Company Registration No. 02366949

ELECTRICITY NORTH WEST LIMITED

Annual Report and Consolidated Financial Statements

for the year ended 31 March 2021

Introduction

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

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

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

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

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

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

We are pleased to present the Annual Report and Consolidated Financial Statements of the Company and its subsidiaries (together referred to as "the Group") to shareholders for the year ended 31 March 2021. Further information on the Company can be found by visiting our website: www.enwl.co.uk. The Company is limited by shares and incorporated in England, the United Kingdom under the Companies Act 2006.

Notice regarding limitations on directors' liability under English law

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

Strategic Report

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

Cautionary statement regarding forward-looking statements

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

Regulatory reporting and regulatory audits for the year ended 31 March 2021

Certain regulatory performance data contained in this Annual Report remain subject to regulatory audit by the Office of Gas and Electricity Markets (''Ofgem''). The final regulatory reporting pack and regulatory financial statements for the year ended 31 March 2021 are not due for submission to Ofgem until July 2021, and will be reviewed by Ofgem after their submission.

Website and investor relations

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

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Chairman's Statement

I am pleased to introduce the annual report and financial statements for Electricity North West Limited (ENWL) for the year ended 31 March 2021.

A time to offer thanks

They say that an organisation 'is only as good as its people' and I feel privileged to be working with a group of people at ENWL who have managed the dislocation and inconvenience to our customers (and themselves) of both COVID-19, and a range of pressures such as Storm Bella, with such patience, professionalism, and, at times, warming humanity. I have seen our call operatives provide tailored and personal support to customers in vulnerable circumstances, including helping customers access fuel vouchers when they could not contact their suppliers and, with their permission, passing their details onto trusted partners or befriending services. I am pleased to be able to say there have been many such situations in the last year where ENWL staff have 'walked the extra mile'.

The Board's thanks, therefore, are very much directed to our staff and to the leadership team at ENWL. I also need to put on record our thanks to both John Roberts, from whom I took over as Chair in October 2020, and to Chris Dowling, who had been our Chair of Audit Committee. I would also like to pay tribute to my hard-working Board – especially given the additional pressures of the forthcoming price control review by our regulator, Ofgem. With that in mind Rob Holden as the new Chair of Audit Committee has taken on the additional role of fronting up the Board's assurance work on the price control. The other two independent Non-Executive Directors (NEDs) have also taken on additional tasks: Anne Baldock has taken on the role of Board Representative for vulnerable customers, and Susan Cooklin has added to her new role as Chair of Health, Safety and Environment, with that of Board Employee Representative.

These additional roles carried out by my colleagues represent our continuing commitment to best practice as outlined by company law and the latest advice from our regulator, Ofgem. Changes in corporate governance are currently moving quite fast and are of considerable focus in Government. The ENWL Board has sought to be abreast of these changes by holding governance focussed workshops and by having our Company Secretary provide the Board with updates on relevant issues, such as the National Security and Investment Bill.

Last year was the first full year of ownership by our three new shareholders, and on a range of topics the quality of our debate and consideration was improved. Kansai, the second largest power company in Japan, provides invaluable insights into network resilience. Our other main shareholder, Equitix (a leading infrastructure fund manager) brings a breadth of experiences from other infra-structure sectors and the capital markets for our consideration, with further expertise contributed from our most recent shareholder, CNIC.

A time to gear up to the dynamic challenges ahead

Quite apart from the external challenges of managing the pandemic and ferocious storms, the company has sought to be proactive in the increasingly dynamic outlook for the electricity sector – notably at the local distribution level (i.e. where ENWL does its business). At the National level BEIS released its Energy White Paper in December 2020 in which it focused on the digitalisation of networks and "electricity becoming the common energy currency". In the same month the Committee of Climate Change provided its 6th carbon Budget assessment, with more focus on regional initiatives. ENWL has taken its part in responding to these policy directions; we also have the more local challenges set down by Greater Manchester, Cumbria and Lancashire.

Chairman's Statement (continued)

A time to gear up to the dynamic challenges ahead (continued)

I am pleased to report to our stakeholders that under CEO Pete Emery's guidance – together with the Executive leadership team - these matters are being well managed. I am particularly pleased by two themes in our work:

- We are actively collaborating on a range of 'civic duty' matters: covering issues as diverse as domestic violence training, home energy efficiency advice, and working with the Co-operative Society, Citizens Advice (Manchester) and United Utilities on an energy saving scheme. We also have a fascinating 'Madina Institute' project which focused on a mosque-based community scheme to help the most vulnerable.
- We continue to be recognised as a centre for innovation: our electricity voltage scheme (called QUEST) received full Ofgem funding of £8m recently, and we are working with Cadent Gas on developing integrated total energy pathways to net zero, using electricity and hydrogen.

We are in little doubt about how important our role is in delivering the net zero future, and we look forward to assisting our North West regions input into this year's COP-26 the United Nations Climate Change Conference and beyond.

A time to ensure we carry all customers – notably tomorrow's customers

It is often overlooked that Ofgem's statutory remit is not just for 'today's customers' but also for 'tomorrow's customers'. I am very excited that ENWL is giving a good deal of attention to youth awareness campaigns and schemes. For example, we have recently engaged with a Youth focus group on how we can 'transform spaces' around substations. That youth forum encouraged us to keep going with this type of dialogue – and we will.

A time to reflect

I started my annual report reflecting on the operational and business challenges presented by COVID-19, and I want to end on a more personal note. Some of our employees (though thankfully very few) were laid low with COVID-19 and their recovery and well-being is of the utmost importance to us, as is the mental wellbeing of all employees. Sadly, one member of staff passed away from COVID. We recognised that internally at the time and our thoughts remain with the family, friends and colleagues.

Alistair Buchanan CBE
Chairman

Chief Executive Officer's Statement

I am pleased to introduce the Annual Report and Consolidated Financial Statements for the year ended 31 March 2021.

The last year has been a year like no other: the COVID-19 pandemic has impacted on all our lives. The essential service that the Company provides of maintaining the electricity supply to homes and business in the North West meant that our teams were identified by the Government as critical workers. Throughout the year, our colleagues have worked to maintain supplies to schools, hospitals, supermarkets and other essential services, to homes, recognising the reliance placed on electricity by home workers, and provided additional support to our customers in vulnerable circumstances. Our colleagues have adapted to all the changes the pandemic has brought, developing new ways of working and taking pride in the service we deliver to our customers.

The pandemic impacted severely our collected revenues in the year to 31 March 2021 as our revenues are collected based largely on the electricity demand over the network, which fell as businesses faced temporary shut-downs or reductions in activity. In response to this reduction in cash flows, some elements of the planned capital programme have been deferred into the coming financial year, although over 90% of the original capital plan has been delivered. To the extent that we did not collect all our allowed revenues in the year, the regulatory framework adjusts collections in future years, and therefore this does not impact our cash flows in the longer term.

Notwithstanding the impact of reduced revenues, our operational and financial performance has continued to be strong for the year ended 31 March 2021, delivering the lowest level of safety lost time incidents, delivering high levels of network reliability and achieving our highest level in customer satisfaction.

Delivering value for our customers today

We were pleased that our Company is the only network operator group in the country to have achieved green ratings from Ofgem in all categories for each of the last four consecutive years. Furthermore, based on our 2020-21 performance to date, we expect to be reporting a further all-green year for output delivery.

Each year Ofgem rates the networks to show areas of good and poor performance. The six categories are: reliability and availability, connections, social obligations, customer service, environment and safety. Our performance against a wide range of metrics meets or exceeds Ofgem's expectations, and we are delighted that this has continued to be recognised.

We continue to strive to improve our performance and provide the best possible service to our customers in the North West. A customer centric programme of investments in recent years has secured measurable performance improvements as well as cost efficiencies that we share with our customers as bill reductions. These improvements have encompassed investments in network reliability, safety, interactions with customers, vulnerable customer support, investment to deliver the activities for Distribution System Operation ("DSO") and in innovation.

Reliability continues to be a key priority for our customers, likely to become even more important to them as the move to net zero carbon increases our dependency on electricity in all aspects of our lives. Through investment in automation, robust inspection and maintenance programmes and our focus on operational response times we continue to provide industry leading reliability, with a network availability of 99.9%. While we saw a slight increase in numbers of interruptions in the year, in the main associated with bad weather events, interruptions remain 16% lower than at the start of the regulatory period, ED1, which started in April 2016.

Chief Executive Officer's Statement (continued)

Delivering value for our customers today (continued)

We have continued to improve our customer satisfaction performance again in all areas, achieving a significantly improved overall score of 90.8% for the year (2020: 88.5%) compared to 83.1% at the start of the regulatory period. Customer complaints fell 7.5% compared to the prior year and complaints resolution performance has also improved, we achieved an 85.7% 24-hour resolution performance (2020: 84.0%).

Further the enhancement of the support we provide to our customers in vulnerable circumstances has been core to our strategic plans this year; this strategy continues to be informed by our advisory panel, ensuring that the support we are giving customers is focused appropriately and helping us respond to the complexities of the challenge of supporting those most in need in our region. This year, for instance, we became the first Distribution Network Operator (DNO) to introduce an Emergency Credit Voucher scheme to support customers who were unable to top up their prepayment meters during the COVID-19 pandemic. This epitomises helping our customers when they need it most.

We have doubled our spend on Vulnerable Customer support in this year, and introduced Citizens Advice Manchester (CAM) as our Strategic Partner to support fuel poverty, energy efficiency and other conditions which may leave consumers in the region in a vulnerable place as the result of a power cut.

Since the beginning of ED1 in 2016, our priority service register (PSR) of customer details has grown from around 600,000 to a reach of over a million customers. Identifying and providing support for these customers has been the result of a number of targeted actions such as the priority services data share with water company United Utilities to support customers who find themselves experiencing a period of vulnerability.

The investments we have made in recent years are allowing us to deliver performance improvements for our customers and to realise cost efficiencies, which we share with our customers. Our share of the average domestic electricity bill for 2020/21 was £82, compared to the UK average of £95. Since the start of the regulatory period, we have delivered £100 million of efficiency savings which we have shared with our customers, saving our customers £43 million.

We are proud of our record of innovation, which has often led to reduced costs of capital delivery. This year, however, saw us commence the commercial roll out of our innovative Smart Street project. Smart Street improves the efficiency of the network and appliances in customers' homes and businesses, directly reducing consumers' energy consumption and bills, carbon emissions and electricity network losses, all without consumers needing to act. Customers benefiting from this innovation see a reduction in energy use by up to 9% and bills reducing by potentially up to £70 per year for residential customers. This saving is almost equivalent to ENWL's network charges to domestic customers.

We consistently hold our customers' and stakeholders' needs at the heart of our thinking. Our enhanced and strengthened stakeholder engagement through the Sustainability, Vulnerability and CEO Panels is actively securing detailed insights into customers. This insight influences our investment decisions and priorities, with stakeholders' key priorities focussed on delivering the low carbon transition, helping vulnerable customers, providing a reliable service and delivering an efficient connections service, all at an affordable cost. Stakeholder engagement is a real benefit to the business, influencing our decisions, and we were pleased to see this recognised by Ofgem in July with a 1.49 point improvement in our Stakeholder Engagement and Consumer Vulnerability score (SECV) to 6.03 (July 2019: 4.54), placing us 4th of the 5 DNO groups for whom scores have been published.

Chief Executive Officer's Statement (continued)

Delivering value for our customers today (continued)

We are also using this learning to build the stakeholder and customer engagement process to help develop our plans for the next regulatory period, RIIO-ED2 (covering the period 2023 to 2028). I would like to thank all those who have provided input into this process as we move to finalise our business plan submission over the next 12 months.

Leading the way to a low carbon future

The move to a low-carbon economy continues to gather pace, driven by both UK and Regional government commitment to driving down carbon emissions. Our local stakeholders are setting more challenging targets than the UK as a whole, with targets of becoming carbon neutral by 2038 for Greater Manchester and similar targets being established for Cumbria and Lancashire.

As we move towards this low carbon future, new electrical demands for electric vehicle charging, heat pumps and increased local renewable generation will necessitate changes in the way we operate the network. These changes will minimise the cost of decarbonisation by avoiding huge increases in investment requirements, mitigating the increase in consumer bills. We will operate our network more dynamically to ensure the appropriate flow and availability of power where and when it is needed in our region.

The low carbon future and the regional acceleration presents both challenges and opportunities for the business and has become central to our strategic thinking. In particular, our investment in innovation, flexible capacity programs and next generation network management support the transition to the new structure and our role as a DSO that is needed to operate in this low carbon world and enable us to meet the ambition of a low carbon future at an affordable cost, whilst working to ensure that no customers are left behind.

Our commitments to enable our communities to take part in the move to net zero, meant we have been working very closely with our key stakeholders across the region. We have produced decarbonisation pathways for Greater Manchester, Cumbria and Lancashire. Developed in collaboration with Cadent Gas and Northern Gas Networks (the regional gas network operators in our area) these pathways provide clear policy insights and time bounded actions for identified parties to consider on the pathway to net zero. Our pathways work informs decision making and investment planning, both within our business and within our stakeholders' operations, for the adoption of low carbon technologies.

Several major infrastructure investments are now underway that support the Greater Manchester and Lancashire areas to provide increased capacity (notably the South Manchester Enterprise Zone area and Samlesbury Aerospace Enterprise Zone in Lancashire).

