Goodwill £m	Licence £m	Customer list £m	Customer database £m	Computer software £m	Assets under construction £m	Total £m
Cost							
At 1 April 2021	10.1	186.9	0.7	0.1	99.0	31.2	328.0
Additions	-	-	-	-	6.6	5.6	12.2
Transfers	-	-	-	-	31.8	(31.8)	-
At 31 March 2022	10.1	186.9	0.7	0.1	137.4	5.0	340.2
Additions	**-**	**-**	**-**	**-**	**1.7**	**9.1**	**10.8**
Transfers	**-**	**-**	**-**	**-**	**0.2**	**(0.2)**	**-**
At 31 March 2023	**10.1**	**186.9**	**0.7**	**0.1**	**139.3**	**13.9**	**351.0**
Accumulated amortisation							
At 1 April 2021[1]	-	-	0.6	-	81.1	-	81.7
Charge for the year	-	-	0.1	-	12.7	-	12.8
At 31 March 2022	-	-	0.7	-	93.8	-	94.5
Charge for the year	**-**	-	**-**	**-**	**14.2**	**-**	**14.2**
At 31 March 2023	**-**	-	**0.7**	**-**	**108.0**	**-**	**108.7**
Net book value							
At 31 March 2023	**10.1**	**186.9**	**-**	**0.1**	**31.3**	**13.9**	**242.3**
At 31 March 2022	10.1	186.9	-	0.1	43.6	5.0	245.7

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

The licence held by the Group, identified as an intangible asset on the acquisition of Electricity North West Number 1 Company Limited and measured at fair value at that date, to distribute electricity is viewed as having an indefinite life as the directors believe the licence would only be revoked if there were a serious breach of the terms and conditions of the licence. The licence is held subject to 25 years notice in writing from the Authority to the licensee. 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).

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

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

[1] Amounts in accumulated depreciation for computer software have been updated to include £0.3m of depreciation which was as a result of a casting error

Notes to the Financial Statements (continued)

13. Property, plant and equipment

Group	Operational structures £m	Non-operational land & buildings £m	Fixtures, equipment, vehicles & other £m	Assets under construction £m	Right of use assets £m	Total £m
Cost or valuation						
At 1 April 2021	5,088.2	35.9	190.4	119.0	6.8	5,440.3
Additions	131.2	0.2	5.9	63.0	0.7	201.0
Transfers	37.9	0.5	1.1	(39.5)	-	0.0
Disposals	(2.5)	-	(0.3)	-	(0.6)	(3.4)
At 31 March 2022[2]	5,254.8	36.6	197.1	142.5	6.9	5,637.9
Additions	**163.7**	**1.1**	**7.7**	**78.8**	**1.9**	**253.2**
Transfers	**66.9**	**1.0**	**3.6**	**(71.5)**	**-**	**-**
Disposals	**(1.0)**	**-**	**(0.3)**	**-**	**(1.3)**	**(2.6)**
At 31 March 2023	**5,484.4**	**38.7**	**208.1**	**149.8**	**7.5**	**5,888.5**
Accumulated depreciation						
At 1 April 2021	1,849.4	12.4	134.0	-	2.5	1,998.3
Charge for the year	104.1	1.0	13.9	-	1.5	120.5
Disposals	(2.1)	-	(0.5)	-	(0.7)	(3.3)
At 31 March 2022[2]	1,951.4	13.4	147.4	-	3.3	2,115.5
Charge for the year	**112.0**	**1.0**	**12.6**	**-**	**1.5**	**127.1**
Disposals	**(1.0)**	**-**	**(0.3)**	**-**	**(1.3)**	**(2.6)**
At 31 March 2023	**2,062.4**	**14.4**	**159.7**	**-**	**3.5**	**2,240.0**
Net book value						
At 31 March 2023	**3,422.0**	**24.3**	**48.4**	**149.8**	**4.0**	**3,648.5**
At 31 March 2022	3,303.4	23.2	49.7	142.5	3.6	3,522.4

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

At 31 March 2022 and 2023, the Company had not entered into any contractual commitments for the acquisition of property, plant and equipment.

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

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

Impairment testing of intangible assets and property plant and equipment

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

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

For the purposes of impairment testing the Group have determined that there is only one cash generating unit (CGU). The carrying value of the CGU at 31 March 2023 was £3,365.1m (2022: £3,291.4) including goodwill of £10.1m (2022: £10.1m) and other indefinite life intangible assets of £186.9m (2022: £186.9m). The key assumptions for the fair value calculations are those regarding discount rates and the outcomes of future Ofgem price control settlements. The post-tax discount rate for the year ended 31 March 2023 was 5.58%.

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

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

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

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

Notes to the Financial Statements (continued)

14. Investments in subsidiaries

Company	2023 £m	*Restated 2022 £m
Cost and net book value	**152.5**	152.5

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

Investments in subsidiaries are stated at cost, including any capital contributions to subsidiaries, less any provisions for permanent diminution in value. Cost of investment relates wholly to the shareholding in the Company's direct subsidiaries.

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

Investment	Description of holding	Proportion held	Nature of business
Direct subsidiaries			
North West Electricity Networks (Finance) Limited	Ordinary shares of £1 each	100%	Holding company
Electricity North West (Construction and Maintenance) Limited	Ordinary shares of £1 each	100%	Construction, operation and maintenance of electricity network
Electricity North West Services Limited	Ordinary shares of £1 each	100%	Metering and ground maintenance activities
Electricity North West Property Limited	Ordinary shares of £1 each	100%	Intellectual property rights
Indirect subsidiaries			
Electricity North East (Construction and Maintenance) Limited	Ordinary shares of £1 each	100%	Dormant
CLASS Electricity Limited	Ordinary shares of £1 each	100%	Dormant
North West Electricity Networks (Holdings) Limited	Ordinary shares of £1 each	100%	Holding company
NWEN Finance plc	Ordinary shares of £1 each	100%	Financing company
NWEN Group Limited	Ordinary shares of £1 each	100%	Holding company
North West Electricity Networks plc	Ordinary shares of £1 each	100%	Financing company
Electricity North West Limited	Ordinary shares of 50p each	100%	Energy distribution
ENW Capital Finance plc	Ordinary shares of £1 each	100%	Financing company
ENW Finance plc	Ordinary shares of £1 each	100%	Financing company
Electricity North West Number 1 Company Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Dormant
Joint ventures			
Manchester Energy Partnership Limited – *sold in year*	Ordinary shares of £1 each	50%	Trading

Notes to the Financial Statements (continued)

14. Investments in subsidiaries (continued)

There have been no changes to these shareholdings during the year, with the exception of the sale of the investment in Manchester Energy Partnership Limited. In April 2022, Electricity North West (Construction and Maintenance) Limited ("ENW (C&M)") sold the shares in Manchester Energy Partnership Limited. An amount of £51,414 was received towards the loan of £49,500, interest on the loan of £1,414 and the share value of £500.

The address of the registered office of the investments above is Borron Street, Stockport, Cheshire, SK1 2JD.

15. Loans to group undertakings

Company	**2023 £m**	*Restated 2022 £m
Non-current:		
*Loans to subsidiaries	**355.1**	368.8
Impairment of loans	**(0.1)**	(0.2)
Loans to group undertakings due > 1 year	**355.0**	368.6
Current:		
Loans to subsidiaries	**0.3**	-
Impairment of loans	**-**	-
Loans to group undertakings due < 1 year	**0.3**	-
Total loans to group undertakings	**355.3**	368.6

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

The loans to subsidiary comprise amounts loaned to North West Electricity Networks (Finance) Limited of £141.7m (2022: £167.7m) at 10% per annum, maturing in 2027, and £213.4m (2022: £200.8m restated) has a contracted rate of 0% but, as a loan at an off-market rate, is carried at amortised cost using an effective interest rate of 6.3%, maturing in 2027, plus £0.3m (2022: £0.3m) loaned to Electricity North West Property Limited at 1.92% maturing in 2024.

