ENW Finance plc (the "Company") is pleased to announce its Annual Financial Report for the year ended 31 March 2019.

The Annual Financial Report is available to view on the Company's website: www.enwl.co.uk

For further information please contact Electricity North West's press office on 0844 209 1957 or email pressoffice@enwl.co.uk

**Company Registration No. 06845434**

# ENW FINANCE PLC

## Annual Report and Financial Statements for the year ended 31 March 2019

## Contents

## Strategic Report

### Business review and principal activities

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

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

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

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

### Financial performance and key performance indicators

The results for the year are set out in the Profit and Loss Account on page 13. The primary KPI for the year was a loss before tax of £5.8m, derived primarily from fair value losses in the year (2018: profit before tax £2.3m).

The Company had borrowings, net of cash of £199.5m at 31 March 2019 (2018: £199.3m) relating to the listed debt. The debt has a nominal value of £200m at 6.125%, maturing in 2021. The Company recognises a hybrid asset receivable from ENWL on equivalent terms to the external borrowings and associated intercompany hedging arrangements.

The Company applied IFRS 9 in the year (see Note 1 for more details). The main impact of this was on the inter-company hybrid asset. Under IAS 39, this was bifurcated, with the host contract measured at amortised cost and the embedded derivative measured at fair value. Under IFRS 9, the hybrid asset cannot be bifurcated and must be measured at fair value in its entirety. On transition to IFRS 9, the amortised cost of the host was £199.3m and the fair value of the embedded derivative was £300.1m; the fair value of the entire hybrid asset was £529.0m. The £29.5m difference was recognised in opening reserves, net of the deferred tax impact.

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

### Principal risks and uncertainties

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

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

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

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

The Company is ultimately a subsidiary of NWEN (Jersey); the key trading subsidiary in the Group is ENWL. As the Company's obligations in respect of the listed debt are met via income receivable from ENWL, the Board considers the principal risks and uncertainties facing the Company to be those that affect ENWL and the larger Group.

In consideration of this, the Directors of the Company are cognisant of the going concern disclosure in the financial statements of both NWEN (Jersey) and ENWL for the year ended 31 March 2019, the latter of which is available on the website www.enwl.co.uk.

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

The going concern basis has been adopted by the Directors, with consideration of the guidance given in 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009 together with the updated guidance issued in 2016.

### Corporate governance

The details of the internal control and risk management systems which govern the Company in relation to the financial processes are outlined in the Corporate Governance Report of the ENWL Annual Report and Consolidated Financial Statements, which are available on the website www.enwl.co.uk.

### Fair, balanced and understandable

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

Approved by the Board on the 30 May 2019 and signed on its behalf by:

**D Brocksom**
Director

## Directors' Report

The Directors present their Strategic Report, Annual Report and the audited financial statements of ENW Finance plc for the year ended 31 March 2019.

### Dividends

Dividends recognised in the year were £nil (2018: £nil). The Directors do not propose a final dividend for the year ended 31 March 2019 (2018: £nil).

### Directors

The Directors of the Company during the year ended 31 March 2019 and to date are set out below. Directors were appointed for the whole year and to the date of this report, except where otherwise indicated.

#### Executive Directors

D Brocksom
P Emery

#### Non-executive Directors

C Dowling
J Lynch
N Mills

At no time during the year did any Director have a material interest in any contract or arrangement which was significant in relation to the Company's business (2018: same).

### Events after the Balance Sheet date

There have been no significant events after the Balance Sheet date.

### Future developments

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

### Directors' and officers' insurance

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

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

### Auditor

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

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

(2) each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

### Independent auditor

Deloitte LLP, Statutory Auditor, Manchester, United Kingdom has expressed its willingness to continue in office as auditor of the Group. In accordance with section 487 of the Companies Act 2006, Deloitte LLP is deemed to be re-appointed as auditor of the Company.

### Registered address

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

ENW Finance plc
304 Bridgewater Place
Birchwood Park
Warrington
England
WA3 6XG

Registered number: 06845434

Approved by the Board on 30 May 2019 and signed on its behalf by:

**D Brocksom**
Director

## Directors' Responsibilities Statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

### Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NWEN Finance plc (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related Notes 1 to 16.