Our culture and responsibility framework

Our clear purpose, "Together we have the energy to transform our communities" is underpinned through having high levels of employee engagement. Our two employee surveys this year delivered engagement scores of 78% and 75%. Our aim is to be recognised as an employer of choice, being representative of the communities we serve and to create a work environment where each person can thrive and reach their full potential.

We take on around 20 apprentices each year with 105 recruited since 2016, and improving levels of diversity. Our latest apprentice intake is more reflective of our communities (27% from black, Asian and minority ethnicities and 22% female). We have achieved this through actively raising our profile in underrepresented communities we serve through working with mosques and schools to ensure the entire community we serve consider us an employer of choice.

Chief Executive Officer's Statement (continued)

Our culture and responsibility framework (continued)

We deploy a clear management philosophy, which is embedded in our business. This is built on fundamentals such as strong accountability and ownership, leaders being change agents focussed on improvements, high ethical standards and capitalising on our strengths including innovation.

We are proud to be a real living wage employer and we are also one of the first companies to be awarded membership of Greater Manchester Combined Authority's new Good Employment Charter. In 2021 we achieved the Carbon Literate Organisation (CLO) Bronze Accreditation Through deployment of face to face training and a new online learning package, we have now trained approximately 300 colleagues and are working towards the CLO Silver Accreditation. At the same time, we have continued to work to reduce our business carbon footprint, investing in the roll out of LED lighting, electric vehicle charging points at our depots and work to make our Training Academy and Whitegate depot carbon neutral.

Finally, I would like to thank all our employees who have continued to work to secure our critical infrastructure and continue to operate well during this most challenging of years. In different ways, whether by continuing to work out on the network, by supporting our field staff from home or office, each has played their part in making this a successful year for the business.

Peter Emery
Chief Executive Officer

Strategic Report

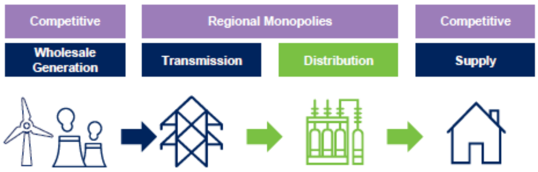
Electricity North West Limited is a private limited company registered in England and Wales, ultimately owned by investors composed of a fund advised by Equitix, a consortium led by KDM Power Limited and Swingford Holdings Corporation Limited, as shown in Note 30.

Company Background

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

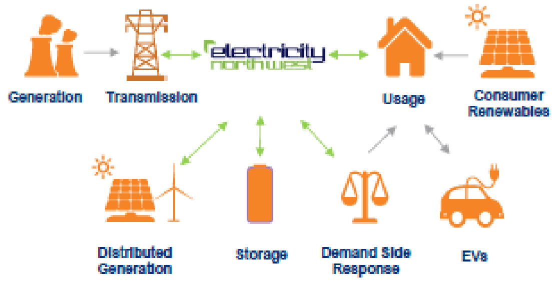
The Company serves approximately 5 million customers at 2.4 million domestic and industrial locations, has circa 1,900 employees and provides a safe and reliable electricity supply, 24 hours a day, seven days a week.

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



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

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



How we charge customers

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

The prices that we charge our customers for distributing electricity are regulated by the Gas and Electricity Markets Authority (GEMA) which operates through the Office of Gas and Electricity Markets (Ofgem), but we recognise that ultimately it is our customers that fund the business and its investments in the network. ENWL's costs are around 15% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £82 per home for the year ended 31 March 2021; this compared to a national average customer bill impact of £95 per home.

Strategic Report (continued)

Regulatory framework

Charges are regulated by Ofgem through the RIIO model, which stands for Revenue = Incentives + Innovation + Outputs. This model determines how much the Company is allowed to charge its customers to fund network investment and operating costs in the RIIO-ED1 regulatory period which runs from 2015 to 2023. The RIIO model is designed to drive real benefits for customers through incentives for good performance in key performance areas. Ofgem has started consulting on RIIO-ED2 which will govern the next price control period, from 2023 to 2028, and we will be submitting our draft business plan for ED2 to Ofgem in late 2021.

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

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

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

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

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

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

COVID-19

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

We have continued to monitor the situation closely throughout the year, responding to changing restrictions locally and nationally and adapting our policies and procedures to ensure the safety of our people and the public. The Company has not received any government assistance in the year.

Supporting our colleagues

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

We have taken steps to protect those of our colleagues who are considered by government to be particularly vulnerable to the effects of the virus. All employees, to the extent their roles permit them to do so effectively, remain working from home, and we have significantly increased our IT and processes to support this throughout the year.

Strategic Report (continued)

COVID-19 (continued)

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

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

Maintaining supplies

In line with our role as an essential service provider, we have continued throughout the pandemic with our essential maintenance of the network, albeit with a view to reducing the length of planned supply interruptions on Customers, as well as responding to power cuts when these occur. Our robust business continuity plans have enabled us to respond to the impact of the pandemic quickly and effectively.

During the pandemic, it has been vital that our engineers carried out maintenance and inspections on the power network, to ensure the resilience of our network is maintained. Where possible, we have limited planned interruptions to last no longer than five hours and provided temporary generation where appropriate.

We continue to work closely with Government and Ofgem as well as the industry body, the Energy Networks Association, to ensure a consistent industry-approach.

Supporting our customers and communities

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

We know that the COVID-19 pandemic had a significant impact on the wellbeing of the people and businesses in our region. The Company commissioned independent research on the impact of the COVID-19 pandemic on customers with vulnerabilities to identify emerging trends and challenges.

The analysis assessed risks and impacts around 18 vulnerability factors, grouped under six headings, and provided data on the most negatively impacted geographic and demographic groups in our region.

The report has been shared with our partners, and used to target actions from the Company, both independently and in collaboration with partners, to provide support and target Priority Services registration. A further report has been commissioned to provide on-going data and insight.

Our colleagues have continued to show their commitment to the communities we serve, with a number of local initiatives including collecting food and supplies for local food banks and hospitals and working in partnerships with charities, such as the Bread and Butter Trust, to deliver food bundles to families in our region.

Maintaining financial resilience

Like most businesses, the COVID-19 pandemic has had a direct effect on our cost base. During the year we have provided additional investment in remote IT access to allow colleagues to work from home. We have also seen increased costs for the provision of PPE and experienced some reductions in revenue in the area of business connections.

Strategic Report (continued)

COVID-19 (continued)

Our main revenues are collected, in-part, based on the demand over the network. With the national and local lockdown restrictions, this demand has naturally fallen over the year, resulting in a short-term reduction in revenue recorded and operating cashflows.

To the extent that we have not collected all our allowed revenues in this year, the regulatory framework adjusts collections in future years, and therefore this revenue timing will not have a lasting economic impact on us.

Our cash is collected from energy suppliers, rather than end customers. During the year we supported an Ofgem led supplier payment deferral scheme, allowing delayed payment from energy suppliers where they were seeing a reduction in their own cash flows. Through this scheme, we offered £24m, and provided £2m, of cash flow support to the industry.

Our funding position continues to be strong, through careful management of our liquidity and working capital. As at 31 March 2021, ENWL had £322.4m (2020: £56.2m) of available cash and £50.0m (2020: £20.0m) of available but undrawn bank facilities, representing available liquidity of £372.4m (2020: £76.2m), £200m of which will be utilised to repay the inter-company loan falling due for repayment in July 2021. There is also headroom against all compliance ratios and there are no re-financing obligations due in the next 12 months that are not already covered by the available liquidity noted above.

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

Other External Factors

Ofgem consultation on the RIIO-ED2 framework, covering the period from 2023 to 2028, is underway. Ofgem's statements on RIIO-ED2 clearly reflect the importance of the electricity distribution sector in enabling the transition to a low carbon economy and also acknowledge the evolution of DNOs to perform Distribution System Operations (DSO) as part of this transition. The next year will see Ofgem decide on many of the aspects of the RIIO-ED2 price control framework which are to be developed to meet these and other strategic challenges. We continue to engage in, and influence, the RIIO-ED2 process to meet the needs of our customers and other stakeholders.

As part of this engagement process, we look forward to the opportunity to make representations at the Competition and Markets Authority (CMA) hearing in respect of the appeal by Wales and West Utilities (WWU) of their price control settlement, and the cost of debt allowance setting mechanism period, given the precedent this can set for RIIO-ED2. We, like WWU, are concerned to ensure that the cost of debt, efficiently incurred, will be appropriately funded.

We also monitor the continuing environment of political and economic uncertainty. Brexit has had a limited direct impact, aside from a modest planned increase in stock levels to manage supply chain risk, which has proved helpful in managing the COVID-19 crisis.

Having considered the factors noted above there are no material impacts on either the going concern statement on pages 36-37, or the period covered by the viability statement (page 37).

Strategic Report (continued)

Purpose, principles and corporate goals

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

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

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

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

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

Safety and Environment

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

Operational safety

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

In 2017, we embarked on a company-wide initiative to create an enhanced safety culture, key to managing risk. In the year ended 31 March 2021 we have continued to review and improve our safety management system which is certified to the international standard ISO 45001.

We finished the year ended 31 March 2021 with a lost time injury frequency rate 0.012 (2020: 0.024) having had just one lost time injuries in the year (2020: 2). This contrasts to 2017 when we had seven lost time injuries and reflects the sustained improvement since we embarked on our safety initiative. The total recordable injury rate was 0.18 (2020: 0.13).

We are never complacent about safety and in the year to 31 March 2022 we will continue to embed the changes introduced as well as improving our arrangements for the selection and management of contractors.

Strategic Report (continued)

Safety and Environment (continued)

As our safety journey continues, we are increasingly focused on the quality of, and learning from, safety observations and positive challenges, rather than focusing on the volume of these. Safety observations in the year were recorded at 9,286 (2020: 11,621), plus 1,878 positive challenges (2020: 2,048).

Asset safety

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

During the year ended 31 March 2021 the Company made further progress in our ED1 programmes of work designed to reduce further the risks associated with link box failure and rising and lateral mains (RLM) in multi occupancy properties.

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

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

Environmental performance

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

In terms of our own direct operational impact on the environment, our principal performance indicator is the level of carbon dioxide emissions equivalent (tCO_2e).

This measure covers the environmental impact both from the use of fossil fuels in vehicles and generators and of energy in buildings, as well as the impact of Sulphur Hexafluoride (SF_6), which is a strong greenhouse gas historically used as insulation in electrical equipment.

At the start of the current regulatory period we made a commitment to our customers to reduce carbon emissions, in tCO_2e, by 10% from a 2014/15 base year, by 2020. Through targeted investment in the efficiency of our buildings and other efficiency measures, the level of emissions reduction has exceeded this level, having been reduced by 43% from 2014/15 levels to 14,095 tCO_2e in the year ended 31 March 2021. Emissions in the year reflect some benefit from reduced business travel during the pandemic. However, we are working to embed some of the savings as permanent benefits. In addition to this reduction, our CLASS innovation has reduced carbon-based generation in the economy, by avoiding the need for traditional generation, saving approximately 4,500 tCO_2e.

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

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

Strategic Report (continued)

Safety and Environment (continued)

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

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

We have rolled out electric vehicle (EV) charging points at all of our depots and we are incentivising colleagues to change to electric vehicles, through including two electric vehicles on our company car list and offering an increased cash allowance for colleagues who opt to purchase an EV. We have also engaged with local authorities and businesses across the region to support them with this transition, promoting the mass adoption of EV technology.

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

During the year we launched a new section of our website 'GoNetZero' which brings together research with businesses across the region looking at the top 5 things businesses can do to decarbonise, barriers they face when adopting low carbon technologies such as EV charging and PV Solar panels. Further work is ongoing looking at sustainability perceptions, how businesses can adopt low carbon technologies and what customers are willing to pay for more sustainable services and products. The information is available on our website and will be reviewed regularly ensuring the accuracy and relevance of the information that we provide.

Our environmental impact is also visual. During the year the Company undergrounded 11.2km of overhead lines and removed 131 poles to improve visual amenity, working with regional stakeholders to identify the schemes of most benefit to our communities, whilst balancing against this the increase in customer bills that this work generates.

Reliability

As we are ever more dependent on electricity, customers say that "keeping the lights on" remains one of their top priorities. This is achieved by targeted investment in the network both to limit the number of faults but also to limit the number of customers affected by those faults that do occur.

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

In the year ended 31 March 2021, the average number of interruptions per 100 customers (CIs) at 30.7 (2020: 27.8) was slightly behind last year, although it was still our second best ever performance, and significantly outperformed the target of 46.4 set by Ofgem.

Strategic Report (continued)

Reliability (continued)

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2021 was 28.2 (2020: 27.2), which also significantly outperformed the target of 40.8 set by Ofgem. In both cases, these performances have been driven through a combination of investment in automation and in the network, as well as improved processes and focussed management.

This focus on restoration performance has delivered a record performance in low voltage (LV) restoration times, delivering a 16-minute improvement in average restoration times, reducing our three-year average (2018 to 2020) of 159 to 143 minutes in the year.

This performance is due to our strengthened storm preparation, operational response and further strengthening of our management of risk during the planning of works to minimise outages.

Network reliability continued to be high with a network availability of 99.995%.