Impairment

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

In accordance with provisions within the inter-company loan agreement, the Company has requested the reimbursement of the impairment charges incurred to date. Similarly, NWEN (Jersey), the parent company, has requested the reimbursement of the impairment charges it has incurred on the loan with the Company.

Notes to the Financial Statements (continued)

16. Inventories

Group	2023 £m	2022 £m
Raw materials and consumables	**22.5**	18.8

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

At 31 March 2022 and 2023, there is no inventory held in the Company.

17. Trade and other receivables

	Group 2023 £m	Company 2023 £m	Group 2022 £m	Company 2022 £m
Trade receivables	**18.8**	**-**	12.0	-
Contract assets	**-**	**-**	0.5	-
Amounts owed by group undertakings (Note 31)	**0.1**	**7.8**	0.1	8.7
Prepayments and accrued income	**81.2**	**-**	67.6	-
Balance at 31 March	**100.1**	**7.8**	80.2	8.7

Group

The average credit period taken on sales is 14 days (2022: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £4.1m (2022: £4.5m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment. No interest is charged on these balances.

Of the total trade receivables balance, £3.4m relates to trade receivables in Electricity North West (Construction and Maintenance) Limited (2022: £4.3m) for which the average credit period taken on sales is 58.8 days (2022: 45 days) from receipt of invoice. No interest is charged on these balances.

At 31 March 2023, £11.2m (2022: £10.5m), or 38% (2022: 50%) of the Group trade receivables are past due; a balance of £3.2m (2022: £2.9m) is less than 30 days past due, against which an allowance for doubtful debt of nil (2022: £0.1m) has been made; a balance of £8.0m is greater than 30 days past due (2022: £7.6m), against which an allowance for doubtful debt of £4.1m (2022: £4.4m) has been made.

Notes to the Financial Statements (continued)

17. Trade and other receivables (continued)

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

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Balance at 1 April	**4.5**	**-**	2.6	-
Amounts written off in the year	**(0.4)**	**-**	(1.0)	-
Amounts recognised in the income statement	**0.1**	**-**	2.9	-
Balance at 31 March	**4.2**	**-**	4.5	-

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 this poses, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to.

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value (RAV) of the Company. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level, under the contract, the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2023 £11.9m (2022: £3.4m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of RIIO-ED1 (1 April 2015 to 31 March 2023) and for the year ended 31 March 2023 is £2,481.8m (2022: £2,159m) based on the actual retail price index (RPI) for March.

At 31 March 2023, £186.6m (2022: £162.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £8.3m (2022: £7.6m). All 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.

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

Company

For further details of the amounts owed by Group undertakings see Note 31. There are no provisions against these receivables. No element of the balance is overdue.

Notes to the Financial Statements (continued)

18. Cash and cash equivalents and Money market deposits over 3 months

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Cash in bank accounts	**23.6**	**0.1**	27.9	0.5
Cash in liquidity funds	**44.3**	**0.8**	39.8	0.1
Cash in short-term deposit accounts	**0.1**	**-**	0.1	-
Cash in money market deposits under 3 months	**118.5**	**-**	8.6	-
Cash and cash equivalents	**186.5**	**0.9**	76.4	0.6
- Weighted average interest rate	**4.08%**	**4.11%**	0.47%	0.54%
- Weighted average maturity	**55.34 days**	**1.0 day**	33.0 days	1.0 day
Money market deposits over 3 months	**316.9**	**-**	-	-
- Weighted average interest rate	**4.46%**	**-**	-	-
- Weighted average maturity	**178.7 days**	**-**	-	-
Cash and cash equivalents and Money market deposits over 3 months	**503.4**	**0.9**	76.4	0.6

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

19. Trade and other payables

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Trade payables	**19.3**	**-**	13.9	-
Contract liabilities	**12.3**	**-**	9.0	-
Amounts owed to group undertakings (Note 31)	**8.0**	**8.0**	8.7	8.9
Other taxation and social security	**16.6**	**-**	14.1	-
Refundable customer deposits	**11.9**	**-**	3.4	-
Accruals and deferred income	**111.7**	**0.1**	96.2	-
Balance at 31 March	**179.8**	**8.1**	145.3	8.9

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 19.5 days from receipt of invoice (2022: 20.2 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value. Refundable customer deposits are cash deposits held as a security in relation to distribution of electricity customers.

Contract liabilities have increased during the year due to an increase in the work bank on diversions and disconnections projects which are typically paid in advance of the performance obligation being met.

Notes to the Financial Statements (continued)

20. Construction contracts

	2023 £m	2022 £m	2021 £m
Contract assets	**1.3**	0.5	0.8
Contract liabilities	**(6.9)**	(2.5)	(3.7)
	(5.6)	(2.0)	(2.9)
Costs incurred plus recognised profits/ losses to date	**30.3**	21.6	24.5
Less: progress billings	**(35.9)**	(23.5)	(27.4)
	(5.6)	(1.9)	(2.9)

21. 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 23.

	Group 2023 £m	**Company 2023 £m**	*Restated Group 2022 £m	*Restated Company 2022 £m
Current liabilities				
Bank and other term borrowings	**221.7**	**-**	7.6	-
Lease liabilities (Note 22)	**1.7**	**-**	1.4	-
	223.4	**-**	9.0	-
Non-current liabilities				
Bonds	**1,852.0**	**-**	1,381.1	-
Bank and other term borrowings	**399.8**	**-**	507.2	-
Lease liabilities (Note 22)	**2.5**	**-**	2.3	-
*Amounts owed to parent undertaking	**297.3**	**297.3**	316.5	316.5
	2,551.6	**297.3**	2,207.1	316.5
Total borrowings	**2,775.0**	**297.3**	2,216.1	316.5

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

Notes to the Financial Statements (continued)

21. Borrowings (continued)

Carrying value by category

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

	Nominal value £m	Interest rate	Maturity year	**Group 2023 £m**	**Company 2023 £m**	*Restated Group 2022 £m	*Restated Company 2022 £m
Borrowings measured at amortised cost							
Bond	200.0	8.875%	2026	**198.6**	**-**	198.2	-
Bond	250.0	8.875%	2026	**269.6**	**-**	275.7	-
Bond	300.0	1.415%	2030	**298.8**	**-**	298.6	-
Bond	425.0	4.893%	2032	**422.8**	**-**	-	-
Index-linked bond	100.0	1.4746%+RPI	2046	**178.2**	**-**	158.6	-
Index-linked loan	135.0	1.5911%+RPI	2024	**213.0**	**-**	187.7	-
Index-linked loan	50.0	0.38% +RPI	2032	**38.9**	**-**	38.1	-
Index-linked loan	50.0	0%+RPI	2033	**42.7**	**-**	41.4	-
USPP bond	100.0	4.07%	2029	**99.6**	**-**	99.5	-
USPP bond	100.0	4.17%	2029	**99.5**	**-**	99.5	-
Index-linked USPP bond	20.0	1.40%+RPI	2034	**27.9**	**-**	24.5	-
Index-linked USPP bond	85.0	1.50%+RPI	2034	**118.4**	**-**	104.3	-
Index-linked PP bond	100.0	1.265%+RPI	2040	**138.6**	**-**	122.2	-
Bank facility	210.0	Sonia+2.75%	2026	**208.2**	**-**	207.7	-
Bank facility	30.0	Sonia+3.50%	2023	**-**	**-**	29.7	-
Revolving credit facility	50.0	Sonia+0.35%	2024	**(0.1)**	**-**	(0.1)	-
Revolving credit facility	75.0	Sonia+1.00%	2024	**61.7**	**-**	10.3	-
Bank facility	120.0	Sonia+3.25%	2027	**57.1**	**-**	-	-
Lease liabilities (Note 22)				**4.2**	**-**	3.7	-
*Amounts owed to parent undertaking	327.0	0.0%	2027	**116.1**	**116.1**	109.2	109.2
Amounts owed to parent undertaking	235.6	8.14%	2046	**181.2**	**181.2**	207.3	207.3
Total borrowings				**2,775.0**	**297.3**	2,216.1	316.5

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

The £300m 1.415% 2030 and the £425m 4.893% 2032 bonds issued by ENW Finance plc are guaranteed by Electricity North West Limited.