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

### Basis for opinion

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

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

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

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

### Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that was identified in the current year was:<br>• Recoverability of intercompany receivable.<br>Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with. |
| **Materiality** | The materiality that we used in the current year was £3.0m which was determined on the basis of total assets. |
| **Scoping** | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. |
| **Significant changes in our approach** | There have been no significant changes in our audit approach in the current year. However, as part of the risk assessment process we no longer consider Management override of controls to be a key audit matter. Materiality has been determined on the same basis. |

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

***We have nothing to report in respect of these matters.***

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As noted above in relation to our change in scope, we have removed one key audit matter from the prior year, management override of controls, as a result of a reassessment of risks during the current year.

| Recoverability of intercompany receivables | |
|---|---|
| **Key audit matter description** | There is significant level of judgement involved in determining the recoverability of the £242 million (2018: £220 million) receivable from group undertakings based on the financial position and future prospects of the group undertakings. This takes into consideration a range of factors such as the trading performance of the group undertakings and support available from the wider group where required.<br><br>Further details are included within note 2 to the financial statements. |
| **How the scope of our audit responded to the key audit matter** | We challenged the directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest financial information and our understanding of the future trading performance of the group undertakings and by assessing the ability of the group undertakings to repay these amounts. We also reviewed the historical accuracy of management's forecasts by comparing the actual results to forecasts. |
| **Key observations** | Based on the work done, we found no matters that were reportable to those charged with governance. |

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

### Our application of materiality

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

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

| | |
|---|---|
| **Materiality** | £3.0m |
| **Basis for determining materiality** | Materiality represents 1% of total assets. |
| **Rationale for the benchmark applied** | We determined materiality based on total assets as this is the key metric used by management, investors, analysts and lenders. When determining materiality, as the company is part of the wider ENWL group (Electricity North West Limited group), we also considered that this materiality is appropriate for the consolidation of this set of financial statements to the group's results. |

We agreed with the Board of Directors that we would report to the Committee all audit differences in excess of £60,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. A full scope audit has been performed for the company's financial statements. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The company's financial activities are not complex in nature. As the company has no subsidiaries and requires a standalone audit, we treat the company as one single audit component for scoping purposes.

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

### Other information

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

***We have nothing to report in respect of these matters.***

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

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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.

### Responsibilities of directors

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

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

### Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

## Independent Auditor’s Report to the Members of NWEN Finance plc (continued)

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### Identifying and assessing potential risks related to irregularities

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

- enquiring of management, internal audit and the board of directors, including obtaining and reviewing supporting documentation, concerning the company’s policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, Listing rules and tax legislation. In addition, compliance with terms of the company’s regulatory solvency were fundamental to the company’s ability to continue as a going concern.

### Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the board of directors and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports; and

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

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

### Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

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

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

***We have nothing to report in respect of these matters.***

#### Directors' remuneration

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

***We have nothing to report in respect of this matter.***

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

### Other matters

#### Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders in 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 March 2003 to 31 March 2019.

#### Consistency of the audit report with the additional report to the audit committee

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

### Use of our report

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

**Chris Robertson (Senior Statutory Auditor)**
For and on behalf of Deloitte LLP,
Statutory Auditor,
Manchester, United Kingdom
30 May 2019

## Financial Statements

## Profit and Loss Account

For the year ended 31 March 2019

| | Note | **2019** **£000** | 2018 £000 |
|---|---|---|---|
| **Operating result** | | **-** | - |
| Interest receivable from group companies | 6 | **9,864** | 12,862 |
| Net interest payable and similar charges | 7, 12 | **(15,632)** | (10,560) |
| **(Loss) / profit before taxation** | | **(5,768)** | 2,302 |
| Taxation | 8 | **785** | (570) |
| **(Loss)/ profit for the year attributable to shareholders** | | **(4,983)** | 1,732 |