Key to delivering reliability to customers is the improvement to the network's resilience to extreme weather events. This year we have further strengthened our approach to preparing and managing the network during these events as well as continuing our programme of proactive investment. We continue to invest significant funds in flood defences and interconnectivity to provide protection to a 1 in 1000-year flood risk at key sites. This year we experienced two named storms (Bella and Christoph). In storm Christoph we witnessed the highest LV fault volume in over 5 years, yet in that month experienced one of our best restoration performances.

Most customers enjoy excellent levels of reliability, but we recognise that there is variability in the level of service experienced by some. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. During the year we have continued to invest in schemes to aim to reduce long term the numbers of worst served customers, with the number of customers meeting this Ofgem definition remaining low at 774 in the year ended 31 March 2021 (2020: 268).

Although we have seen an increase in numbers over the year, by proactively targeting areas experiencing poorer performance, we expect to achieve our target of having no customers meeting this definition of 'worst served' by 2023, noting there can be some year on year variability caused as much by the probability of any given circuits having issues as by weather events.

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

We will continue to prioritise improving reliability. Next year we will migrate to our new Network Management System which will further enhance the automated functionality of the network.

Strategic Report (continued)

Investment in an affordable and sustainable network

In the year ended 31 March 2021, a total network investment programme of £74.6m was delivered (2020: £88.8m), a reduced level reflecting the desire both to maintain the reliability of the network, but also reduce the level of disruption to customers during the pandemic. The current network has been installed over many decades and a significant proportion of the programme relates to replacing existing equipment at, or approaching, the end of its life with modern equivalents, and it was important that this work continued as much as possible.

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

Customer

In 2020/21 we received a discretionary reward of £0.5m for our successful Celsius project, again recognising our success in innovation.

Supporting customers in vulnerable circumstances is core to our customer strategy. In the last year we doubled our spend on Vulnerable Customer support and introduced Citizens Advice Manchester (CAM) as our Strategic Partner to support fuel poverty, energy efficiency and other conditions which may leave consumers vulnerable in the region as the result of a power cut.

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

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

We maintain a Priority Service Register (PSR) to identify those customers who are most dependent on our services. In the year ended 31 March 2021, we have continued to promote our PSR and have developed our strategy to offer more targeted services to higher risk customers, for example those who are medically dependant on electricity. Investment in staff training has also been a focus in order to help facilitate this.

The continued growth of the PSR is testament to the work we have done in raising awareness of the PSR across the region. We have just over one million customers on our PSR. This tells us that almost 20% of our customer base consider that they need extra support during a power cut. Support is provided through our dedicated Customer Welfare Team, over 20 external specialist support agencies, multiple partners and all our customer facing teams.

In delivering for our priority customers we have managed to reach out to over 544,517 customers this year (2020: 481,000) which exceeded our target. These communications were carried out through multiple channels including letters, email and telephony.

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

Strategic Report (continued)

Customer (continued)

Through the introduction of referral partnerships, we are now helping to provide our customers with advice on issues such as energy saving and income maximisation, as well as offering debt advice, replacement white goods, free energy efficiency measures and referral to other relevant services.

Generally delivering excellent customer service is important to us. Customer satisfaction levels have improved year-on-year throughout RIIO-ED1, achieving an overall score of 90.8% in 2021 (2020: 88.5%) a highest ever score for the Company. The relative ranking among the DNOs was 12th (2020: 12th) with all DNOs showing performance at very similar levels.

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

The number of complaints we receive has reduced significantly during the year, with complaint volumes down 3.3% compared to the prior year. We track the time taken to resolve complaints when we do receive them.

The overall complaints performance within the year continued to outperform the Ofgem penalty incentive and reflects a significant year on year reduction, with a complaint metric of 1.76 (2020: 2.00), with 85.7% of complaints resolved in 24 hours (2020: 84.0%), placing us at 8th position in the DNO league table. This complaint metric reflects the percentage of complaints resolved within 24 hours, combined with the percentage of complaints resolved within 31 days.

We continue to focus on Guaranteed Standards of Performance for Connections. While levels have improved in the last two years from historic performances, we are still not at the level of service that we want to give to our customers and will be continuing to focus on making more improvements next year.

People

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

We strive to balance the right skills and people resources to support the business now and in the long term, supported by our people strategy of attract, develop and retain.

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

Climate is the measure the Company uses to quantify 'how it feels to work here' and, in turn, makes the link between this 'feeling' and how the Company performs.

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

Half yearly colleague surveys are undertaken to measure engagement and levels of agreement with the Company's identified climate priorities. Leadership teams are responsible for reflecting and identifying areas for improvement between each survey to continue to drive engagement and performance.

Colleague engagement scores are high, with a survey response rate of 76.2%, a total of 1,556 colleagues. The latest survey in February 2021 had an overall employee agreement rate of 75.46% which is in line with our target of 75% agreement. Our colleagues rated pride, customer focus and health and safety highest.

Strategic Report (continued)

People (continued)

The Company sets clear policies to support and reflect the diverse communities we serve which act as a platform of our developing culture. We are committed to creating a great place to work, where people can be themselves and have a true sense of belonging. It is crucial to integrate equality, diversity and inclusion in everything the Company does.

During the year we have continued our diversity and inclusion journey, working hard to ensure that our workforce is more representative of the communities we serve, with a particular emphasis on attracting female and underrepresented groups into the business. We have achieved 30% female representation in senior leadership roles, while we are continuing to make good progress there is still more to be done.

Working with our local communities, including successful partnerships with local mosques and schools, we have seen a rise in minority ethnic candidates joining the business rise from 2% to 4% in the last two years. Our apprenticeship appointments in 2020 delivered a 50% split of diverse candidates into roles.

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

The business will modify equipment and practices wherever it is safe and practical to do so, both for new and existing employees.

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

We have been an accredited Real Living Wage Employer since 2019 and ensure our supply chain also honour the real living wage commitments.

Corporate Social Responsibility

Our Responsibility Framework

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

Aligned to our Purpose, the framework is structured to deliver responsible business practices for our people and partners, our communities and our environment. Over recent years, teams across the business have made significant progress across all areas of the framework and in particular around our commitments to lead the North West to Net Zero. This year the coronavirus pandemic restrictions have affected our ability to deliver some of our commitments, however, we are proud that our flexible approach has continued to deliver alternative benefit to our communities.

Strategic Report (continued)

Our Responsibility Framework (continued)

Highlights from the strategy include:

In **our people and partners** section, we are proud to have been critical workers throughout the coronavirus pandemic and continue to deliver an essential service to our communities. It has been really important to make sure that we have looked after ourselves and we are proud to have prioritised support to colleagues with our enhanced mental health and wellbeing programme through this challenging time. This year the Company has further progressed our policy to ensure we are working towards having a workforce which reflects the communities which we serve. We have implemented a new Applicant Tracking System which improves accessibility for harder to reach candidates and continued to work within our communities to support and build a pipeline of diverse candidates for our roles. The Company is proud to be a Real Living Wage employer, a member of the Greater Manchester Combined Authority Good Employer Charter and a founding partner of the Utilities National Work Group on Modern Slavery. Throughout the year we have worked with our supply chain to promote similar good practices.

In **our communities'** section, our colleague-led approach to fundraising was impacted by reduced fundraising events during the pandemic lockdowns that affected the region for most of the year. To ensure our local community support continued our eleven local teams made over 130 donations and identified and supported 87 charities. Colleagues across the Company volunteered more than 500 hours with local food banks and partner organisations. It was also a critical time for our partners supporting people in vulnerable circumstances, our ongoing financial support for projects enabled many to continue to provide essential support services and prevented some staff being placed on furlough.

Our in-school education programme was impacted by the changes and although we were no longer able to offer our Bright Sparks curriculum based workshops we engaged with teachers and developed new online resources on our powering your future pages on the website and commissioned new Bright Sparks online lessons along with a video.

In **our environment** section, the Company has committed to an ambitious plan to tackle our operational carbon footprint and has progressed the development of zero carbon buildings, installation of electric vehicle chargers at our depots and further roll out of electric diggers and operational equipment. This year we have seen the launch of a suite of on line resources to support businesses and customers on their decarbonisation journey along with continued support for community and local energy projects across the region.

This year as part of our biodiversity and net zero commitments we have initiated a pilot partnership with City of Trees which will see more than 700 trees planted. Our successful Transforming our Spaces, wildflower, programme was set back by the pandemic during the spring planting season, although we implemented an autumn sowing regime, once restrictions allowed, and hope to continue to see the benefits of increasing local amenity value and biodiversity.

Responsibility Benchmarks

We have benchmarked our Responsibility approach against the Business in the Community (BITC) Corporate Responsibility Index for a number of years, this year receiving feedback from the new BITC Tracker. This new approach aims to benchmark material issues aligned to the United Nations Sustainable Development Goals to inform business improvements.

Strategic Report (continued)

Responsibility Benchmarks (continued)

The Tracker score showed that the Company is leading the benchmarking group and scored significantly higher than the cohort average. This was so particularly in the material areas of health and wellbeing, and good work and inclusive growth, as well as within both the core areas of Purposeful Leaders and the Leadership at Every Level. We will continue to work with BITC to assess further areas of our framework.

Stakeholder engagement

ENWL is committed to ongoing stakeholder engagement and recognises that such engagement enhances the Company's ability to achieve its aims and objectives and to provide the highest level of service at a price customers can afford.

This year we seen a significant increase in engagement as our usual RIIO-ED1 involvement with our stakeholders and advisory panels was supplemented by engagement around RII0-ED2.

Ofgem has stated that it is committed to giving customers a stronger voice in setting outputs and shaping and assessing the ED2 business plans. The Company recognised that in addition to existing customer service research and stakeholder engagement, we could further improve customer and consumer engagement for the business plan. We broadened out our research for customers (those who pay electricity bills) and consumers (those who use electricity) and recognised the opportunity to complement this with qualitative and quantitative feedback from customers and consumers.

This year we had more than 20,000 interactions with customers and consumers bolstered by new channels such as our online community and deliberative public panel. The RIIO-ED2 business plan development has also been challenged by two phases of willingness to pay research and acceptability testing which has been overseen and challenged by our independent Customer Engagement Group (CEG).

The CEG has met twelve times throughout the year and have provided valuable insight as we have developed our business plan.

We have also continued to embed and enhance stakeholder engagement for RIIO-ED1 working closely with our independently chaired Consumer Vulnerability and Sustainability Panels alongside our stratgic Chief Executive Advisory Panel. The panels have met 33 times this year giving 57 hours of engagement to the Company.

These panels and our three Regional Advisory Panels, held annually in Greater Manchester, Lancashire and Cumbria have helped inform our Executive team and business decision-making for both ED1 and our futture ED2 business plan. This year our panels were held virtually for the first time.

This year we also launched our first ever stakeholder satisfaction survey. Over 200 participants responded achieving excellent representation across our mapped stakeholder community. The survey measured overall satisfaction, attitudes towards the relationship held, future engagement preferences and improvement areas. The results indicated a strong correlation between the frequency of engagement, stakeholders' familiarity with our business and overall mean satisfaction (81%). This research told us that our engagement is inclusive, meaningful and mutually beneficial, During COVID-19 engagement has been migrated online and become more frequent and stakeholders have indicated they would like to continue with this model in the future with only 3% indicating they wished to engage less often.

To support adherence to these initiatives, the Company has engaged auditors for a non-financial assurance of its Stakeholder Engagement and Customer Vulnerability Submission and its commitment to Accountability Principles for Sustainable Development (AA1000APS).

Strategic Report (continued)

Section 172 Statement

Introduction

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

The impact of the COVID-19 pandemic on the operations and finances of the business, along with the actions taken to support our employees and communities through these unprecedented times is discussed on pages 8 to 10 of the Strategic Report.

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

The Board of Directors of Electricity North West Limited consider, both individually and together, that they have acted in a way they consider to be in good faith and would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in decisions taken during the year ended 31 March 2021. In particular, this can be demonstrated by reference to our RIIO-ED1 'Well Justified Business Plan' for the period 2015-2023 and our emerging plans for RIIO-ED2:

- Our RIIO-ED1 plan was designed to have a long-term beneficial impact on the Company to contribute to its success in delivering a first-class service and ensuring the network is more reliable for customers in the North West of England to 2023 and beyond.
- We will continue to operate our business in line with our regulatory targets. Our plan is centered around four key themes: customer service, reliability, affordability and sustainability.
- Our 'Well Justified Business Plan' for 2015-2023 is available on our website https://www.enwl.co.uk/about-us/regulatory-information/business-plan/
- As noted on page 10, during the year ended 31 March 2021 we conducted extensive stakeholder engagement to inform our draft business plans for the RIIO-ED2 period, covering the period 2023 to 2028. These plans will be subject to further stakeholder review and influence in the year ending 31 March 2022.

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

Employee engagement and reward

Our employees are fundamental to the delivery of our plan. We aim to be a responsible employer and we are delighted that all our hard work meant we were selected, along with only five other employers, to be the first to move from being a supporter to members of the Greater Manchester Good Employment Charter. Our values resonate with those of the Charter and the membership recognises our efforts in providing good workplace practices and commitment to continually improving employment standards within our organisation and helping others to do the same.

Our business model is to employ over 90% of our workforce directly with clear and consistent terms and conditions so our colleagues understand their rights and benefits whilst in employment with us. We do not use zero-hour contracts as we recognise the value to our people of ensuring that they have security of income and are able to manage non-work commitments.