The £100m 4.07% 2029, £100m 4.17% 2029, £20m 1.40%+RPI 2034, £85m 1.50%+RPI 2034 and £100m 1.265%+RPI 2040 private placements are secured and guaranteed by ENW Capital Finance plc and NWEN Group Limited.

The £327m 0.0% inter-company loan facility maturing in 2027 is an off-market rate loan that is carried at amortised cost using the effective interest rate of 6.3%, determined to be the market-rate at the time the loan was entered. The amount outstanding on the facility at 31 March 2023 was £155.1m (2022: £155.1m).

Notes to the Financial Statements (continued)

21. Borrowings (continued)

As at 31 March 2022 and 2023, all other loans and borrowings were unsecured, all borrowings were in sterling and there were no formal bank overdraft facilities in place.

The fair values of the Group's financial instruments are shown in Note 23.

The following table provides a reconciliation of the opening and closing debt amounts. Where applicable, interest on these debt amounts is included in accruals within current liabilities on the balance sheet and is, therefore, excluded from this table.

	Group 2023 £m	**Company 2023 £m**	*Restated Group 2022 £m	*Restated Company 2022 £m
At 1 April	**2,216.1**	**316.5**	2,403.5	310.0
Proceeds from external borrowings	**572.0**	**-**	210.0	-
Repayments of external borrowings	**(75.3)**	**-**	(442.4)	-
Lease liabilities capital repayments	**(1.5)**	**-**	(1.3)	-
Lease liabilities interest repayments	**(0.2)**	**-**	(0.2)	-
Lease liabilities interest charged (Note 9)	**0.2**	**-**	-	-
Lease liabilities reclassified to provisions (Note 27)	**-**	**-**	(0.3)	-
New lease liabilities	**1.9**	**-**	0.8	-
Repayment of inter-company loan from parent	**(26.1)**	**(26.1)**	-	-
*Increase in carrying value of off market rate inter-company loan from parent	**6.9**	**6.9**	6.5	6.5
Indexation (Note 9)	**89.0**	**-**	43.5	-
Transaction costs on new external borrowings	**(4.0)**	**-**	(0.3)	-
Amortisation of transaction costs, etc	**(4.0)**	**-**	(3.7)	-
At 31 March	**2,775.0**	**297.3**	2,216.1	316.5

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

At 31 March 2023, the proceeds of borrowings of £572.0m consists of £425m 4.893% 2032 bonds issued by ENW Finance plc, £58.6m drawing on a new £120m floating rate bank facility by NWEN (Holdings), £37.0m on an existing revolving credit facility by ENWL and £51.4m on an existing revolving credit facility by NWEN plc.

Committed borrowing facilities

At 31 March 2023, the Group had £164.6m (2022: £138.6m) in unutilised committed bank facilities, of which £40.0m (2022: £24.0m) expires within one year, £63.2m (2022: £nil) expires after one year but less than two years and £61.4m (2022: £114.6m) expires in more than two years.

At 31 March 2023, the Company had £nil (2022: £nil) in unutilised committed bank facilities.

Notes to the Financial Statements (continued)

22. Leases

	Group 2023 £m	Company 2023 £m	Group 2022 £m	Company 2022 £m
Right of use assets at net book value:				
Land and buildings	**1.9**	**-**	2.0	-
Telecoms	**0.1**	**-**	0.1	-
Vehicles	**2.1**	**-**	1.5	-
Total net book value (Note 13)	**4.1**	**-**	3.6	-
Lease liabilities:				
Land and buildings	**(1.8)**	**-**	(1.9)	-
Telecoms	**(0.1)**	**-**	(0.1)	-
Vehicles	**(2.3)**	**-**	(1.7)	-
Total liabilities (Note 21)	**(4.2)**	**-**	(3.7)	-

The short-term leases recognised as an expense in the year was £0.2m (2022: £nil).

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the incremental borrowing cost is used. The lease liabilities have been discounted at 5% (2022: 5%) for land and buildings, and telecoms; and at 6% (2022: 6%) for vehicles.

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

Group	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
At 31 March 2023	**(1.7)**	**(1.3)**	**(0.2)**	**(0.2)**	**(0.8)**	**(4.2)**
At 31 March 2022	(1.4)	(0.9)	(0.4)	(0.2)	(0.8)	(3.7)

23. Financial instruments

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

The principal risks to which the Group is exposed and which arise in the normal course of business include credit risk, liquidity risk and market risk, in particular interest rate risk and inflation risk.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. Derivative financial instruments are used to hedge interest rate risk and to change the basis of interest cash flows from fixed to either an alternative fixed profile or inflation-linked to more accurately match the revenue profile linked to RPI. The accounting policy for derivatives is provided in Note 2.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Categories of financial instruments

The following table lists the categories of financial instruments with the financial statements. Subsequent to initial recognition, all financial instruments are carried at amortised cost, with the exception of derivatives that are at FVTPL.

	Group 2023 £m	Company 2023 £m	*Restated Group 2022 £m	*Restated Company 2022 £m
Financial assets:				
*Loans to subsidiary > 1 year (Note 15)	**-**	**355.0**	-	368.6
Loans to subsidiary < 1 year (Note 15)	**-**	**0.3**	-	-
Derivative assets	**30.2**	**-**	8.4	-
Trade receivables (Note 17)	**18.8**	**-**	12.0	-
Amounts owed by group undertakings (Note 17)	**0.1**	**7.8**	0.1	8.7
Accrued Income (Note 17)	**57.2**	**-**	44.9	-
Cash and cash equivalents (Note 18)	**186.5**	**0.9**	76.4	0.6
Money market deposits > 3 months (Note 18)	**316.9**	**-**	-	-
Financial liabilities:				
Derivative liabilities	**(450.0)**	**-**	(561.5)	-
*Borrowings at amortised costs (Note 21)	**(2,775.0)**	**(297.3)**	(2,216.1)	(316.5)
Trade payables (Note 19)	**(19.3)**	**-**	(13.9)	-
Accruals (Note 19)	**(94.5)**	**-**	(83.1)	-
Amounts owed to group undertakings (Note 19)	**(8.0)**	**(8.0)**	(8.7)	(8.9)
Refundable customer deposits (Note 19)	**(11.9)**	**-**	(3.4)	(3.4)

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

Control over financial instruments

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

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 and commodity price risks.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits by means of reliable and up to date systems. The risk management policies and systems are amended to reflect changes in market conditions and the associated levels of risks, as appropriate. The processes for managing risk and the methods used to measure risk have not changed since the prior year.

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

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Credit risk

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

Trade receivables

Credit risk in relation to trade receivables is considered to be relatively low, with each customer being contractually required to provide collateral in the form of a cash deposit, subject to the amounts due and their credit rating. Whilst the loss of a principal customer could have a significant impact on the Group, the exposure to such credit losses is mitigated by the protection the regulator provides to cover such losses. Nonetheless, credit management processes are in place and the credit worthiness of each customer is closely monitored.

At 31 March 2023 there were £11.2m receivables past due (2022: £10.5m) against which allowances for doubtful debts of £4.1m has been made (2022: £4.5m).

Treasury activities

Treasury activities of the Group that result in the recognition of financial assets include the investment of surplus cash and derivative assets. The Group is potentially exposed to significant credit loss in the event of non-performance by a treasury counterparty, however, there are policies in place to control the risk. Minimum credit ratings are specified for counterparties that can be transacted with and individual exposure limits are in place to reduce the concentration of risk and total exposure to any one counterparty. Management does not anticipate any counterparty will fail to meet its obligations.

At 31 March 2022 and 2023, none of the Group's treasury balances were either past due or impaired, and no terms had been re-negotiated with any counterparty.

The table below provides an analysis of the ratings of the counterparties with which the Group holds cash, cash equivalents, money market deposits and derivative asset positions:

Group	**2023 £m**	**2023 %**	2022 £m	2022 %
AAA	**44.4**	**8.3**	39.8	50.9
AA-	**7.6**	**1.4**	-	-
A+	**132.6**	**24.8**	29.6	37.9
A	**349.9**	**65.5**	8.8	11.2
	534.5	**100.0**	78.2	100.0

At 31 March 2023, £0.8m (2022: £0.1m) of the Company's treasury portfolio is invested with AAA and £nil (2022: £0.1m) with A+ rated counterparties.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Credit risk (continued)

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 17 for further details).