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

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

## Balance Sheet
as at 31 March 2019

| | Note | **2019 £000** | 2018 £000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Derivative financial instruments | 12 | **-** | 300,126 |
| Loans to group undertakings | 9 | **572,376** | 219,848 |
| | | **572,376** | 519,974 |
| **Current assets** | | | |
| Interest due on loans to group undertakings | 10 | **4,447** | 6,502 |
| Cash and cash equivalents | | **12** | 12 |
| | | **4,459** | 6,514 |
| **Total assets** | | **576,835** | 526,488 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accrued interest | | **(2,378)** | (2,378) |
| Current tax liabilities | | **(4,313)** | (3,969) |
| **Current liabilities** | | **(6,691)** | (6,347) |
| **Net current (liabilities)/ assets** | | **(2,232)** | 167 |
| **Total assets less current liabilities** | | **570,144** | 520,141 |
| **Non-current liabilities** | | | |
| Borrowings | 11 | **(199,521)** | (199,348) |
| Derivative financial instruments | 12 | **(335,291)** | (306,489) |
| Deferred tax liabilities | 13 | **(5,240)** | (1,350) |
| | | **(540,052)** | (507,187) |
| **Total liabilities** | | **(546,743)** | (513,534) |
| **Net assets** | | **30,092** | 12,954 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 14 | **13** | 13 |
| Profit and loss account | | **30,079** | 12,941 |
| **Total shareholders' funds** | | **30,092** | 12,954 |

The financial statements of ENW Finance plc (registered number 06845434) were approved and authorised for issue by the Board of Directors on 30 May 2019 and signed on its behalf by:

**D Brocksom**
Director

## Statement of Changes in Equity
for the year ended 31 March 2019

| | Called up share capital £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|
| **At 31 March 2017** | 13 | 11,209 | 11,222 |
| Profit/ (loss) and total comprehensive income/ (expense) for the year | - | 1,732 | 1,732 |
| **At 31 March 2018** | 13 | 12,941 | 12,954 |
| Opening reserves adjustment on transition to IFRS 9 | **-** | **27,139** | **27,139** |
| Deferred tax on opening reserves adjustment on transition to IFRS 9 | | **(5,018)** | **(5,018)** |
| (Loss)/ profit and total comprehensive (expense)/ income for the year | **-** | **(4,983)** | **(4,983)** |
| **At 31 March 2019** | **13** | **30,079** | **30,092** |

## Notes to the Financial Statements

ENW Finance plc is a company incorporated in the United Kingdom under the Companies Act 2006.

The financial statements are presented in sterling, which is the functional currency of the Company. All values are rounded to the nearest thousand pounds (£'000) unless otherwise indicated.

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

## 1. Adoption of new and revised standards

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

#### IFRS 9: Financial Instruments

The Company has applied IFRS 9 during the year, electing not to restate comparatives. IFRS 9 introduced new requirements for:

- classification and measurement of financial assets and financial liabilities,
- impairment of financial assets, and
- hedge accounting.

The impact of these new requirements on the Company is outlined below.

*a) Classification and measurement of financial assets*

All recognised financial assets within the scope of IFRS 9 are required to be measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets, and their contractual cash flow characteristics.

Specifically:

- Financial assets held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at amortised cost,
- Financial assets held within a business model whose objective is to both collect the contractual cash flows and to sell the financial assets, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI),
- All other financial assets are measured at fair value through profit or loss (FVTPL).

Financial assets that are measured at amortised cost or FVTOCI are subject to impairment (see c) below).

The financial assets of the Company were reviewed and assessed at 1 April 2018 based on the facts and circumstances at that date and it was concluded that the initial application of IFRS 9 had the following impact on the classification and measurement of the Company's financial assets:

- The Company's inter-company hybrid contract asset was bifurcated under IAS 39, with the host measured at amortised cost and the embedded derivative separately identified and measured at FVTPL. Under IFRS 9, the embedded derivative can no longer be separated out and the classification criteria for financial assets are applied to the hybrid contract as a whole. As the contractual cash flows of the hybrid asset do not consist solely of payments of principal and interest on the principal amount outstanding, the entire hybrid asset is measured at FVTPL.

## Notes to the Financial Statements (continued)

### 1. Adoption of new and revised Standards (continued)

- Other financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and those cash flows consist solely of payments of principal and interest on the principal amount outstanding.
- The Company's financial assets measured at FVTPL under IAS 39 continue to be measured at FVTPL under IFRS 9.

Note e) below tabulates the change in classification of the Company's financial assets upon application of IFRS 9.