Strategic Report (continued)

Section 172 Statement (continued)

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

Safety is a key priority: it is embedded in everything we do as a business. Our Safety Output delivers absolute compliance with all relevant legislation and regulation - see further information in the safety section of the Strategic Report. We have dedicated Occupational Health partners, health surveillance, health checks and both company-funded and voluntary medical plans, discounted gym memberships and dental care to help our employees stay physically healthy and support them if they become unwell. In 2018 the Company launched a new approach to mental well-being and we were recognised as a Time to Change employer, with a focus on tackling discrimination and stigma in respect of mental health in our workplace. Guidance and support for managers was rolled out and we had 50 volunteers step forward to become Wellbeing Champions. We have bought in the use of Cognitive Behavioural Therapy and we are developing partnerships with mental health charities who can support the work we want to do. Our Mental Health Steering Group is led by one of our Executive Team and drives the continual improvement for mental health that we wish to achieve as an organisation for our people.

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

Each year our Chief Executive and members of the Executive Leadership team undertake a roadshow, necessarily virtually this last year, where they visit every depot and office to deliver updates on the company performance, our plan for the year ahead and invite questions and engagement direct from our employees.

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

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

We have a dedicated Steering Group, led by a member of the Executive Team, which focuses on addressing the diversity challenges we have as a business and as a sector. We have established partnerships with six local schools and two local mosques to raise awareness of what we do. We are a Forces Friendly employer, a disability confident employer and have signed the social mobility pledge. We are working hard to encourage those from a diverse range of backgrounds to consider us as a potential future employer and for us to become representative of the communities we serve.

Engagement with suppliers and customers

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

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

Strategic Report (continued)

Section 172 Statement (continued)

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

Low carbon initiatives

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

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

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

We have started the roll out of 118 EV charging points for colleagues and visitors to our sites, with 13 chargers already installed. We are also working with the landlords of the sites we lease to make EV charging available there.

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

COVID-19

The impact of the COVID-19 pandemic is discussed in detail within the Strategic Report. We have continued to provide support to our employees and communities through these unprecedented times as we continue to deliver our essential services to customers. No employees have been furloughed.

Responsible business

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

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

Strategic Report (continued)

Anti-corruption and anti-bribery

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

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

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

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

Gender and diversity

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

Turnover

2021 - 156 leavers (2020: 139 leavers)

Training courses delivered

2021 – 266* (2020: 309*)

Training course attendee sessions

2021 – 7,630 (2020: 8,729)

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

Workforce composition at the year-end 31 March:

	2021 Males	**2021 Females**	2020 Males	2020 Females
Total employees	**1,440**	**482**	1,442	486
	75%	***25%***	*75%*	*25%*
Senior managers	**32**	**13**	34	11
	71%	***29%***	*76%*	*24%*
Executive leadership team*	**6**	**2**	7	1
	75%	***25%***	*87%*	*13%*
Non-Executive Directors	**7**	**2**	9	2
	78%	***22%***	*82%*	*18%*

* The Executive leadership team figure includes two Executive Directors.

Strategic Report (continued)

Environment

Environmental protection continues to be one of our core values, and we remain committed to achieving the highest possible standards of environmental performance. The year ended 31 March 2021 saw the lowest ever level of carbon emissions, in part due to the operational changes the business has adopted through the COVID pandemic. However, other opportunities to reduce our carbon footprint and to embed some of these savings permanently continue to be targeted.

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

- Considering asset replacement of assisted cables, the programme focussed on 33kV in FY21. We installed 10.38km of non-pressurised cable in replacement of 1.030km of 33kV oil cable and 2.455km of 33kV gas cable.
- Overall leakage of oil from cables was 16,998 litres which is a significant improvement over the previous year's performance of 21,616 litres. This is a 21% reduction on the previous year's performance and meets our business plan commitment target.
- Overhead lines in the National Parks and Areas of Outstanding Natural Beauty were replaced with 11.2km of underground cable.
- We continue to deliver our 'Leading the North West to Zero Carbon' plan, decarbonising our own operations, and helping businesses, customers and colleagues across the region to do the same.
- Zero breaches were recorded by the Environment Agency against our Environmental Permits for the storage and treatment of electrical insulating oil, resulting in Band A ratings against all sites (CORD, Kendal, Oldham, Workington).

The continual improvement and focus on carbon reduction initiatives enabled us to achieve the recertification of Environmental Management System ISO 14001 and Energy Management System certified to ISO 50001. The recertification was recommended by external auditors, Alcumus, following COVID compliant remote surveillance in May and October 2020.

Business carbon footprint

The Company's business carbon footprint (excluding losses) for the year was 14,095 tCO2e, which is a significant reduction of 22% from the previous year (2020: 18,051 tCO2e), which was itself a reduction on the previous year (2019: 20,417 tCO2e). Included in these figures is the impact of a decrease of 16% in emissions of SF6.

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

A total of 16,850,605 kWh of electricity, equal to 3,929 tCO2e, was purchased by the Company for its own use, including for the purposes of transportation. The tCO2e was calculated by multiplying the total consumption in kWh by the UK Government Conversion Factors for greenhouse gas emissions.

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

The Company's annual emissions are equivalent to 6.89 tCO2e per employee, this is a reduction of 1.88 tCO2e per employee against last year's consumption.

Strategic Report (continued)

Business carbon footprint (continued)

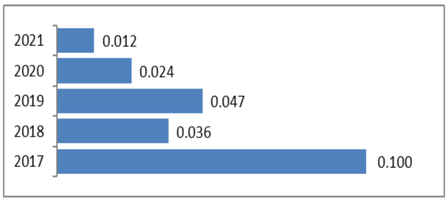
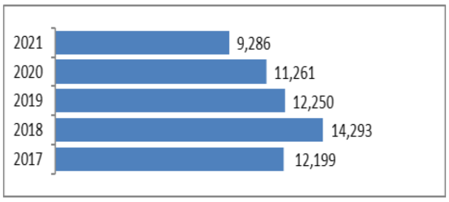
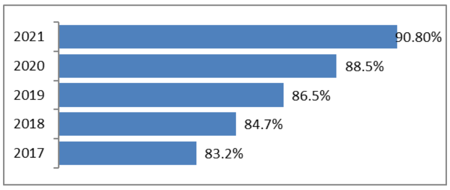
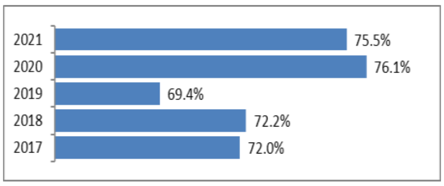
Electricity losses are measured as the difference between energy entering the network (generation) and energy exiting the network (demand). Whilst it is impossible to eliminate these losses, we do take steps to minimise them and we will be taking measures to reduce losses as part of our commitment to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

	2021 tCO_2e	2020 tCO_2e
Scope 1		
Operational transport	**5,697**	7,393
Business transport - road	**925**	1,343
Fugitive emissions	**1,504**	1,788
Fuel combustion	**1,972**	2,560
	10,098	13,084
Scope 2		
Buildings energy usage	**3,995**	4,845
Scope 3		
Business transport - rail	**0.4**	22
Business transport - air	**1.6**	100
	2	122
Business Carbon Footprint (excl. losses)	**14,095**	18,051
Electrical losses[1]	**283,209**	293,794
Business Carbon Footprint (incl. losses)	**297,304**	311,845

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

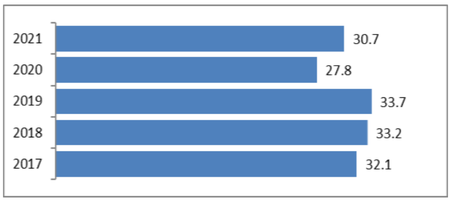
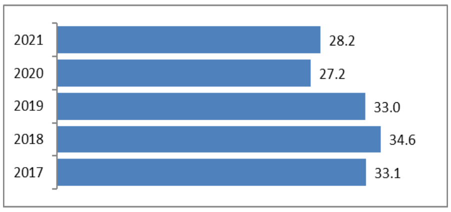
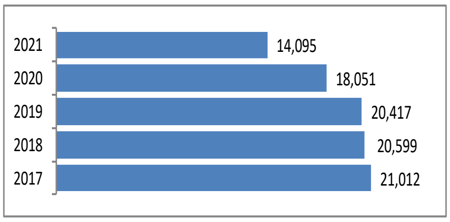
Strategic Report (continued)

Key Performance Indicators

	KPI	Definition and comment	Performance
Safety	Lost time incident frequency rate	**Definition**: The total number of reportable incidents in the period divided by the number of hours worked in that period by employees and contractors' employees, multiplied by 100,000 hours. **Performance**: During the year the Company saw a reduction in lost time incidents, with one employee lost time incidents and none involving contractor employees (2020: two). The corresponding lost time incident frequency rate was 0.012 (2020: 0.024).	0.012 
	Safety observation reporting	**Definition**: Safety observations, including near miss reports, are collected to provide valuable information on hazards and behavioural attitude. Safety observations reporting is actively encouraged to promote a safety culture. **Performance**: In the year, the number of safety observations reported was 9,286 (2020: 11,261), well above the target of 8,000. During the year we have continued to place greater emphasis on improving the quality and level of 'behavioural challenge', rather than simply overall volumes.	9,286 safety observations 
Customer	Overall customer satisfaction	**Definition**: The overall customer satisfaction score is a composite score from Ofgem surveys that assesses levels of customer satisfaction for connections quotations and delivery, interruptions and general enquiries. **Performance**: Overall satisfaction improved to 90.8% for the year, an all-time high and up from 88.5% in the prior year. It reflects the ongoing focus on improvement actions.	90.8% 
People	Employee engagement	**Definition**: Employee engagement is measured via an employee survey which, through a series of questions, provides details of overall employee engagement and how employees feel about the 'working climate'. **Performance**: Overall employee engagement achieved 75.5% for the year, a slight decrease from 76.1% in the prior year.	75.5% Climate score 

Strategic Report (continued)

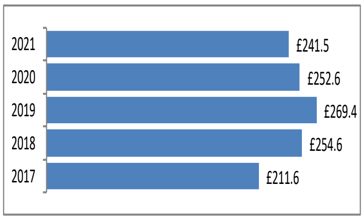
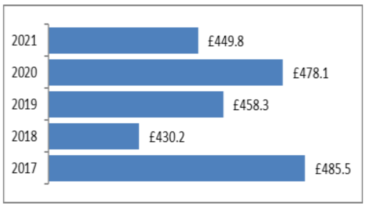
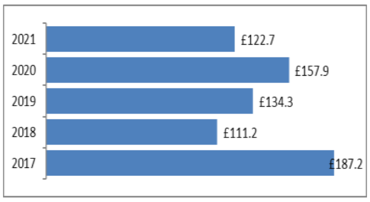
Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Reliability	Customer interruptions (CIs) [2]	**Definition**: CIs represent the number of interruptions our customers' experience. It is calculated by taking the total number of customers affected divided by the total number of customers connected to the network, multiplied by 100. It excludes exceptional events. **Performance**: The result of 30.7 for the year significantly outperforms the Ofgem target of 46.4.	30.7 CIs 
	Customer minutes lost (CMLs) [2]	**Definition**: CMLs represent the time customers are without power in the event of an interruption. It is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents, excluding exceptional events, and dividing by the number of connected customers. **Performance**: The result of 28.2 for the year significantly outperforms the Ofgem target of 40.8.	28.2 CMLs 
Sustainability	Carbon footprint (excluding electrical losses)	**Definition**: Carbon footprint measures the impact of our operations on the environment and is calculated in line with Ofgem guidance. The calculation excludes electrical losses arising from the operation of the network which cannot be directly controlled or accurately measured. **Performance**: Our carbon footprint continues on a downward trajectory, reducing by 22% from the prior year. FY21 has seen the best overall environmental performance to date due to the operational changes the business has adopted through the COVID pandemic.	14,095 tCO_2e 

[2] The year ended 31 March 2020 figure includes assumptions for exclusion of exceptional events and is yet to be audited by Ofgem.