	2023 Group £m	**2023 Company £m**	2022 Group £m	*Restated 2022 Company £m
*Loans to subsidiary > 1 year (Note 15)	**-**	**355.0**	-	368.6
Loans to subsidiary < 1 year (Note 15)	**-**	**0.3**	-	-
Derivative assets	**30.2**	**-**	8.4	-
Trade receivables (Note 17)	**18.8**	**-**	12.0	-
Amounts owed by group undertakings (Note 17)	**0.1**	**7.8**	0.1	8.7
Cash and cash equivalents (Note 18)	**186.5**	**0.9**	76.4	0.6
Money market deposits > 3 months (Note 18)	**316.9**	**-**	-	-
Balance at 31 March	**552.5**	**364.0**	96.9	377.9

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

Liquidity risk

Liquidity risk is the risk that the Group will have insufficient funds to meet the obligations and commitments resulting from its business operations and financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are able to be met when due. This is achieved through maintaining a prudent level of liquid assets and arranging funding facilities well in advance of need.

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which project cash flows out 25 years ahead, to the end of the Regulatory Period ending 31 March 2048. A medium-term view is provided by the Group business plan covering the period to the end of the following financial year, which is updated and approved annually by the Board. The Board has approved a liquidity framework within which the business operates, including the maintenance of a minimum of 18 months liquidity.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Liquidity risk (continued)

Available liquidity at 31 March was as follows:

	2023 Group £m	**2023 Company £m**	2022 Group £m	2022 Company £m
Cash and cash equivalents (Note 18)	**186.5**	**0.9**	76.4	0.6
Money market deposits > 3 months (Note 18)	**316.9**	**-**	-	-
Committed undrawn bank facilities (Note 23)	**164.6**	**-**	138.6	-
Balance at 31 March	**668.0**	**0.9**	215.0	0.6

Cash and cash equivalents comprise cash at bank, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have an original maturity of less than three months, net of any unpresented cheques. Money market deposits comprise deposits with an original maturity of greater than three months, but less than twelve months, the term of which is set with consideration of forecast liabilities ensuring this liquidity is available to meet obligations as they fall due. There was no formal bank overdraft facility in place during the year (2022: none).

At 31 March 2023, the Group had £164.6m (2022: £138.6m) in unutilised committed bank facilities, of which £40.0m (2022: £24.0m) expires within one year, £63.2m (2022: £nil) expires after one year but less than two years and £61.4m (2022: £114.6m) expires in more than two years.

At 31 March 2023, the Company had £nil (2022: £nil) in committed undrawn bank facilities.

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, using prevailing interest and inflation rates at the reporting date. Derivative cash flows include those on both derivative assets and derivative liabilities and have been shown net; all other cash flows are shown gross.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Group	**<1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**>4 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 March 2023						
Trade payables	**(19.3)**	**-**	**-**	**-**	**-**	**(19.3)**
Refundable customer deposits	**(11.9)**	**-**	**-**	**-**	**-**	**(11.9)**
Leases	**(1.6)**	**(1.3)**	**(0.3)**	**(0.2)**	**(0.8)**	**(4.2)**
Amounts owed to parent undertaking	**(22.8)**	**(14.7)**	**(14.7)**	**(14.7)**	**(626.6)**	**(693.5)**
Bonds	**(76.5)**	**(79.9)**	**(529.9)**	**(40.0)**	**(1,666.7)**	**(2,393.0)**
Borrowings and overdrafts	**(309.9)**	**(27.6)**	**(27.6)**	**(230.3)**	**(110.8)**	**(706.2)**
Derivative financial instruments	**(117.7)**	**6.3**	**(0.9)**	**(5.4)**	**(363.6)**	**(481.3)**
Total contractual cash flows	**(559.7)**	**(117.2)**	**(573.4)**	**(290.6)**	**(2,768.5)**	**(4,309.4)**
At 31 March 2022						
Trade payables	(13.9)	-	-	-	-	(13.9)
Refundable customer deposits	(3.4)	-	-	-	-	(3.4)
Leases	(1.4)	(0.9)	(0.4)	(0.2)	(0.8)	(3.7)
Amounts owed to parent undertaking	(25.4)	(16.9)	(16.9)	(16.9)	(711.4)	(787.5)
Bonds	(58.2)	(58.3)	(58.3)	(508.3)	(1,065.3)	(1,748.4)
Borrowings and overdrafts	(29.9)	(238.0)	(15.2)	(15.1)	(263.6)	(561.8)
Derivative financial instruments	(25.1)	(69.0)	(14.0)	(13.4)	(368.8)	(490.3)
Total contractual cash flows	(157.3)	(383.1)	(104.8)	(553.9)	(2,409.9)	(3,609.0)

Company	**<1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**>4 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 March 2023:						
Amounts owed to parent undertaking	**(22.8)**	**(14.7)**	**(14.7)**	**(14.7)**	**(626.6)**	**(693.5)**
Total contractual cash flows	**(22.8)**	**(14.7)**	**(14.7)**	**(14.7)**	**(626.6)**	**(693.5)**
At 31 March 2022:						
Amounts owed to parent undertaking	(25.4)	(16.9)	(16.9)	(16.9)	(711.4)	(787.5)
Total contractual cash flows	(25.4)	(16.9)	(16.9)	(16.9)	(711.4)	(787.5)

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk; the Group has no significant foreign exchange, equity or commodity exposure.

The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Treasurer under delegated authority from the Board.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

Interest rate risk

Interest rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's derivatives are exposed to a risk of change in their fair value due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk due to their short-term nature.

The Group uses derivative financial instruments to change the basis of fixed rate interest to an inflation-linked profile to more accurately match the revenue profile. The cash flows exchanged under the derivatives are calculated by reference to a notional principal amount. The notional principal reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

Sensitivity analysis on interest

The sensitivity figures are calculated based on a downward parallel shift across the curve of 0.5% and upward parallel shifts of 0.5% and 1%, a range in outcomes that management deem reasonably possible within the next financial year.

The following table shows the amount by which the fair value of items recorded on the statement of financial position at fair value would be adjusted for a given interest rate movement. As fair value movements are taken to the income statement, there would be a corresponding adjustment to profit; figures in brackets represent a reduction to profit.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

			2023			2022
Group	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in fair value	**£m**	**£m**	**£m**	£m	£m	£m
Interest rate swaps*	**2.3**	**(2.3)**	**(4.4)**	3.7	(1.6)	(8.4)
Inflation-linked swaps	**(39.1)**	**36.2**	**69.7**	(54.4)	47.9	97.3
Total finance expense impact	**(36.8)**	**33.9**	**65.3**	(50.7)	46.3	88.9

*The amounts as at 31 March 2022 have been changed to correct an error in prior year account. The prior year amounts were -£21.9m for -0.5%, -£27.2 for +0.5% and -£34.0 for +1%.

The following table shows the amount by which the interest charge in the income statement would have differed if interest rates over the course of the year had differed from actual rates; figures in brackets represent a reduction to profit.

			2023			2022
Group	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in interest charge	**£m**	**£m**	**£m**	£m	£m	£m
Interest rate swaps	**-**	**-**	**0.1**	0.2	(0.2)	(0.5)
Inflation-linked swaps	**(1.0)**	**1.0**	**2.0**	(0.5)	0.5	1.0
Floating rate borrowings	**1.5**	**(1.5)**	**(3.0)**	1.2	(1.2)	(2.3)
Total finance expense impact	**0.5**	**(0.5)**	**(0.9)**	0.9	(0.9)	(1.8)

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.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Market risk (continued)

Inflation risk

Inflation rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market inflation rates. The Group's inflation-linked borrowings and derivatives are exposed to a risk of change in cash flows due to changes in inflation rates. The Group's index-linked derivatives are exposed to a risk of change in their fair value due to changes in inflation rates.