The change in classification of the hybrid contract has resulted in a fair value gain of £29.5m being recognised in opening retained earnings of the Company, net of the deferred tax impact.

b) *Classification and measurement of financial liabilities*

The classification and measurement of financial liabilities remains unchanged under IFRS 9, except for a change introduced in relation to the accounting for changes in the fair value of financial liabilities designated as at FVTPL attributable to changes in the credit risk of the issuer. The Company does not have any financial liabilities designated at FVTPL, so is unaffected by this change.

c) *Impairment of financial assets*

IFRS 9 requires an expected credit loss (ECL) model as opposed to an incurred credit loss model under IAS 39, with changes in those expected credit losses recognised at each reporting date, reflecting the change in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

Financial assets that are measured at amortised cost or FVTOCI are subject to impairment. The relevant financial assets of the Company at amortised cost are cash and cash equivalents, inter-company loans and trade receivables and contract assets. The Company has no financial assets at FVTOCI.

IFRS 9 requires the Company to measure the loss allowance at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition, or if the financial asset is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Company is required to measure the loss allowance at an amount equal to 12-months ECL. IFRS 9 requires a simplified approach for trade receivables and contract assets, measuring the loss allowance equal to lifetime ECL.

All inter-company loans have been assessed to have low credit risk. As such, the Company assumes that the credit risk on these financial assets has not increased significantly since initial recognition and recognises 12-month ECLs for these assets.

For trade receivables and contract assets, the Company applies the simplified approach and recognises lifetime ECLs for these assets.

All cash and cash equivalents are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

## Notes to the Financial Statements (continued)

### 1. Adoption of new and revised Standards (continued)

d) *Hedge accounting*

The new hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

The Company did not designate any hedging relationships under IAS 39 and neither has designated any hedging relationships under IFRS 9.

e) *Disclosures in relation to the initial application of IFRS 9*

Under IFRS 9, consequential amendments were made to IFRS 7 to require certain disclosures when an entity first applies IFRS 9. The disclosures apply regardless of whether an entity restates comparatives.

The table below shows information relating to financial assets and liabilities that have been reclassified as a result of transition to IFRS 9.

| | **Financial asset from amortised cost to FVTPL £000** |
|---|---|
| **1 April 2018:** | |
| IAS 39 carrying amount | 199,348 |
| Remeasurement | 29,521 |
| IFRS 9 carrying amount | 228,869 |
| | |
| Plus FV of embedded derivative | 300,127 |
| FV of hybrid asset | 528,996 |
| | |
| FV movement in year | 22,880 |
| | |
| **31 March 2019:** | |
| IFRS 9 carrying amount | 551,876 |

The application of IFRS 9 has had no impact on the cash flows of the Company.

**IFRS 15: Revenue from Contracts with Customers**

IFRS 15 is effective from the current year and this has no impact on the Company.

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently in the current year and the prior year with the exception of IFRS 9

#### Basis of preparation

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

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

Where relevant, equivalent disclosures are given in the consolidated financial statements of NWEN plc, the Company's immediate parent; the consolidated financial statements of NWEN plc are available to the public and can be obtained as set out in Note 16.

The financial statements have been prepared on the historical cost basis, except for the valuation of derivative financial instruments.

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

#### Taxation

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

#### Current taxation

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

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies (continued)

#### Deferred taxation

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

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

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

### Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

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

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

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

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

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies (continued)

#### Financial assets

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

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

#### Classification of financial assets

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

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

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

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

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

#### Amortised cost and effective interest method

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

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

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

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies (continued)

#### Amortised cost and effective interest method (continued)

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

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

#### Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost of FVTOCI are measured at FVTPL. Specifically, the financial assets held by the Company classified as at FVTPL are derivatives and an inter-company hybrid contract; these are stated at fair value, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. Fair value is determined in the manner described in Note 12.

#### Impairment of financial assets

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

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

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

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

# Notes to the Financial Statements (continued)

## 2. Significant accounting policies (continued)

### Impairment of financial assets

a) *Significant increase in credit risk*

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

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

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

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

b) *Definition of default*

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

c) *Credit-impaired financial assets*

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

d) *Measurement and recognition of expected credit losses*

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

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

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

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies (continued)

#### Impairment of financial assets (continued)

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

#### Derecognition of financial assets

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

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

#### Financial liabilities and equity

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

#### Equity instruments

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

#### Financial liabilities

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

#### Financial liabilities at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The Company has no financial liabilities designated at FVTPL. Fair value is determined in the manner described in Note 12.