Strategic Report (continued)

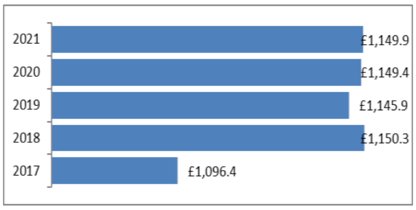
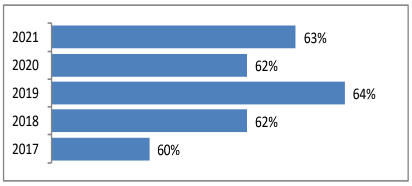
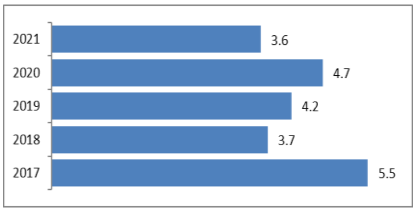
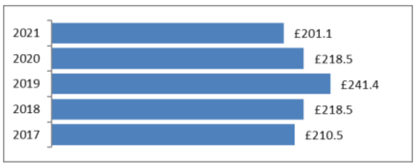
Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Affordability	Total Expenditure[3]	**Definition**: Totex is a key financial measure for the business. It is a regulatory abbreviation which stands for total expenditure. It includes the money we spend on running our business day-to-day, and the amount we invest in new assets through our network investment programme. We aim to deliver efficiencies in Totex which we share with our customers and that helps reduce customers' bills. **Performance**: Totex for the year ending 31 March 2021 was £241.5m compared to an Ofgem allowance of £275.8m in outturn prices. Expenditure was slightly lower than the previous year as some capital works were deferred to manage the impact of COVID-19.	£241.5m 
Financial KPIs	Revenue	**Definition**: Revenue is largely fixed over time, but can vary through over/under recovery as demand varies against the forecasts used to set tariffs, and other adjustments for, for example, incentive revenues. It is determined by Ofgem to allow recovery of efficient costs to maintain the network. This revenue is profiled over RIIO-ED1. Additional revenue is generated through charges for new connections to the network, along with an opportunity to earn incentive revenue for delivering improved performance. **Performance**: Revenues have decreased from the prior year, mainly reflecting the reduction in electricity demand due to COVID-19. The revenue under- recovery for the year was £21.7m (2020: £9.7m over-recovery). This will be corrected through adjustments in pricing in two years' time.	£449.8m 
	Profit before tax and fair value movements (PBTFV)	**Definition**: PBTFV is the profit before tax of £65m (2020: £146m) adding back the £58m FV loss (2020: £12m loss), per Note 9. **Performance**: PBTFV has decreased to £122.7m (2020: £157.9m), mainly as a result of the lower revenues. PBTFV excludes the significant capital investment that we make in the network each year. Financial performance is better understood through the Totex measure comparison with allowances.	£122.7m 

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

Strategic Report (continued)

Key Performance Indicators (continued)

	KPI	Definition and comment	Performance
Financial KPIs	Net debt	**Definition**: Net debt includes the total borrowings of £1,472m (2020: £1,206m) per Note 19, net of cash and cash equivalents and money market deposits of £322m (2020: £56m) per Note 17. **Performance**: There is no significant movement in the net debt position compared to the prior year.	£1,149.9m 
	RAV gearing	**Definition**: RAV gearing is measured as borrowings at nominal value, plus inflation-linked debt accretion where applicable, net of cash and short-term deposits divided by the estimated RAV of £1,948m at March 2021 (2020: £1,896m), as defined by the Financing Agreements. **Performance**: The RAV gearing is under the targeted Ofgem level of 65%.	63% 
	Interest cover	**Definition**: Interest cover is the number of times the net interest expense, adjusted for indexation and capitalisation of borrowing costs, is covered by operating profit from continuing operations, as defined by the Financing Agreements. **Performance**: Interest cover has decreased due to the reduced revenue collected in the year and COVID restrictions impacted electricity demand, this being the main contributor to the £36m decrease in Operating Profit. Interest expense (excluding inflation movements on inflation-linked instruments and FV movements) remained broadly in-line with the prior year.	3.6 times 
	Capital expenditure	**Definition**: This represents investment in the network to maintain its reliability and resilience for future customers. The figure includes total additions to property, plant and equipment and software. **Performance**: We continue to invest to improve the quality and reliability of the network. The reduction in spend compared to the prior year is mainly as a result of the impact of COVID-19.	£201.1m 

Strategic Report (continued)

Financial Performance

Overall performance reporting

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

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

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

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

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

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

Return on Regulated Equity

Ofgem has been working with the network operators, consumers and other interested stakeholders, to develop performance reporting measures that more accurately reflect the return to investors.

Ofgem presents the results of the networks as a Return on Regulated Equity (RoRE).

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

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

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

Strategic Report (continued)

Financial Performance (continued)

Return on Regulated Equity (continued)

After taking into account the timing of expenditures against the timing of allowances and outputs (referred to as an enduring value calculation), our average post-financing RoRE for the first six years of RIIO-ED1 is at an annual rate of 7.6% on an actual equity basis.

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

This is the principal element reducing our performance to the overall 7.6% per annum, real, after tax and interest.

RoRE Components Expressed on notional and actual equity basis	ED1 to 2021 £m
Notional equity returns	
Allowed Equity Return	6.0%
Totex outperformance	1.9%
Incentive performance	2.2%
RoRE - Operational performance (notional)	10.1%
Debt performance	(1.7)%
Tax performance	(0.2)%
RoRE (Notional regulatory equity)	**8.2%**
Adjustment to actual equity	(0.6)%
RoRE (Actual equity)	**7.6%**

	2021* £m	2020 £m	2019 £m	2018 £m	2017 £m
Profit after tax	53.4	102.1	71.8	116.3	71.0
Adjustments:					
RAV	(21.4)	(32.8)	(57.2)	(55.8)	(49.6)
Deferred Taxation	(11.7)	12.4	(6.9)	5.9	(26.1)
Indexation and Fair Value Movements	67.4	32.6	70.0	6.0	136.8
Movement in Other Regulatory Balances	(33.7)	(64.9)	(14.7)	(24.2)	(97.5)
Post - financing return	54.0	53.0	63.0	48.2	34.6
Average return for the RIIO-ED1 period	46.6				
Average RAV balance	1,768.9				
Average debt balance	1,082.4				
RoRE (actual regulatory equity)	7.6%				

**A prior year comparative of RoRE is not provided in the table above as 2021 represents a five-year trailing average (7.6%).*

Strategic Report (continued)

Financial Performance (continued)

Reconciliation of statutory profit to regulatory performance

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

Adjustments in calculating regulatory financial performance

The principal adjustments[4] from reported profit after tax to regulated financial performance are:

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

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

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

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

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

Equity component:

RoRE performance has been presented on a real equity basis, representing the balance of the RAV that is not debt funded. Average equity for the period is 39%, higher than the assumed 35% notional equity funding. The difference between the actual and notional equity has the effect of reducing the allowed equity return from 8.1% to an actual equity return of 7.6%.

[4] Regulatory adjustments for the year ended 31 March 2021 have been presented on a draft basis. Regulatory performance is reported to Ofgem on 31 July and final reported figures may differ from the reconciliation as detailed cost allocations are prepared.

Strategic Report (continued)

Financial Performance (continued)

Financial reporting measures

Revenue

Revenue has decreased to £449.8m (2020: £478.1m) during the year, as a result of the COVID-19 impact on electricity demand and also reflecting the allowed Distribution Use of System (DUoS) revenue under the RIIO-ED1 price control.

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

For the year 31 March 2021 there was an under recovery of DUoS revenue of £21.7m against plan before adjustment for RPI indexation (2020: £9.7m over-recovery), reflecting variability against forecast in consumption volumes year on year, the significant under recovery being direct effect from the lower consumption due to COVID-19. This under recovery will be corrected through adjustments in revenues to be received in two years' time, in accordance with Ofgem's methodology.

Operating profit

Operating profit has decreased to £176.1m (2020: £212.2m) primarily as a result of the reduction in revenue detailed above.

Profit before tax and fair value movements

Profit before tax and fair value movements has decreased to £122.7m (2020: £157.9m), mainly as a result of the lower operating profit detailed above.

Taxation

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profit for the period. The deferred tax is calculated based on the expected future tax rates.

The overall taxation charge for the year has decreased from £43.5m in 2020 to £11.4m in 2021, mainly as a result of the lower revenues.

Dividends and dividend policy

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

During the year ended 31 March 2021, the Company declared interim dividends of £30.7m, paid in December 2020 (2020: £21.4m). There was no final dividend declared for the year ended 31 March 2020; the final dividend for the year ended 31 March 2019 of £16.9m was paid in June 2019. The Directors have proposed a final dividend of £15.9m for the year ended 31 March 2021.

Property, plant and equipment and software

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

The total original cost of the Group's property, plant and equipment at 31 March 2021 was £5,410m (2020: £5,226m), with a net book value of £3,432m (2020: £3,362m). In the year ended 31 March 2021, the Group invested £192.6m (2020: £210.5m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £8.5m (2020: £8m) in IT systems.

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

Strategic Report (continued)

Financial Performance (continued)

Pension obligations

The Group's pension scheme under IAS 19, has a net deficit at 31 March 2021 of £68.6m (2020: £26.2m deficit). The main reasons for the movement are market movements, specifically an increase of 70 basis points to the future expectation of inflation and a fall of 20 basis points in the discount rate assumption.

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

Cash flow before financing activities

Net cash inflow before financing activities in the year was £30.6m (2020: £47.9m inflow), reflecting the lower revenue which is partly offset by the decreased asset investment.

Treasury policy and operations

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

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

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

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

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

Liquidity

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

Group budgets for the year-ending 31 March 2022, forecasts to the end of the current price review in 2023 and longer-term forecasts to 2048 are used to assess the liquidity needs of the Group.

Short-term liquidity

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

As at 31 March 2021, the unutilised committed facilities were £50.0m (2020: £20.0m) and, together with £322.4m (2020: £56.2m) of cash and short-term deposits, provide short-term liquidity for the Group. £200.0m of this cash will be used to repay the inter-company loan falling due for repayment in July 2021.

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

Strategic Report (continued)

Financial Performance (continued)

Long-term liquidity

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

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

The Group issues debt in the public bond markets and maintains credit ratings with a number of leading credit rating agencies. During the period, the Group's credit ratings have been formally reviewed and affirmed. Moody's changed the outlook for ENWL to stable from negative, citing strong operational performance. Currently the Group is rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and BBB+ with stable outlook by Fitch Ratings.

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

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

Net debt

Net Debt	2021 £m	2020 £m
Cash and deposits	**322**	56
Borrowings	**(1,472)**	(1,205)
Net debt	**(1,150)**	(1,149)

Included within the total borrowings figure are £82.2m of loans from the parent company North West Electricity Networks plc (NWEN plc), due to mature in March 2023 (2020: £77.4m), a £200.0m loan from an affiliated company ENW Finance plc, maturing in July 2021 (2020: £199.3m) and – entered during the year – a £298.5m loan maturing in July 2030, also from ENW Finance plc.

Of the external debt, £7.1m (2020: £7.0m) is due to be repaid within the next year, comprising European Investment Bank (EIB) loans that have an amortising repayment profile. £1.3m of leases are due to be repaid within the year (2020: £1.9m).

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £631.9m (2020: £634.4m), bank loans of £248.2m (2020: £282.0m) and leases of £3.3m (2020: £3.6m).

Note 19 provides more details on the borrowings.

Strategic Report (continued)

Financial Performance (continued)

Derivatives

The Group uses two main groups of derivatives to economically hedge exposure to fluctuations in market rates over the medium to long term; interest rates swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing. All derivatives relate directly to underlying debt. At 31 March 2021 there were no formal hedging relationships in the Group (2020: same).

The proportion of post-hedging borrowings at fixed, floating and index-linked rates of interest is maintained in line with target levels set in the Treasury Policy and is monitored by the Board, with reference to the projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

Fair values

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

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

In the current year, net fair value losses totalling £58m have been recognised in the income statement (2020: losses of £12m), which relates entirely to non-cash movements.

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

Additionally, the re-measurement of the defined benefit pension scheme under IAS 19 has resulted in a £48.9m loss (2020: £74.1m loss) booked directly to equity.

Going concern

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

- The Company's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating, which has been met.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.
- Management has prepared, and the Directors have reviewed, Group budgets for the year ending 31 March 2022 and forecasts covering the period to the end of the current price review in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period.
- Assessment of the significance and ongoing development of the COVID-19 pandemic.

Strategic Report (continued)

Going concern (continued)

- Short-term liquidity requirements are forecast to be met from the Group's operating cash flows and short-term deposit balances. A further £50m of committed undrawn bank facilities are available from lenders; these have a maturity of less than one year.
- Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12-month projections to 31 May 2022 indicate there is sufficient headroom on these covenants.

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

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

The Board continues to monitor the situation closely, with flexible plans in place to support short term liquidity and long-term stability of the Company.

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 2024.

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 2024.

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

The Board has considered the impact of the COVID-19 pandemic on operations and liquidity and has also considered the current political environment, including potential changes in future government policy as well as the impact from Brexit, in making the viability assessment.

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

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

In arriving at their conclusion, the Directors have considered the Company's forecast financial performance and cash flow over the viability period to 2024. During the year, the Company entered a new inter-company loan that will be used, in part, to refinance the inter-company debt that is due to mature in July 2021. Headroom to compliance ratios over the viability period is considered and the extent to which deviations in financial performance from the business plan may impact that headroom. The Directors have considered this headroom in assessing the Company's long-term viability.

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

Strategic Report (continued)

Fair, balanced & understandable

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

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

As a result of these processes together with the information and assurance provided by the day to day internal control processes, the information provided by the Executive Leadership Team of ENWL and the in-depth reporting required by Ofgem, both the Audit Committee of ENWL and the Board are satisfied that the Annual Report and Consolidated Financial Statements taken as a whole, provide a fair, balanced and understandable assessment of the Group's position at 31 March 2021.

Strategic Report (continued)

Risk Management

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

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

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

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

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

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

The key features of the risk management system include:

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

Strategic Report (continued)

Risk Management (continued)

Principal risks and uncertainties

The risk of a widespread outbreak of COVID-19, and the associated disruption to the business, and cyber/physical security threat are considered the most significant risks that we face currently. Aside from the reduction in the COVID-19 risk to certain activities as detailed below all the other risks have remained constant year-on-year.