Sensitivity analysis on inflation

The sensitivity figures are calculated based on a downward parallel shift across the curve of 0.5% and upward parallel shifts of 0.5% and 1%, a range in outcomes that management deem reasonably possible within the next financial year.

The following table shows the amount by which the fair value of items recorded in the statement of financial position at fair value would be adjusted for a given inflation rate movement. As fair value movements are taken to the income statement, there would be a corresponding adjustment to profit; figures in brackets represent a reduction to profit.

			2023			2022
Group	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in fair value	**£m**	**£m**	**£m**	£m	£m	£m
Inflation-linked swaps	**51.3**	**(51.6)**	**(115.2)**	66.2	(69.6)	(144.8)
Total finance expense impact	**51.3**	**(51.6)**	**(115.2)**	66.2	(69.6)	(144.8)

The following table shows the amount by which the interest charge, including indexation of the index-linked debt, in the income statement would have differed if inflation rates over the course of the year had differed from the actual rates; figures in brackets represent a reduction to profit. The change in indexation would have a corresponding impact on the carrying value of the inflation-linked debt in the statement of financial position.

			2023			2022
Group	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in interest charge	**£m**	**£m**	**£m**	£m	£m	£m
Inflation-linked borrowings – indexation charge	**3.8**	**(3.8)**	**(7.6)**	5.5	(5.5)	(11.0)
Inflation-linked borrowings – interest charge	**-**	**-**	**(0.1)**	-	-	(0.1)
Inflation-linked swaps – interest charge	**0.1**	**(0.1)**	**(0.1)**	0.1	(0.1)	(0.2)
Total finance expense impact	**3.9**	**(3.9)**	**(7.8)**	5.6	(5.6)	(11.3)

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Capital management

The capital structure of the Group consists of net debt (Note 18 and Note 21), comprised of borrowings net of cash (Note 18 and Note 21), and equity(Note 28), comprised of share capital and reserves (Note 28).

The Group is subject to externally imposed capital requirements, by both Ofgem and financial lenders and investors. These capital requirements include gearing levels, being the ratio of net debt to the regulatory asset value (RAV). The forecast gearing position is closely monitored by the Board against the external capital requirements (see page 8).

The RAV (2012/13 prices) is taken from the most recent Price Control Financial Model (PCFM) published by Ofgem on its website and is calculated in accordance with the RIIO-ED1 methodology (1 April 2015 to 31 March 2023). For the year ended 31 March 2023, the nominal RAV is £2,481.8m (2022: £2,159m) and has been indexed using the RPI for March 2023.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance (see the Dividend Policy page 10), with regard to the externally imposed capital requirements.

Notes to the Financial Statements (continued)

23. Financial instruments (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. Where applicable, interest on these financial instruments is included in operating activities in the cash flow statement and accruals within current liabilities on the balance sheet and is, therefore, excluded from this table. Fair value movements on derivatives exclude accretion payments on the index-linked derivatives of £20m made in the period and included in operating activities in the cashflow statement.

Group	***Restated at 1 April 2022 £m**	**Financing cash flows £m**	**Non-cash changes**			**At 31 March 2023 £m**
			Fair value movement £m	**Indexation (Note 9) £m**	**Other changes £m**	
Bonds (Note 21)	**1,381.1**	**425.0**	**-**	**53.3**	**(7.4)**	**1,852.0**
Bank borrowings (Note 21)	**514.8**	**71.7**	**-**	**35.7**	**(0.7)**	**621.5**
Lease liabilities (Note 22)	**3.7**	**(1.5)**	**-**	**-**	**2.0**	**4.2**
*Amounts owed to parent (Note 21)	**316.5**	**(26.1)**	**-**	**-**	**6.9**	**297.3**
Derivative liabilities	**561.5**	**-**	**(111.5)**	**-**	**-**	**450.0**
	2,777.6	**469.1**	**(111.5)**	**89.0**	**0.8**	**3,225.0**

Group	*Restated at 1 April 2021 £m	Financing cash flows £m	**Non-cash changes**			*Restated at 31 March 2022 £m
			Fair value movement £m	Indexation (Note 9) £m	Other changes £m	
Bonds (Note 21)	1,741.7	(380.0)	-	24.2	(4.8)	1,381.1
Bank borrowings (Note 21)	347.2	147.6	-	19.3	0.7	514.8
Lease liabilities (Note 22)	4.6	(1.5)	-	-	0.6	3.7
*Amounts owed to parent (Note 21)	310.0	-	-	-	6.5	316.5
Derivative liabilities	487.5	-	74.0	-	-	561.5
	2,891.0	(233.9)	74.0	43.5	3.0	2,777.6

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

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Company	***Restated at 1 April 2022 £m**	**Financing cash flows £m**	**Non-cash changes: Fair value movement £m**	**Non-cash changes: Indexation £m**	**Non-cash changes: Other changes £m**	**At 31 March 2023 £m**
*Amounts owed to parent (Note 21)	**316.5**	**(26.1)**	**-**	**-**	**6.9**	**297.3**

Company	*Restated at 1 April 2021 £m	Financing cash flows £m	Non-cash changes: Fair value movement £m	Non-cash changes: Indexation £m	Non-cash changes: Other changes £m	*Restated at 31 March 2022 £m
*Amounts owed to parent (Note 21)	310.0	-	-	-	6.5	316.5

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments to change fixed rate interest to an inflation-linked profile to more accurately match the revenue profile. The table below summarises the various external derivatives held by the Group at 31 March 2023; each category includes multiple instruments and the pay leg rate stated is 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	14	Index-linked	2038	3.56% + RPI, semi-annual	6m Sonia, semi-annual	5-yearly, next due July 2027 7-yearly, next due July 2023
£100m[1]	4	Index-linked	2050	1.51%+RPI, semi-annual	8.875%, annual	10-yearly, next due Sept 2030
£200m	1	Fix/ float	2030	6m Sonia, semi-annual	0.283%, Semi-annual	None
£150m	5	Interest rate	2029	3.52%, semi-annual	2.60%, Semi-annual	n/a
£210m	2	Interest rate	2024	0.4935%, semi-annual	6m Sonia, Semi-annual	n/a
£58.6m[2]	2	Interest rate	2027	4.086%, semi-annual	6m Sonia, Semi-annual	n/a

[1]8.875% up to and including the 26 March 2026 settlement date, then changes to 6m Sonia for the remaining term of the instruments.
[2]Entered in current year, effective date 21 December 2022, maturity date 10 August 2027, entered to hedge the Sonia exposure on the £120m bank facility entered during the year (Note 21).

The Group has two one-way credit support annexes ("CSAs") in place that define the terms for the provision of cash collateral by the counterparty, under the CSAs, no cash collateral is required to be provided by the Group. At 31 March 2022 and 2023, no cash collateral was held in relation to any of the derivative instruments. The cash collateral would not meet the offsetting criteria in IAS 32:42. But it would be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with the CSAs.

The Group 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 and 2023, the Group's derivatives are not designated in formal hedge accounting relationships, and instead are measured at fair value through profit or loss.

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group and Company's financial instruments by category as at the statement of financial position date. Cash and cash equivalents, money market deposits, trade and other receivables and trade and other payables are excluded as the book values approximate to the fair values due to their short-term nature.

Group	2023 Carrying value £m	2023 Fair value £m	*Restated 2022 Carrying value £m	2022 Fair value £m
Financial assets:				
Derivative assets	**30.2**	**30.2**	8.4	8.4
Financial liabilities:				
External borrowings at amortised cost (Note 21)	**(2,477.7)**	**(2,375.4)**	(1,899.6)	(2,049.2)
*Amounts due to parent undertaking (Note 21)	**(297.3)**	**(354.3)**	(316.5)	(362.4)
Derivative liabilities	**(450.0)**	**(450.0)**	(561.5)	(561.5)

Company	2023 Carrying value £m	2023 Fair value £m	*Restated 2022 Carrying value £m	2022 Fair value £m
Financial assets:				
*Loans to subsidiary > 1 year (Note 15)	**355.0**	**394.6**	368.6	453.4
Loans to subsidiary < 1 year (Note 15)	**0.3**	**0.3**	-	-
Financial liabilities:				
*Amounts due to parent undertaking (Note 21)	**(297.3)**	**(354.3)**	(316.5)	(362.4)

Fair value measurements recognised in the Statement of Financial Position

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy above).