#### Financial liabilities measured subsequently at amortised cost

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

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

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies (continued)

#### Creditors

Creditors are stated at their nominal value.

#### Derecognition of financial liabilities

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

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

#### Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and inflation risk. Further details of derivative financial instruments are disclosed in Note 12.

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

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

#### Embedded derivatives

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

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

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

## Notes to the Financial Statements (continued)

### 2. Significant accounting policies (continued)

#### Embedded derivatives (continued)

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

#### Hedge accounting

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

### 3. Critical accounting judgements and key sources of estimation uncertainty

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

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

#### Critical judgements in applying the group's accounting policies

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

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each Balance Sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated cash flows of the investment have been affected.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognised in profit or loss.

## Notes to the Financial Statements (continued)

### Key sources of estimation uncertainty

#### Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Company uses market-observable data to the extent it is available. Where such data is not available, certain estimates regarding inputs to the valuation are required to be made. Information about the valuation techniques and inputs used are disclosed in Note 12.

### 4. Operating profit

Audit fees payable to Deloitte LLP of £7,257 for the year (2018: £7,087) were borne by another Group company and have not been recharged (2018: same). There were no non-audit fees payable to the auditor in the year (2018: same).

### 5. Directors and employees

The Company had no employees during the year (2018: same). Directors' costs are borne by another Group company and cannot be fairly apportioned to the Company (2018: same).

### 6. Interest receivable from group companies

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| From parent company on loan at amortised cost | **327** | 440 |
| From affiliated company on loan at amortised cost | **-** | 12,422 |
| From affiliated company on hybrid loan asset at fair value through profit or loss | **9,537** | - |
| **Interest receivable from group companies** | **9,864** | 12,862 |

### 7. Net interest payable and similar charges

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| **Interest payable:** | | |
| On borrowings held at amortised cost | **12,422** | 12,412 |
| Net receipts on inter-company derivatives | **(2,712)** | - |
| **Total interest expense** | **9,710** | 12,412 |
| **Fair value movements on financial instruments** (see Note 12): | | |
| On inter-company hybrid asset at fair value through profit or loss | **(22,880)** | - |
| On inter-company derivatives | **28,802** | (1,852) |
| **Total fair value movements** | **5,922** | (1,852) |
| **Net interest payable and similar charges** | **15,632** | 10,560 |

## Notes to the Financial Statements (continued)

### 8. Taxation

| | **2019 £000** | 2018 £000 |
|---|---|---|
| **Current tax:** | | |
| Current year | **343** | 376 |
| **Deferred tax** (Note 13): | | |
| Current year | **(1,128)** | 194 |
| **Tax (credit)/ charge for the year** | **(785)** | 570 |

Corporation tax is calculated at 19% (2018:19%) of the estimated assessable profit for the year. The rate reduces to 17% on 1 April 2020. The Government announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020. The legislation has been given effect by the Finance Act 2019 which was substantively enacted on 12 February 2019. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 17% rate.

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

| | **2019 £000** | 2018 £000 |
|---|---|---|
| **(Loss) / profit before tax** | **(5,768)** | 2,302 |
| Tax at the UK corporation tax rate of 19% (2018: 19%) | **(1,096)** | 437 |
| Reduction in current year deferred tax due to rate change | **133** | (23) |
| Non-taxable expenses | **178** | 156 |
| Prior year tax adjustment | **-** | - |
| **Tax (credit)/charge for the year** | **(785)** | **570** |

## Notes to the Financial Statements (continued)

### 9. Loans to group undertakings

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Loan to parent company at amortised cost | **20,500** | 20,500 |
| Loan to affiliated company at amortised cost | **-** | 199,348 |
| Hybrid loan to affiliated company at FVTPL | **551,876** | - |
| **Loans to group undertakings** | **572,376** | 219,848 |

On 21 July 2009, the Company lent £20.5m to the immediate parent company, NWEN plc.

On the same date, the Company lent ENWL £198.2m net proceeds of the £200.0m 6.125% fixed rate bond maturing in 2021, on terms aligned to the terms of the external bond (see Note 11) and associated intercompany hedging arrangements, which formed an embedded derivative that was separated from the host contract and accounted for as a derivative at fair value through profit or loss.