	Risk	Mitigations
COVID-19	**COVID-19:** Certain aspects of ENWL's activities are affected by the impact of Coronavirus/COVID-19 and the mitigation measures put in place by the UK Government.	• ENWL is recognised as a Critical National Infrastructure provider and is in regular dialogue with both the UK Government and the Regulator to minimise the effect of the mitigation measures on its abilities to provide an essential service to its customers. • Building on existing Business Continuity and Emergency plans ENWL began planning for the potential impact of an outbreak in the UK commencing early in 2020, with further steps then taken as the situation evolved. • An Executive steering group is in place, chaired by the Director responsible for Business Continuity in the business, and includes representation from across the organisation, including the CEO. • Control measures have been implemented to the extent possible to minimise the potential impact of the situation on ENWL's activities and are monitored by this Steering Group.
Safety	**Health, Safety and the Environment:** Risk associated with unsafe working practices, man-made or naturally occurring hazards that could cause harm to people or the environment.	• Board Health, Safety and Environment Committee oversee this area. • Extensive policy and procedures to ensure a safe system of work and environmental management. • Behavioural safety training programme across all areas of the organisation. • Simple 'Golden Rules' to ensure strong safety approach throughout the Company's operations. • Robust 'lessons learned' exercises conducted to identify root causes when safety or environmental issues occur. • Robust authorisation process to control who works on the network and the activities that they can perform. • Annual programme of audits and an inspection regime. • Well-established hazard and safety observation (including near miss) reporting in place.

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Customer	**Meeting our customers' expectations**: Failure to meet the required level of customer satisfaction performance and to achieve output deliverables, costs and efficiencies against the commitments made to our customers in the RIIO-ED1 period.	• A programme of improvement activities described in more detail on pages 15-16 is being co-ordinated by the Executive Leadership Team to optimise the Company's position against all elements of the customer satisfaction measure. • Robust plans in place to achieve other commitment targets, or outperform where possible. • Controls in place regarding the ongoing reporting of performance against targets.
People	**Developing our people:** Having an inadequately skilled and experienced workforce to deliver business objectives.	• Resource and succession plans are in place, which are subject to periodic Executive and Board level review. • Training delivered throughout the Company to ensure employees are equipped to do their roles competently and effectively.
	Ethical Behaviour: Inappropriate behaviour by Board members, executive or senior management bringing the company into disrepute	• Extensive policies in place regarding ethical conduct within the business, including Anti-Bribery and Corruption; Conflict of Interests; Ethics; Equality; Internal Control & Governance; Modern Slavery and Whilstleblowing/Disclosure. • We continue to review and enhance the mitigations in this area in line with emerging best practice. We are corporate members of the Institute of Business Ethics.

Strategic Report (continued)

Risk Management (continued)

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

Strategic Report (continued)

Risk Management (continued)

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

Strategic Report (continued)

Risk Management (continued)

	Risk	Mitigations
Affordability	**Financial risks:** The business is subject to treasury, tax and liquidity risk exposures, and under performance of the pension scheme investments, market impacts and/or an increase in the scheme liabilities which would give rise to higher contributions.	• A formal treasury policy is in place to manage exposure to counterparty, liquidity and market risk, overseen by the Audit Committee. • A well-established monthly banking covenant monitoring process. • Tax risk scoring. • Active monitoring of the pension scheme's investments carried out on a quarterly basis. • The pension scheme Trustee engages professional legal, actuarial and investment advice for all decisions taken and regularly consults with the Company, who also engage professional advisors.
	Programme delivery including change programmes: Delays in the investment programme or major business change activity leading to an adverse impact on the Company, particularly relating to customer interruptions (CIs) and customer minutes lost performance (CMLs).	• Established governance controls in place to oversee the delivery of business change. • Processes in place to support delivery of change programmes, management of risks and achievement of business benefits. • For activity impacting CIs and CMLs performance, the following mitigation measures are in place: ○ Fault response times and team performance are closely monitored. ○ Supply interruptions planned to minimise customer impact. ○ Network automation to minimise the effect of faults. ○ Significant expenditure on routine maintenance to reduce the causes of network interruption. ○ Initiatives to improve dispatch and mobilisation of response teams.
	Macro-economic factors: Factors, such as Retail Price Index (RPI), may impact negatively on the business.	• Monitoring the potential exposure to fluctuating factors through forecasts from a range of financial institutions. • Inflation sensitivities reported quarterly through the business valuation process. • A significant proportion of our Group debt is RPI-linked to provide an economic hedge between allowed revenues and some of our financing costs.

The Strategic Report, outlined on pages 7 to 44, has been approved by the Board of Directors and signed on behalf of the Board on 4 June 2021.

David Brocksom
Director

Corporate Governance Report

As is required by the Company's regulator, Ofgem, the Company reports on how the principles and provisions of the UK Corporate Governance Code ("the Code") have been applied during the year. There are some limited areas of non-compliance, all of which are considered appropriate to the privately owned status of the Company and are explained on page 51 to 52.

The Board

Board Members at 31 March 2021

Alistair Buchanan, CBE

Independent Non-Executive Director
Appointed on 25 July 2018

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

Anne Baldock

Independent Non-Executive Director
Appointed on 26 September 2018

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

Susan Cooklin

Independent Non-Executive Director
Appointed on 25 July 2018

Susan Cooklin is the Managing Director of Route Services at Network Rail running a portfolio of 60 services and leading a directorate of 5,000 staff. Over the last 15 years she has held senior executive roles in both IT and business operations within FTSE top 20 companies in the UK, specialising in transformational change. She has worked at Board level for over 8 years with Non-Executive Director positions on the Board of Leeds Beckett University and Leeds Building Society. She is currently Chair of Network Rail Consulting Limited. Susan was listed by Computer Weekly as the seventh most influential woman in UK IT. From 2013 - 2017 she ran the Could IT Be You campaign to raise awareness of IT as a career for young women.

Rob Holden CBE

Independent Non-Executive Director
Appointed on 1 January 2016

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

Corporate Governance Report (continued)

The Board (continued)

Peter O'Flaherty

Non-Executive Director
Appointed on 17 September 2019

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

Sion Jones

Non-Executive Director
Appointed on 20 August 2019

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

Genping Pan

Non-Executive Director
Appointed 12 December 2019

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

Shinichiro Sumitomo

Non-Executive Director
Appointed 8 January 2020

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

Takeshi Tanaka

Non-Executive Director
Appointed on 25 June 2020

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

Corporate Governance Report (continued)

The Board (continued)

Peter Emery
Chief Executive Officer
Appointed on 27 May 2016

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

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

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

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

David Brocksom
Chief Finance Officer
Appointed on 5 October 2015

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

Shareholder appointed directors

Sion Jones, Takeshi Tanaka, Shinichiro Sumitomo and Genping Pan are shareholder appointed directors and have appointed alternate directors during their time as Board members. Sion Jones's alternate is Achal Bhuwania. Takeshi Tanaka's alternate is Fukashi Kumara and Kaoru Fukushima is the alternate to Shinichiro Sumitomo. Genping Pan's alternate is Hailin Yu. Peter O'Flaherty is a shareholder appointed director and has no alternate director appointed. Alternate directors attend board meetings where the principal director would be otherwise unable to attend.

Corporate Governance Report (continued)

The Board (continued)

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year.

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

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

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

Board Member Attended / Scheduled	ENWL Board	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety and Environment Committee
Alistair Buchanan	7/7	-	2/2	1/1	-
Anne Baldock	7/7	9/9	-	-	2/2
Susan Cooklin	7/7	8/9	-	-	2/2
Chris Dowling	2/2	1/1	-	1/1	-
Rob Holden	7/7	9/9	-	-	-
John Roberts	4/4	-	2/2	-	-
Peter O'Flaherty	7/7	-	4/4	2/2	-
Sion Jones**	7/7	-	4/4	2/2	2/2
Genping Pan*	7/7	-	4/4	2/2	2/2
Shinichiro Sumitomo***	7/7	-	4/4	2/2	2/2
Takeshi Tanaka	5/5	-	2/2	1/1	-
Yoichi Hamada	2/2	-	2/2	1/1	-
Peter Emery	7/7	-	-	-	2/2
David Brocksom	7/7	-	-	-	-

*At three Board meetings Hailin Yu attended as an alternate Director in place of Genping Pan. At both the Health, Safety and Environment Committee meetings Zechao Liu attended as an alternate Director in place of Genping Pan.

**At the 28 January 2021 Nomination Committee meeting Peter O'Flaherty attended as alternate Director in place of Sion Jones.

***At two Health, Safety and Environment Committee meetings Fukashi Kumura attended as an alternate Director in place of Shinichiro Sumitomo.

Corporate Governance Report (continued)

The Board (continued)

Diversity

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

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

Composition

The Board comprises four Non-Executive Directors considered under the Code to be independent, one of whom is the Chairman, and five Non-Executive Directors representing the four shareholders, together with two Executive Directors. The Directors' biographies are on pages 45 to 47.

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

Leadership

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

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

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

Advice

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

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

How the Board operates

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

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

Corporate Governance Report (continued)

The Board (continued)

Evaluation

During March 2018, an externally facilitated evaluation was undertaken by Lintstock Ltd, who had no previous connection with the Company. Following the completion of the sale of the shares by the Shareholders to new shareholders, Linstock Ltd have been engaged to undertake a second evaluation. This will constitute the first evaluation of the Board and its composition under the new ownership.

Training

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

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

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

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

During the year, Deloitte LLP have delivered a training session to the Board on the subject of Corporate Governance, the UK code and future developments in relation to Corporate Governance and director's duties.

Appointments

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

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

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

Conflicts of interest

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

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

Corporate Governance Report (continued)

The Board (continued)

Areas of non-compliance with the UK Corporate Governance Code

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

Senior Independent Director

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

Constitution of the Board

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

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

Annual election of Directors

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

Publication of the terms and conditions of Non-Executive Directors

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

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

Engagement with stakeholders

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

Shareholders:

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

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

Workforce:

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

Corporate Governance Report (continued)

Engagement with stakeholders (continued)

Stakeholders:

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

Our stakeholder engagement strategy is outlined on page 19.

The Company has appointed Jeff Halliwell to Chair our Customer Engagement Group (CEG). Jeff appointed the members of the Group and held its inauguration meeting in May 2019, since which time it has met monthly.

The role of the CEG is to independently scrutinise our stakeholder engagement work. In doing so, the Group has access to the Board and the Executive Leadership Team and can question them about how stakeholder engagement insight is being used to inform our RIIO-ED2 Business Plan. The CEG also fulfils the oversight function for all reinforcement decisions in line with the requirements of the Department for Business, Environment and Industrial Strategy.

Board Committees

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

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

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

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

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

Corporate Governance Report (continued)

Report of the Audit Committee

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

Membership and meetings

The Committee members are all Non-Executive Directors. The Board is satisfied that the Committee Chair, Rob Holden, as a Chartered Accountant, has relevant financial experience. Attendance by individual members is detailed in the table on page 48.

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

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

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

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

The role of the Committee

The key responsibilities of the Audit Committee are to:

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

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

- Review of the 31 March 2021 Annual Report and Consolidated Financial Statements and the September 2020 half-year report.
- Evaluation of the effectiveness and scope of the internal audit plan including management response to audit reports.
- Review of the scope and methodology of the audit work to be undertaken by the external auditor, their terms of engagement and fees.
- Review of the length of tenure of the current external audit firm and making a recommendation as to the timeline for re-tendering this service.
- Factors emerging from the COVID-19 pandemic, including the impact on the internal control framework, including the potential for enhanced cyber risk, and a review of the going concern and viability disclosures in this context.

During the year ended 31 March 2021, the Committee revised its terms of reference and its membership to reflect the changing requirements of the Corporate Governance Code and to ensure that the membership of the Committee consists of independent non-executive directors, and that the Chair of the Board was not a member of the Committee.

Corporate Governance Report (continued)

The significant issues considered by the Committee during the approval of the financial statements to 31 March 2021 were:

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

External audit

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

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

The Company and Audit Committee are continuing to evaluate the most appropriate timing to initiate a tender for external auditor services to the Group. This process is expected to commence in the year ending 31 March 2022.

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

Auditor independence and the provision of non-audit services

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

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

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

Corporate Governance Report (continued)

Internal control framework

The Committee, on behalf of the Board, is responsible for reviewing the Company's internal control framework. This review is consistent with the Code and covers all material areas of the Group, including risk management and compliance with controls. Further details of risk management and internal controls are set out on pages 39 to 44.

Whistleblowing arrangements

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

Committee effectiveness

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

Fair, balanced and understandable

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

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

The Directors' statement on a fair, balanced and understandable Annual Report and Consolidated Financial Statements is set out on page 38.

Corporate Governance Report (continued)

Report of the Nominations Committee

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

Membership and meetings

The Committee Chair is Alistair Buchanan, Independent Non-Executive Director. Composition of the Committee and attendance by individual members at meetings is detailed on page 48.

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

Diversity

As described in the Corporate Governance report on page 49, the Board is committed to diversity in its broadest sense and the Nominations Committee ensures this remains central to recruitment and succession planning. Progress is reviewed periodically by the Board.

Report of the Remuneration Committee

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

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

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

Membership and meetings

The Committee Chair is Sion Jones, Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 48.

Role of the Committee

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

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

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

Corporate Governance Report (continued)

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

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

Corporate Governance Report (continued)

CEO pay ratio

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

There are three methodologies that companies can choose to report their pay ratio, known as Option A, B and C. The government preference, and most accurate reporting method, is Option A. ENWL have elected to use this method, consistent with previous years, which enables us to compare total remuneration for the financial year ended 31 March 2021, in line with the pay gap requirements.