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position (continued)

Where market values are not available, fair values have been calculated by discounting future cash flows at prevailing interest and RPI rates sourced from market data (Level 2 inputs). In accordance with IFRS 13, an adjustment for non-performance risk has then been made to give the fair value.

The non-performance risk has been quantified by calculating either a credit valuation adjustment (CVA) based on the credit risk profile of the counterparty, or a debit valuation adjustment (DVA) based on the credit risk profile of the relevant group entity, using market-available data.

Whilst the majority of inputs to the CVA and calculations meet the criteria for Level 2 inputs, certain inputs regarding the Group's credit risk are deemed to be Level 3 inputs, due to the lack of market-available data. The credit risk profile of the Group has been built using the few market-available data points, e.g., credit spreads on the listed bonds, and then extrapolated over the term of the derivatives. It is this extrapolation that is deemed to be Level 3. All other inputs to both the underlying valuation and the CVA and DVA calculations are Level 2 inputs.

For certain derivatives, the Level 3 inputs form an insignificant part of the fair value and, therefore, these derivatives are disclosed as Level 2. Otherwise, the derivatives are disclosed as Level 3.

At 31 March 2023, the adjustment for non-performance risk was £87.6m (2022: £121.4m), of which £87.1m (2022: £120.3m) was classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value loss. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. The difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised is £47.7m (2022: £49.9m). Of the movement in the year, £0.2m relates to a difference recognised on the new swaps entered during the year, and the remainder all relates to the straight-line release to profit or loss.

The following table provides an analysis of the component parts of the fair values of the derivative assets and derivative liabilities. The movement in the fair values was largely due to fair value movements. Interest rate swaps with £58.6m notional were entered by the Group during the year (2022: none); at 31 March 2023, these were liabilities of £0.5m. No swaps were closed out during the year.

Group	2023 £m	2022 £m
FV of derivatives pre IFRS 13 adjustment	**30.6**	8.3
CVA/DVA adjustment	**(1.4)**	(0.1)
Day 1 adjustment	**1.0**	0.2
IFRS 13 FV of derivative assets	**30.2**	8.4
FV of derivatives pre IFRS 13 adjustment	**(585.6)**	(732.5)
CVA/DVA adjustment	**89.0**	121.3
Day 1 adjustment	**46.6**	49.7
IFRS 13 FV of derivative liabilities	**(450.0)**	(561.5)

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Each category includes multiple instruments.

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2023				
Derivative assets				
- £300m notional inflation-linked swaps	**-**	**3.5**	**11.6**	**15.1**
- £210m notional interest rate swaps	**-**	**15.1**	**-**	**15.1**
	-	**18.6**	**11.6**	**30.2**
Derivative liabilities				
- £300m notional inflation-linked swaps	**-**	**(15.9)**	**(379.7)**	**(395.6)**
- £200m notional interest rate swaps	**-**	**(45.7)**	**-**	**(45.7)**
- £150m notional interest rate swaps	**-**	**(8.2)**	**-**	**(8.2)**
- £58.6m notional interest rate swaps	**-**	**-**	**(0.5)**	**(0.5)**
	-	**(69.8)**	**(380.2)**	**(450.0)**
Total	**-**	**(51.2)**	**(368.6)**	**(419.8)**
At 31 March 2022				
Derivative assets				
- £300m notional inflation-linked swaps	-	-	-	-
- £210m notional interest rate swaps	-	8.4	-	8.4
	-	8.4	-	8.4
Derivative liabilities				
- £300m notional inflation-linked swaps	-	(10.2)	(517.1)	(527.3)
- £200m notional interest rate swaps	-	(24.1)	-	(24.1)
- £150m notional interest rate swaps	-	(10.1)	-	(10.1)
- £58.6m notional interest rate swaps	-	-	-	-
	-	(44.4)	(517.1)	(561.5)
Total	-	(36.0)	(517.1)	(553.1)

Notes to the Financial Statements (continued)

23. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position (continued)

The Company holds no derivative financial instruments (2022: none).

The following table provides a reconciliation of the fair value amounts disclosed as Level 3.

Group	2023 £m	2022 £m
At 1 April	**(517.1)**	(415.9)
New instruments	**(0.5)**	-
Transfers into Level 3 from Level 2	**(7.7)**	(35.6)
Transfers from Level 3 into Level 2	**46.5**	5.1
Total gains or losses in profit or loss;		
-On transfers into Level 3 from Level 2	**14.5**	5.5
-On instruments carried forward in Level 3	**95.7**	(76.2)
At 31 March	**(368.6)**	(517.1)

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

Group	2023 -10bps £m	2023 +10bps £m	2022 -10bps £m	2022 -10bps £m
Inflation-linked swaps	**(3.8)**	**3.7**	(5.9)	5.6

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2023				
External borrowings at amortised cost	**(1,312.9)**	**-**	**(1,062.5)**	**(2,375.4)**
Amounts due to parent	**-**	**-**	**(354.3)**	**(354.3)**
At 31 March 2022				
External borrowings at amortised cost	(2,049.2)	-	-	(2,049.2)
Amounts due to parent	-	-	(362.4)	(362.4)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2023				
Loans to subsidiary	**-**	**-**	**394.6**	**394.6**
Amounts due to parent undertaking	**-**	**-**	**(354.3)**	**(354.3)**
At 31 March 2022				
Loans to subsidiary	-	-	453.1	453.1
Amounts due to parent undertaking	**-**	**-**	(362.4)	(362.4)

Notes to the Financial Statements (continued)

24. Retirement benefit schemes

Group

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 Company does not have any post retirement benefit arrangements.

The defined benefit section is a UK funded final salary arrangement providing pensions and lump sums to members and dependants. The defined benefit section is a separate fund that is legally separated from the entity. The Trustee board of the Scheme is composed of representatives from both the employer and members of the Scheme. Under the Pensions Act 2004 at least one third of the Trustee Board must be member nominated and the Trustee Board has made the necessary arrangements to fulfil this obligation. The Trustee Board of the Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e., active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme.

During the year the Group made contributions of £28.2m (2022: £28.1m) to the defined benefit section of the Scheme. This includes £20.0m (2022: £19.4m) of deficit contributions. The Group estimates that contributions for the year ending 31 March 2024 will amount to around £9.4m, in line with the latest actuarial valuation that no further deficit contributions are due beyond 31 March 2023. The total defined benefit pension expense for the year was £13.4m (2022: £9.9m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2023 contributions of £2.4m (2022: £2.5m) relating to the current year had not been paid over to the defined benefit Scheme.

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

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent triennial funding valuation of the scheme was carried out as at 31 March 2022 and identified a shortfall of £19.4m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2023 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions in the period to 31 March 2023; no further additional contributions are required after 31 March 2023 until at least the next triennial valuation.

Notes to the Financial Statements (continued)

24. Retirement benefit schemes (continued)

Funding the liabilities

The current year defined benefit obligation has been calculated based on the results of the 31 March 2022 triennial funding valuation, prior year calculations were based on the results of the 31 March 2019 triennial funding valuation. The results of the 2022 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 *'Employee Benefits'* in order to assess the position as at 31 March 2023 for the purpose of these financial statements. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension surplus under IAS 19 (revised 2011) of £42.6m is included in the statement of financial position at 31 March 2023 (2022: surplus of £18.4m).

The duration of the scheme based on the results of the 31 March 2022 triennial funding valuation (2022: 31 March 2019 triennial funding valuation) is approximately 16 years (2022: 18 years). As at the current reporting date the scheme actuary estimates that the duration based on the 31 March 2022 triennial has since fallen to approximately 13 years (2022: 18 years (based on 2019 data)), this has been used in the calculations as at 31 March 2023.