The carrying value of the receivable in the prior year is the host contract and reflects the amortisation of the discount. The fair value of the embedded derivative is separately disclosed on the face of the balance sheet.

On 1 April 2018, the Company adopted IFRS 9 and the embedded derivative can no longer be separated from the host, with the entire hybrid asset required to be measured at fair value through profit or loss (see Note 1 for more details on the impact of adopting IFRS 9).

The carrying value of the receivable in the current year is the fair value of the entire host contract.

#### Impairment

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

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

## Notes to the Financial Statements (continued)

### 10. Interest due on loans to group undertakings

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| Accrued interest due from parent company | **4,350** | 4,033 |
| Accrued interest due from affiliated company | **-** | 2,382 |
| Amount due from affiliated company | **97** | 87 |
| **Interest due on loans to group undertakings** | **4,447** | **6,502** |

At 1 April 2018, the Company adopted IFRS 9. Consequently, the loan to the affiliated company ceased to be measured at amortised cost and is measured at FVTPL in the current year (see Notes 1 and 9 for more details).

### 11. Borrowings

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

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| Bonds held at amortised cost | **199,521** | 199,348 |

As at 31 March 2019, the Company had a £200.0m 6.125% fixed rate bond in issue, maturing in 2021 and guaranteed by ENWL (2018: same).

#### Borrowing facilities

The Company had no unutilised committed bank facilities at 31 March 2019 (2018: same). There was no formal bank overdraft facility in place at 31 March 2019 (2018: same).

## Notes to the Financial Statements (continued)

### 12. Financial instruments

#### Fair values

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

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

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

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

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

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

The adjustment for non-performance risk as at 31 March 2019 was £53.4m on the hybrid asset and £53.4m on the derivative liability (2018: £49.7m on both the derivative asset and the derivative liability), all of which (2018: same) is classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value gain on the hybrid asset and a fair value loss on the derivative liability. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. This difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised in profit or loss is £30.5m (2018: £33.4m) on the hybrid asset and £25.9m (2018: £27.2m) on the derivative liability. The movement in the period all relates to the straight-line release to profit or loss.

There were no transfers between levels during the current year (2018: same).

## Notes to the Financial Statements (continued)

### 12. Financial instruments (continued)

**Categories of financial instruments at FVTPL**

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Hybrid loan to affiliated company at FVTPL | **551,876** | - |
| Inter-company derivative financial assets | **-** | 300,126 |
| Inter-company derivative financial liabilities | **(335,291)** | (306,489) |

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Hybrid loan to affiliated company at FVTPL | **(22,880)** | - |
| Inter-company derivative financial assets | **-** | 10,602 |
| Inter-company derivative financial liabilities | **28,802** | (12,454) |
| **Net charge/ (credit) to Profit and Loss Account** | **5,922** | (1,852) |

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

**Valuation techniques and assumptions applied for the purpose of measuring fair values**

The fair values of derivative financial instruments are determined by a discounted cash flow technique using the applicable yield curve for the duration of the instruments. An adjustment for the relevant credit risk is then made.

**Financial risk management**

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

## Notes to the Financial Statements (continued)

### 13. Deferred tax

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| At 1 April | **1,350** | 1,156 |
| Opening reserves adjustment on transition to IFRS 9 | **5,018** | - |
| Charges to the profit and loss account (Note 8) | **(1,128)** | 194 |
| **At 31 March** | **5,240** | 1,350 |

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

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

### 14. Called up share capital

| | 2019 £000 | 2018 £000 |
|---|---|---|
| **Authorised:** | | |
| 50,000 ordinary shares of £1 each | **50** | 50 |
| **Allotted, called up and fully paid:** | | |
| 50,000 ordinary shares of £1 each of which £0.25 has been called up and paid | **13** | 13 |

### 15. Financial commitments

There are no contracted for, but not provided for, financial commitments at the year end (2018: same).

### 16. Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN plc and 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 JE4 9WG.

The largest group in which the results of the Company are consolidated is that headed by NWEN (Jersey). The smallest group in which they are consolidated is that headed by NWEN plc, a company incorporated and registered in the UK. The consolidated financial statements of this Group are available to the public and may be obtained from 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG.

First State Investment Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ('EDIF') and IIF Int'l Holdings GP Ltd ('IIF') have been identified as ultimate controlling parties and are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.