The tables on the right set out this information for total remuneration[5] (which is inclusive of bonus, long term incentive payments, additional allowances or payments, benefit in kind and employer pension contributions).

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

The movement in the ratio from the prior year represents the timing of awards under long term incentive bonus plans, with a significant element of these awards linked to Company performance. This year has reverted back to very similar levels of 2019 with a slight increase in the gap at the 25th and 75th percentile on pay (excluding bonus) when compared to the previous two years. However, the gap has closed on total remuneration from 2019, which is a better year to compare due to the timing of long-term incentive bonus plans in 2020.

This is only the second year we have published our Executive Pay Gap, and we will continue to benchmark against other similar organisations when the data becomes publicly available to be consistent with our remuneration policy. Initial benchmarking suggests the gap at ENWL is smaller than comparators in the Energy Sector.

	25th percentile	50th percentile	75th percentile
2021 Pay excluding bonus	**1:13**	**1:9**	**1:7**
2021 Total remuneration including bonus	**1:20**	**1:14**	**1:10**
2020 Pay excluding bonus	1:12	1:9	1:6
2020 Total remuneration including bonus	1:41	1:29	1:21

Employee total remuneration is shown in the table below.

	25th percentile	50th percentile	75th percentile
2021 Pay excluding bonus	**£36,781**	**£52,542**	**£71,031**
2021 Total remuneration	**£38,296**	**£54,753**	**£74,364**
2020 Pay excluding bonus	£36,279	£52,093	£71,597
2020 Total remuneration	£37,687	£53,829	£74,598

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

Corporate Governance Report (continued)

Report of the Health, Safety and Environment Committee

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

Membership and meetings

The Committee Chair is Susan Cooklin, Independent Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 48.

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

The role of the Committee

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

The primary purpose of the Committee is to:

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

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

The Health and Safety committee, when it met on 23 March 2020, received and considered an update on the Company's evolving COVID-19 health and safety strategy. A further update was provided to the Committee when it met in October 2020. The Board continue to be regularly updated on the situation.

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

Directors' Report

The Directors present their Annual Report and Consolidated Financial Statements of Electricity North West Limited ("the Company") and its subsidiaries (together referred to as "the Group") for the year ended 31 March 2021.

Information contained in Strategic Report

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

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

• likely future developments

• risk management

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

• greenhouse gas emissions

Dividends

During the year ended 31 March 2021, the Company declared an interim dividend of £31m, paid in December 2020 (2020: £21m). There was no final dividend declared for the year ended 31 March 2020; the final dividend for the year ended 31 March 2019 of £17m, paid in June 2019. The Directors have proposed a final dividend of £15.9m for the year ended 31 March 2021.

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

Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN plc, a company incorporated and registered in the United Kingdom. The ultimate parent undertaking is North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)"), a company incorporated and registered in Jersey.

The ownership of the shares in NWEN (Jersey) and, therefore, the ultimate controlling parties of the Company are:

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

Directors

The Directors of the Company during the year ended 31 March 2021 and to date are set out below. Directors served for the whole year, and to the date of this report, except where otherwise indicated.

Executive Directors

D Brocksom
P Emery

Non-executive Directors

J Roberts (resigned 3 October 2020)
A E Baldock
A Buchanan
S Cooklin
C B Dowling (resigned 4 June 2020)
R D Holden
S Jones
G Pan
S Sumitomo
P O'Flaherty (appointed 1 April 2020)
Y Hamada (appointed 1 April 2020, resigned 25 June 2020)
T Tanaka (appointed 25 June 2020)
H Nakamura (resigned 1 April 2020)
Y Yoshihiro (resigned 1 April 2020)

Directors' Report (continued)

Alternate Directors during the year were:

A Bhuwania
K Fukushima
F Kumura
H Yu

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

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

Directors' and Officers' insurance

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

The insurance is a group policy, held in the name of the ultimate parent North West Electricity Networks (Jersey) Ltd ("NWEN (Jersey)") and is for the benefit of that company and all its subsidiaries.

People

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

Engagement with employees

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

Engagement with suppliers, customers and others

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

Corporate Social Responsibility

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

Research and development

The Group is committed to developing innovative and cost-effective solutions for providing high quality services and reliability to our customers, and for the benefit of the wider community and the development of the network, as further detailed in the Strategic Report. During the year ended 31 March 2021 the Group incurred £2.3m of expenditure on research and development (2020: £3.1m), see Note 5.

Greenhouse gas emissions

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

Financial instruments

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

Capital structure

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

Events after the Balance Sheet date

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

Future developments

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

Directors' Report (continued)

Information given to the auditor

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

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

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

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

Independent auditor

Deloitte LLP, Statutory Auditor, Manchester, United Kingdom has 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:

Electricity North West Limited
Borron Street
Stockport
Cheshire
SK1 2JD

Registered number: 02366949

Approved by the Board on 4 June 2021 and signed on its behalf by:

David Brocksom
Director

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 4 June 2021 and is signed on its behalf by:

David Brocksom
Director

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

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Electricity North West Limited (the 'parent company', 'ENWL') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 which comprise:

- the consolidated statements of profit or loss;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related Notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in Note 5 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: 1. Treasury – accounting 2. Inappropriate capitalisation of costs Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £4.1m which was determined on the basis of 3.4% of adjusted profit before tax.
Scoping	All audit work for the Group was performed directly by the Group engagement team.
Significant changes in our approach	Our audit approach is consistent with the previous year. The Covid-19 pandemic caused volatility and illiquidity in global financial markets, which resulted in property valuation experts including material uncertainty clauses in their property asset valuations as at 31 March 2020. As a consequence pension property asset valuations were a key audit matter in the prior year. Given the return of stability to global financial markets, and the removal of these material uncertainty clauses from the expert valuations, we note that the valuation of pension assets is no longer a key audit matter.

4. Conclusions relating to going concern

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

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

- reviewed management's forecasts for the year ending 31 March 2022, and forecasts covering the period to the end of the current RIIO ED-1 price review in 2023;
- assessed the significance and ongoing development of the COVID-19 pandemic;
- considered short-term liquidity and the financing facilities available;
- considered linkage to business model and medium-term risks, including the forthcoming RIIO ED-2 regulatory period;
- performed sensitivity analysis; and
- considered the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and our assessment of the historical accuracy of forecasts prepared by management.

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

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

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

5. Key audit matters

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

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

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

5.1. Treasury accounting

Key audit matter description	Treasury is a complex area and includes the accounting for material financial instruments including index-linked swaps. Due to the complexity of the accounting there is a risk that these instruments are incorrectly valued, accounted for or disclosed in the financial statements which may result in a material error. The areas of focus are the assumptions in management's derivative valuation model and the fair value of the index-linked swap portfolio, including any credit adjustment made under IFRS 13. 1.1.1.1 As at 31 March 2021 ENWL held derivative financial instruments, being a portfolio of index-linked swaps, with a fair value of £474.9m (2020: £416.9m) as disclosed in Note 21 to the financial statements. Total fair value movements in the year were £57.9m loss (2020: £12.3m loss) as per Note 9 to the financial statements. See also the Audit Committee's Report on page 54 where treasury accounting is discussed as a significant risk, the accounting policy on financial instruments in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the inputs used within the calculation of the fair value of derivatives. In performing the procedures below, we involved our financial instrument specialists due to the complexity of the financial instruments held in the Group. We performed work on management's derivative valuation model and the assumptions employed, and performed a recalculation of fair value of the index-linked swap portfolio, including an assessment of the application of credit risk under IFRS 13.
Key observations	From the work performed we are satisfied that the valuation of the Group's portfolio index-linked swaps is appropriately stated as at 31 March 2021.

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

5.2. Inappropriate capitalisation of costs

Key audit matter description	This key audit matter relates to the judgmental overhead absorption percentage rates applied to costs initially recorded as overhead expenditure and subsequently capitalised into fixed assets. In particular we focus on those judgmental areas of overhead absorption, for example employee costs and fault costs, where the split between capital projects and repair and maintenance is judgemental. Given the significant level of judgement involved, we considered this a potential fraud risk area. The effect of inappropriate capitalisation of costs from a financial statement perspective is that items which are capital in nature are expensed, whilst items which are expenditure in nature are, conversely, capitalised. Given the magnitude of overheads capitalised in the business the impact could be material. Total employee costs are £133.7m in the year (2020: £130.2m), of which £74.6m (2020: £73.2m) has been capitalised directly to fixed assets. Fault costs totalled £33.4m (2020: £33.0m) of which £22.1m (2020: £21.3m) had been capitalised. See also the Audit Committee's Report on page 54 where overhead absorption is discussed as a significant risk, the accounting policy for tangible fixed assets in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the inputs used within the calculation of overhead absorption rates for employee costs and judgemental areas such as fault costs. We have reviewed the Company's assumptions, policies and procedures with regards to overhead absorption and compared these to the balances capitalised. In respect of overhead absorption we have considered the relative percentage capitalisation by function/operational area in the business and reviewed the key assumptions made by management including testing on a sample basis to appropriate support. As part of our audit of tangible fixed assets we tested a sample of additions to consider whether those items are capital in nature. A sample of capital projects were reviewed in detail, with discussions and supporting documentation obtained from project managers in order to better understand those projects and determine the specific nature of the spend and method of overhead absorption.
Key observations	From the work performed we are satisfied that the assumptions made in respect of the rates of overhead absorption applied in the business are reasonable as at 31 March 2021.

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

6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£4.1m (2020: £5.2m)	£4.09m (2020: £5.19m)
Basis for determining materiality	3.4% of adjusted pre-tax profit, being profit pre-tax and fair value movements (2020: 3.3% of adjusted pre-tax profit).	Parent company materiality equates to 99% of net assets (2020: same), which is capped at 99% of Group materiality (2020: same).
Rationale for the benchmark applied	Adjusted pre-tax profit is deemed suitable as this removes the volatile fair value movements of the financial derivatives held, for which no formal hedge accounting is applied, and therefore creates a stable basis for the determination or our materiality. Adjusted pre-tax profit is further determined to be a key metric used by the users of the financial statements of regulated utilities.	As the parent company contains almost all of the group's net assets, this is deemed a suitable benchmark for the determination of materiality.

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

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our risk assessment, including our assessment of the group's overall control environment; and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2020: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

Given the nature of the Group's corporate structure where all evidence relating to each entity is compiled at the Group's head office and statutory audits are required for the non-dormant entities within the Group, we performed a full scope audit covering 100% of the Group's companies (2020: same) and accordingly our audit work achieved coverage of 100% of the Group's total assets, revenue and profit (2020: same).

Component materiality level was capped at £4.09m (2020: £5.19m).

We have also tested the consolidation process.

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

8. Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

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

11.2. Audit response to risks identified

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

In addition to the above, our procedures to respond to risks identified included the following:

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

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

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders in 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 March 2003 to 31 March 2021.

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

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

15. Use of our report

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

Christopher Robertson (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
4 June 2021

Financial Statements

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

for the year ended 31 March 2021

	Note	**Group and Company 2021 £m**	Group and Company 2020 £m
Revenue	4	**449.8**	478.1
Employee costs	5,6	**(59.1)**	(57.0)
Depreciation and amortisation expense	5	**(125.9)**	(121.4)
Other operating costs		**(88.7)**	(87.5)
Total operating expenses		**(273.7)**	(265.9)
Operating profit	5	**176.1**	212.2
Investment income	8	**0.9**	0.1
Finance expense	9	**(112.2)**	(66.7)
Profit before taxation		**64.8**	145.6
Taxation	10	**(11.4)**	(43.5)
Profit for the year attributable to equity shareholders of the Company		**53.4**	102.1
Other comprehensive income/ (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of net defined benefit scheme	22	**(55.7)**	(74.1)
Deferred tax on re-measurement of defined benefit scheme	24	**10.6**	14.0
Adjustment of brought forward deferred tax due to change in future tax rates	24	**-**	1.7
Other comprehensive expense for the year		**(45.1)**	(58.4)
Total comprehensive income for the year attributable to shareholders of the Company		**8.3**	43.7