Investment risks

The Scheme has an investment strategy to aim to match pensioner and other liabilities with lower risk cash flow investments and to invest liabilities in respect of active members into return seeking assets. As active members retire, then a switch of investments would be carried out.

The Company recognises that the interests of customers, who ultimately fund pension costs, should be given full recognition in determining the investment strategy. The Company works in collaboration with the Scheme Trustee to ensure these interests are considered alongside those of the members of the pension scheme.

Other risks

In addition to investment risk, the Scheme exposes the Group to other risks, such as longevity risk, inflation risk and interest rate risk. As the Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

These risks are managed through de-risking and hedging strategies and are measured and reported at Board level. In particular, in October 2019 the Scheme completed a pensioner buy-in with Scottish Widows for around 80% of the Scheme's then pensioner liabilities. This buy-in asset now represents 49.1% of the total Scheme assets as at 31 March 2023 (2022: 47.3%). This had the effect of removing longevity and investment risks in respect of the liabilities for this part of the membership.

Winding up

Although currently there are no plans to do so, the Scheme could be wound up in which case the benefits would have to be bought out with an insurance company. The cost of buying-out benefits would be significantly more than the defined benefit obligation calculated in accordance with IAS 19 (revised 2011).

Notes to the Financial Statements (continued)

24. Retirement benefit schemes (continued)

Defined Contribution arrangements

All assets within the defined contribution section of the Scheme are held independently from the Group.

The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2023 was £9.0m (2022: £7.4m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2023 contributions of £nil (2022: £nil) due in respect of the current year had not been paid over to the defined contribution Scheme.

Defined Benefits employee benefits

The reconciliation of the opening and closing statement of financial position is as follows:

Group	**2023 £m**	2022 £m
At 1 April	**18.4**	(68.6)
Expense recognised in the income statement	**(13.4)**	(9.9)
Contributions paid	**28.2**	28.1
Total re-measurement included in other comprehensive income	**9.4**	68.8
At 31 March	**42.6**	18.4

The balance recognised in the statement of financial position is as follows:

Group	**2023 £m**	2022 £m
Present value of defined benefit obligations	**(873.7)**	(1,259.3)
Fair value of plan assets	**916.3**	1,277.7
Net surplus/ (deficit) arising from defined benefit obligation	**42.6**	18.4

Notes to the Financial Statements (continued)

24. Retirement benefit schemes (continued)

Movements in the fair value of the defined benefit obligations are as follows:

Group	2023 £m	2022 £m
At 1 April	**1,259.3**	1,434.9
Current service cost	**13.5**	15.7
Interest expense	**32.2**	27.9
Member contributions	**1.2**	1.4
Past service credit	**-**	(8.4)
Re-measurement:		
Effect of changes in demographic assumptions	**(12.3)**	(73.1)
Effect of changes in financial assumptions	**(357.1)**	(50.5)
Effect of experience adjustments	**24.9**	(10.2)
Benefits paid	**(88.0)**	(78.4)
At 31 March	**873.7**	1,259.3

Notes to the Financial Statements (continued)

24. Retirement benefit schemes (continued)

Movements in the fair value of the Pension Scheme assets were as follows:

Group	2023 £m	2022 £m
At 1 April	**1,277.7**	1,366.3
Interest income	**33.1**	26.8
Return on plan assets (net of interest income)	**(335.1)**	(65.0)
Employer contributions	**28.2**	28.1
Member contributions	**1.2**	1.4
Benefits paid	**(88.0)**	(78.4)
Administration expenses	**(0.8)**	(1.5)
At 31 March	**916.3**	1,277.7

The net pension expense before taxation recognised in the income statement, before capitalisation, in respect of the Scheme is summarised as follows:

Group	2023 £m	2022 £m
Current service cost	**(13.5)**	(15.7)
Past service credit	**-**	8.4
Interest income on plan assets	**33.1**	26.8
Interest expense on Scheme obligations	**(32.2)**	(27.9)
Administration expenses	**(0.8)**	(1.5)
Net pension expense before taxation	**(13.4)**	(9.9)

The above amounts are recognised in arriving at operating profit except for the interest on Scheme assets and interest on Scheme obligations which have been recognised within net finance expense (Note 9).

The amount recognised in other comprehensive income is as follows:

Group	2023 £m	2022 £m
Return on scheme assets excluding interest income	**(335.1)**	(65.0)
Actuarial gain arising from changes in demographic assumptions	**12.3**	73.1
Actuarial gain/(loss) arising from changes in financial assumptions	**357.1**	50.5
Experience gain on liabilities	**(24.9)**	10.2
Total gain recognised in other comprehensive income	**9.4**	68.8

Notes to the Financial Statements (continued)

24. Retirement benefit schemes (continued)

The main financial assumptions used by the actuary (in determining the surplus) were as follows:

Group	2023 %	2022 %
Discount rate	**4.75**	2.65
Pensionable salary increases	**3.45**	3.80
Pension increases	**3.05**	3.65
Price inflation (RPI)	**3.45**	3.80
Price inflation (CPI)	**2.95**	3.30

The mortality rates utilised in the valuation are based on the standard actuarial tables S3PA_M (SAPS3 combined amounts MIDDLE) (2022: S2PA) tables with a scaling of 109% for male pensioners (2022: 110%), 107% for female pensioners (2022: 105%), 109% for male non-pensioners/future pensioners (2022: 110%) and 107% for female non-pensioners/future pensioners (2022: 105%). These scaling factors allow for differences in expected mortality between the Scheme population and the population used in the standard tables. A long-term improvement rate of 1.25% p.a. is assumed within the underlying CMI 2021 model (2022: 1.25% CMI 2021 model).

The current life expectancies underlying the value of the accrued liabilities for the Scheme are:

Group Life expectancy	2023 Years	2022 Years
Male member current age 45	**26.4**	26.6
Male member current age 60	**25.2**	25.6
Female member current age 45	**29.4**	29.4
Female member current age 60	**28.2**	28.2

The following table presents a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. The sensitivity analysis is for illustrative purposes and it is of note that while the sensitivities below are based on isolated movements, in reality some assumptions are interlinked and a movement in one may result in movements in others (e.g., inflation-based assumptions).

Group Increase in Defined Benefit Obligation	2023 £m	2022 £m
Discount rate: decrease by 25 basis points	**27.9**	48.3
Price inflation: increase by 25 basis points	**14.1**	27.7
Life expectancy: increase longevity by 1 year	**35.4**	57.2

Notes to the Financial Statements (continued)

24. Retirement benefit schemes (continued)

As at 31 March 2023, the fair value of the Scheme's assets and liabilities recognised in the statement of financial position were as follows:

Group

At 31 March	Scheme assets 2023 %	Quoted 2023 £m	Unquoted 2023 £m	Total Value 2023 £m	Scheme assets 2022 %	Quoted 2022 £m	Unquoted 2022 £m	Total Value 2022 £m
Cash	**0.8**	**6.9**	**-**	**6.9**	3.6	45.7	-	45.7
Equity instruments	**-**	**-**	**-**	**-**	4.3	54.8	-	54.8
Debt instruments	**29.0**	**155.3**	**110.8**	**266.1**	33.3	337.7	88.2	425.9
Real estate	**12.2**	**-**	**111.9**	**111.9**	11.1	-	141.6	141.6
Distressed debt	**0.7**	**-**	**6.2**	**6.2**	0.4	-	5.1	5.1
Infrastructure Equity	**8.2**	**-**	**75.0**	**75.0**				
Pensioner buy-in	**49.1**	**-**	**450.2**	**450.2**	47.3	-	604.6	604.6
Fair value of assets	**100.0**	**162.2**	**754.1**	**916.3**	100.0	438.2	839.5	1,277.7
Present value of liabilities				**(873.7)**				(1,259.3)
Net retirement benefit surplus/ (obligation)				**42.6**				18.4

The fair values of the assets set out above are as per the quoted market prices in active markets.

Notes to the Financial Statements (continued)

25. 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	2023 £m	2022 £m
At 1 April	**477.0**	436.3
Additions during the year	**60.6**	51.8
Amortised through revenue (Note 4 & 32)	**(11.9)**	(11.1)
At 31 March	**525.7**	477.0
Split:		
Amounts due in less than one year	**76.6**	38.3
Amounts due after more than one year	**449.1**	438.7
At 31 March	**525.7**	477.0

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

Group and Company	2023 £m	2022 £m
Refundable customer contribution	**82.0**	60.3
Non-refundable customer contribution	**443.7**	416.7
At 31 March	**525.7**	477.0

Notes to the Financial Statements (continued)

26. Deferred tax liabilities

The following tables show the major deferred tax liabilities and assets recognised by the Group and Company, and the movements thereon, during the current and prior years.

Group **Deferred tax (assets)/liability**	**Accelerated tax depreciation £m**	**Retirement benefit obligations £m**	**Other £m**	**Total £m**
At 1 April 2021	305.4	(13.3)	(68.1)	224.0
Charged/(credited) to income statement (Note 10)	94.2	13.3	(33.5)	74.0
Deferred tax on re-measurement of defined benefit pension schemes	-	17.2	-	17.2
Adjustment due to change in future tax rates of brought forward deferred tax OCI	-	(12.9)	-	(12.9)
At 31 March 2022	399.6	4.3	(101.6)	302.3
Charged to the income statement (Note 10)	**4.5**	**3.7**	**40.0**	**48.2**
Deferred tax on re-measurement of defined benefit pension schemes	**-**	**2.3**	**-**	**2.3**
Adjustment due to change in future tax rates of brought forward deferred tax OCI	**-**	**-**	**-**	**-**
At 31 March 2023	**404.1**	**10.3**	**(61.6)**	**352.8**

Other timing differences relates primarily to derivative instruments, but also includes general provision, pension contributions not paid, rollover relief, IFRS9 and IFRS16 transitional adjustments.

There is no deferred tax in the Company.

There are no significant unrecognised deferred tax assets or liabilities for either the Group or Company in either the current or prior year.

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

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

Notes to the Financial Statements (continued)

27. Provisions

Group	2023 £m	2022 £m
At 1 April	**1.6**	1.7
Amounts released to the income statement (Note 5)	**(0.4)**	(0.2)
Lease liabilities under IFRS 16 reclassified as provision	**-**	0.3
Utilisation of provision	**(0.2)**	(0.2)
At 31 March	**1.0**	1.6

Group	2023 £m	2022 £m
Current	**0.6**	0.6
Non-current	**0.4**	1.0
At 31 March	**1.0**	1.6

ENWL is part of a Covenanter Group (CG) which is party to a Deed of Covenant under which certain guarantees over the benefits of members of the EATL Group of the Electricity Supply Pension Scheme have been given. The closing provision at 31 March 2023 of £0.6m (2022: £1.2m) on a discounted basis relates to the Company's 6.7% share of the liabilities. £0.2m of this balance is due after more than one year and £0.4m of it is due in less than one year.

The remainder of the provision relates to onerous lease provisions and is all due less than one year.

28. Called up share capital

Group and Company	2023 £m	2022 £m
Authorised:		
3,000,000 ordinary shares of £1 each	**3.0**	3.0
At 31 March	**3.0**	3.0

Group and Company	2023 £m	2022 £m
Allotted, called up and fully paid:		
3,000,000 ordinary shares of £1 each	**3.0**	3.0
At 31 March	**3.0**	3.0

No person has any special rights of control over the Company's share capital and all allotted shares are fully paid.

See Note 29 for voting rights of each share.

Notes to the Financial Statements (continued)

29. 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 28. 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.

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.

30. Ultimate parent undertaking and controlling party

The immediate parent undertaking is North West Electricity Networks (Jersey) Limited, a company incorporated and registered in the United Kingdom. The registered address of the immediate parent undertaking is Borron Street, Stockport, Cheshire SK1 2JD. This is the smallest group in which the results of the Company are consolidated and these consolidated financial statements can be obtained from the above address.

The ultimate parent undertaking is NWEN (Jersey), a company incorporated and registered in Jersey. The address of the ultimate parent company is: 44 Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG. This is the largest group in which the results of the Company are consolidated.

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

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

Notes to the Financial Statements (continued)

31. Related party transactions

During the year the following transactions with related parties were entered into:

	Group 2023 £m	**Company 2023 £m**	*Restated Group 2022 £m	*Restated Company 2022 £m
*Interest payable to North West Electricity Networks (Jersey) Limited (Note 9)	**(23.5)**	**(23.5)**	(23.7)	(23.7)
Reimbursement of inter-company loan impairment to North West Electricity Networks (Jersey) Limited (Note 9)	**0.1**	**0.1**	0.2	0.2
*Interest receivable from North West Electricity Networks (Finance) Limited	**-**	**29.0**	-	29.2
Dividends paid to North West Electricity Networks (Jersey) Limited	**(35.1)**	**(35.1)**	(42.9)	(42.9)
Dividends received from North West Electricity Networks (Finance) Limited	**-**	**33.3**	-	36.5
Dividends received from Electricity North West (Construction and Maintenance) Limited	**-**	**2.3**	-	1.5
Directors' remuneration (Note 7)	**(2.8)**	**-**	(1.9)	-

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

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)

31. Related party transactions (continued)

Amounts outstanding with related parties are as follows:

	Group 2023 £m	**Company 2023 £m**	Group 2022 £m	Company 2022 £m
Amounts owed by:				
North West Electricity Networks (Jersey) Limited	**0.1**	**-**	0.1	-
Interest owed by North West Electricity Networks (Finance) Limited	**-**	**7.8**	-	-
*Loans owed by North West Electricity Networks (Finance) Limited	**-**	**355.1**	-	368.5
Loans owed by Electricity North West Property Limited	**-**	**0.3**	-	0.3
Amounts owed to:				
Interest owed to North West Electricity North West (Jersey) Limited	**(8.0)**	**(8.0)**	(8.7)	(8.7)
*Borrowings owed to North West Electricity Networks (Jersey) Limited	**(297.3)**	**(297.3)**	(316.5)	(316.5)
Group tax relief owed to:				
North West Electricity Networks (Jersey) Limited	**3.6**	**-**	-	-

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

The loans from related parties comprise amounts loaned from the immediate parent undertaking, North West Electricity Networks (Jersey) Limited, of £297.3m (2022: £316.5m restated). Of this, £181.2m (2022: £207.3m) carries interest at 8.14% per annum and £116.1m (2022: £109.2m restated) has a contracted rate of 0% but, as a loan at an off-market rate, is carried at amortised cost using an effective interest rate of 6.3%.

The loans owed by related parties comprise amounts loaned to North West Electricity Networks (Finance) Limited, of £355.1m (2022: £368.5m restated). Of this, £141.7m (2022: £167.7m) carries interest at 10% per annum and £213.4m (2022: £200.8m restated) has a contracted rate of 0% but, as a loan at an off-market rate, is carried at amortised cost using an effective interest rate of 6.3%. All other related party balances bear no interest.

Notes to the Financial Statements (continued)

32. Cash generated from operations

	Group 2023 £m	Company 2023 £m	Group 2022 £m	Company 2022 £m
Operating profit	**190.4**	**-**	170.1	-
Adjustments for:				
Depreciation of property, plant and equipment (Note 5 & 13)	**127.1**	**-**	120.5	-
Amortisation of intangible assets (Note 5 & 12)	**14.2**	**-**	12.8	-
Amortisation of customer contributions (Note 4 & 25)	**(11.9)**	**-**	(11.1)	-
Profit on disposal of property, plant and equipment	**(0.5)**	**-**	(0.1)	-
Cash contributions in excess of pension charge to operating profit	**(20.4)**	**-**	(23.7)	-
Operating cash flows before movements in working capital	**298.9**	**-**	268.5	-
Changes in working capital:				
Increase in inventories	**(4.4)**	**-**	(4.1)	-
Increase in trade and other receivables	**(14.8)**	**-**	(6.0)	-
Increase in payables	**24.7**	**-**	9.8	-
Cash generated from operations	**304.4**	**-**	268.2	-