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

Consolidated and Company Statement of Financial Position

as at 31 March 2021

	Note	Group 2021 £m	Company 2021 £m	Group 2020 £m	Company 2020 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	12	**59.5**	**59.5**	53.8	53.8
Property, plant and equipment	13	**3,431.5**	**3,431.5**	3,361.6	3,361.6
Investments	14	**-**	**15.4**	-	15.4
		3,491.0	**3,506.4**	3,415.4	3,430.8
Current assets					
Inventories	15	**14.0**	**14.0**	10.8	10.8
Trade and other receivables	16	**75.3**	**75.3**	63.4	63.4
Cash and cash equivalents	17,21	**322.4**	**322.4**	56.2	56.2
		411.7	**411.7**	130.4	130.4
Total assets		**3,902.7**	**3,918.1**	3,545.8	3,561.2
LIABILITIES					
Current liabilities					
Trade and other payables	18	**(142.7)**	**(158.4)**	(126.2)	(141.9)
Current income tax liabilities		**(9.0)**	**(6.6)**	(4.8)	(4.8)
Borrowings	19	**(208.2)**	**(208.2)**	(8.9)	(8.9)
Provisions	23	**(0.4)**	**(0.4)**	(0.1)	(0.1)
		(360.3)	**(373.6)**	(140.0)	(155.7)
Net current assets/ (liabilities)		**51.4**	**38.1**	(9.6)	(25.3)
Non-current liabilities					
Borrowings	19	**(1,264.1)**	**(1,264.1)**	(1,196.7)	(1,196.7)
Derivative financial instruments	21	**(474.9)**	**(474.9)**	(416.9)	(416.9)
Provisions	23	**(1.3)**	**(1.3)**	(1.7)	(1.7)
Retirement benefit deficit	22	**(68.6)**	**(68.6)**	(26.2)	(26.2)
Deferred tax	24	**(135.8)**	**(138.2)**	(155.8)	(155.8)
Customer contributions	25	**(667.8)**	**(667.8)**	(656.1)	(656.1)
		(2,612.5)	**(2,614.9)**	(2,453.5)	(2,453.5)
Total liabilities		**(2,972.8)**	**(2,988.5)**	(2,593.5)	(2,609.2)
Total net assets		**929.9**	**929.6**	952.3	952.0
EQUITY					
Called up share capital	27,28	**238.4**	**238.4**	238.4	238.4
Share premium account	28	**4.4**	**4.4**	4.4	4.4
Revaluation reserve	28	**81.9**	**81.9**	84.1	84.1
Capital redemption reserve	28	**8.6**	**8.6**	8.6	8.6
Retained earnings	28	**596.6**	**596.3**	616.8	616.5
Total equity		**929.9**	**929.6**	952.3	952.0

The financial statements of Electricity North West Limited (registered number 02366949) were approved and authorised for issue by the Board of Directors on 4 June 2021 signed on its behalf by:

David Brocksom
Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2021

Group

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m
At 1 April 2019	238.4	4.4	88.2	8.6	607.1	946.7
Opening adjustment on transition to IFRS 16	-	-	-	-	0.2	0.2
Opening reserves	238.4	4.4	88.2	8.6	607.3	946.9
Profit for the year	-	-	-	-	102.1	102.1
Other comprehensive expense for the year	-	-	-	-	(58.4)	(58.4)
Transfer from revaluation reserve	-	-	(4.1)	-	4.1	-
Total comprehensive income for the year	-	-	(4.1)	-	47.8	43.7
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(38.3)	(38.3)
At 31 March 2020	238.4	4.4	84.1	8.6	616.8	952.3
Profit for the year	**-**	**-**	**-**	**-**	**53.4**	**53.4**
Other comprehensive expense for the year	**-**	**-**	**-**	**-**	**(45.1)**	**(45.1)**
Transfer from revaluation reserve	**-**	**-**	**(2.2)**	**-**	**2.2**	**-**
Total comprehensive income for the year	**-**	**-**	**(2.2)**	**-**	**10.5**	**8.3**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	**-**	**-**	**-**	**-**	**(30.7)**	**(30.7)**
At 31 March 2021	**238.4**	**4.4**	**81.9**	**8.6**	**596.6**	**929.9**

Company Statement of Changes in Equity
for the year ended 31 March 2021

Company

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total Equity £m
At 1 April 2019	238.4	4.4	88.2	8.6	606.8	946.4
Opening adjustment on transition to IFRS 16	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Opening reserves	238.4	4.4	88.2	8.6	607.0	946.6
Profit for the year	-	-	-	-	102.1	102.1
Other comprehensive income for the year	-	-	-	-	(58.4)	(58.4)
Transfer from revaluation reserve	-	-	(4.1)	-	4.1	-
Total comprehensive income for the year	-	-	(4.1)	-	47.8	43.7
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(38.3)	(38.3)
At 31 March 2020	238.4	4.4	84.1	8.6	616.5	952.0
Profit for the year	**-**	**-**	**-**	**-**	**53.4**	**53.4**
Other comprehensive expense for the year	**-**	**-**	**-**	**-**	**(45.1)**	**(45.1)**
Transfer from revaluation reserve	**-**	**-**	**(2.2)**	**-**	**2.2**	**-**
Total comprehensive income for the year	**-**	**-**	**(2.2)**	**-**	**10.5**	**8.3**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	**-**	**-**	**-**	**-**	**(30.7)**	**(30.7)**
At 31 March 2021	**238.4**	**4.4**	**81.9**	**8.6**	**596.3**	**929.6**

Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2021

	Note	Group and Company 2021 £m	Group and Company 2020 £m
Operating activities			
Cash generated from operations	32	**256.4**	297.6
Interest paid		**(51.2)**	(48.9)
Tax paid		**(16.6)**	(23.8)
Net cash generated from operating activities		**188.6**	224.9
Investing activities			
Interest received and similar income		**0.8**	0.1
Purchase of property, plant and equipment		**(185.3)**	(202.6)
Purchase of intangible assets		**(8.6)**	(8.0)
Customer contributions received		**35.0**	32.9
Proceeds from sale of property, plant and equipment		**0.1**	0.6
Net cash used in investing activities		**(158.0)**	(177.0)
Net cash flow before financing activities		**30.6**	47.9
Financing activities			
Proceeds from external borrowings		**-**	30.0
Repayment of external borrowings		**(37.0)**	(7.0)
Repayment of lease liabilities		**(1.5)**	(1.2)
Movement of inter-company loan from parent		**304.8**	2.1
Movement in cash collateral held		**-**	-
Dividends paid	11	**(30.7)**	(38.3)
Net cash generated from/(used in) financing activities		**235.6**	(14.4)
Net increase in cash and cash equivalents		**266.2**	33.5
Cash and cash equivalents at the beginning of the year	17	**56.2**	22.7
Cash and cash equivalents at the end of the year	17	**322.4**	56.2

Notes to the Financial Statements

Electricity North West Limited is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006.

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

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

1. Adoption of new and revised Standards

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

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

Amendments to other standards:

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

- *Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards,*
- IFRS 3 (amendments) *Definition of a business,*
- IAS 1 and IAS 8 (amendments) *Definition of material.*

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 (and, in some cases, had not yet been adopted by the EU):

- IFRS 17 *Insurance Contracts,*
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,*
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*,
- 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,*
- *Annual Improvements to IFRS Standards 2018-2020 Cycle.*

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)

2. Significant accounting policies

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

Basis of accounting

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

Basis of consolidation

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

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

Accounting policies are consistent in all Group companies.

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

Business combinations and goodwill

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Investments (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.

Revenue recognition

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

Revenue from the distribution of electricity

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

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

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

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

Customer contributions

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Customer contributions (continued)

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

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

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

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

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

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

Refundable customer deposits

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

Dividend income

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

Investment income

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Leases

The 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 right-of-use assets are presented as a separate line in the consolidated statement of financial position.

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.

The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

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

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

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 Consolidated Income Statement;
- net interest expense or income, recognised within finance costs (see Note 9) in the Consolidated 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 the Statement of Comprehensive Income in the period in which they occur.

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

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

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

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.

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

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 and buildings, fixtures and equipment, vehicles and other assets.

Operational structures

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

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

Assets other than operational structures

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

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

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

Other assets are depreciated by writing off their cost evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of tangible and intangible fixed assets

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

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

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

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

Where an impairment loss subsequently reverses, the reversal is recognised immediately in 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.

Research and development

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

Inventories

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

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)

Classification of financial assets

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

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

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

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

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

Amortised cost and effective interest method

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

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

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial assets at FVTPL

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

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)

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

In the consolidated cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand, deposits, other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less and which are subject to an insignificant risk of change in value.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Money market deposits

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

Financial liabilities and equity

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

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 at FVTPL

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

Financial liabilities measured subsequently at amortised cost

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

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

Trade payables

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (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 21.

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

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

Embedded derivatives

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

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

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

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

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 hedging relationships in the Group.

Provisions

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the group's accounting policies

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

Property, Plant and Equipment

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

Notes to the Financial Statements (continued)

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

Key sources of estimation uncertainty

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

Impairment of tangible and intangible assets (including goodwill)

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

Fair values of derivative financial instruments

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

Retirement benefit schemes

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

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

Notes to the Financial Statements (continued)

4. Revenue

Group and Company	**2021 £m**	2020 £m
Revenue	**449.8**	**478.1**

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is, therefore, regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues from three customers (2020: three), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £158.8m (2020: £171.7m). No other customer represented more than 10% of revenues either this year or in the prior year.

In the current year £18.9m (2020: £18.3m) of customer contributions amortisation has been amortised through revenue in line with IFRS 15 (Note 25 & 32).

Notes to the Financial Statements (continued)

5. Operating profit

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

Group and Company	2021 £m	2020 £m
Employee costs (Note 6)	**59.1**	57.0
Depreciation and amortisation expense		
Depreciation of property, plant and equipment		
Owned and right-of-use assets (Note 13)	**120.0**	114.9
Amortisation of intangible assets		
Software (see Note 12)	**5.9**	6.5
Depreciation and amortisation expense	**125.9**	121.4
Other income		
Profit on disposal of property, plant and equipment	**(0.1)**	(0.6)
Provision charge/(credit) (Note 23)	**0.1**	(0.2)
Other operating costs include:		
Research and development	**2.3**	3.1

Analysis of the auditor's remuneration is as follows:

Group and Company	2021 £m	2020 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements*	**0.2**	0.1
Total audit fees	**0.2**	0.1
Audit-related assurance services	**0.1**	0.1
Total fees	**0.3**	0.2

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

Notes to the Financial Statements (continued)

6. Employee costs

Group and Company	2021 £m	2020 £m
Wages and salaries	**102.5**	97.8
Social security costs	**11.0**	10.7
Pension costs (see Note 22)	**20.2**	21.7
Employee costs (including Directors' remuneration)	**133.7**	130.2
Costs transferred directly to fixed assets	**(74.6)**	(73.2)
Charged to operating expenses	**59.1**	57.0

All employees and employee costs relate to the Company.

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

Group and Company	2021 Number	2020 Number
Electricity distribution	**1,918**	1,913

7. Directors' remuneration

Group and Company	2021 £m	2020 £m
Salaries and other short-term employee benefits	**1.3**	1.2
Accrued bonus	**0.5**	0.5
Amounts receivable under long-term incentive schemes	**0.5**	0.5
Total fees	**2.3**	2.2

The aggregate emoluments of the Directors in 2021 amounted to £2,360,000 (2020: £2,171,000). Emoluments comprise salaries, fees, taxable benefits, and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid Director in 2021 in respect of services to the Group amounted to £1,150,000 (2020: £1,025,000). Under the Executive Incentive Plan bonuses are awarded and either paid in the following financial year (accrued bonus) or paid in subsequent years (amounts receivable under long-term incentive schemes). There were no amounts payable for compensation for loss of office in the year (2020: £nil).

The pension contributions for the highest paid Director for 31 March 2021 were £nil (2020: £nil). The accrued pension at 31 March 2021 for the highest paid Director was £nil (2020: £nil).

As at 31 March 2021 the Directors have no interests in the ordinary shares of the Company (2020: same).

Notes to the Financial Statements (continued)

8. Investment income

Group and Company	2021 £m	2020 £m
Interest receivable on short-term bank deposits	**0.9**	0.1
Total investment income	**0.9**	0.1

9. Finance expense

Group and Company	2021 £m	2020 £m
Interest payable:		
Interest payable on Group borrowings (Note 31)	**17.5**	14.5
Interest on borrowings held at amortised cost	**40.9**	41.2
Net interest settlements on derivatives	**(9.5)**	(9.7)
Indexation of index-linked debt (Note 19)	**5.7**	10.2
Reimbursement of impairment on inter-company loan liability	**0.1**	-
Interest payable on leases	**0.2**	0.3
Interest cost/ (credit) on pension plan obligations (Note 22)	**0.3**	(1.0)
Capitalisation of borrowing costs under IAS 23	**(0.9)**	(1.1)
Total interest expense	**54.3**	54.4
Fair value movements on financial instruments:		
Fair value movement on derivatives	**57.9**	12.3
Total finance expense	**112.2**	66.7

Borrowing costs capitalised in the year under IAS 23 were £0.9m (2020: £1.1m), using an average annual capitalisation rate of 4.19**%** (2020: 4.0%), derived from the total general borrowing costs for the year divided by the average total general borrowings outstanding for the year.

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

There has been £nil (2020: £nil) accretion payments on the index-linked swaps in the year; these are scheduled five-yearly, seven-yearly and ten-yearly with the next payment due in July 2022.

A £200m interest rate swap, effective date July 2021, maturity date July 2030, was entered during the year (2020: none); no swaps were closed out during the year (2020: none).

Notes to the Financial Statements (continued)

10. Taxation

Group and Company	2021 £m	2020 £m
Current tax		
Current year	**21.6**	23.5
Adjustments in respect of prior year	**(0.9)**	(1.5)
	20.8	22.0
Deferred tax (Note 24)		
Current year	**(10.2)**	0.6
Adjustments in respect of prior year	**0.8**	1.5
Impact of change in future tax rates	**-**	19.4
	(9.4)	21.5
Tax charge for the year	**11.4**	43.5

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

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

The rate increase, had it been reflected in the accounts, would have increased the deferred tax liability by £42m.

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

Group and Company	2021 £m	2020 £m
Profit before tax	**64.8**	145.6
Tax at the UK corporation tax rate of 19% (2020: 19%)	**12.3**	27.7
Non-taxable (income)	**(0.8)**	(0.5)
Prior year tax adjustments	**(0.1)**	-
Impact from change in future tax rates	**-**	19.4
Release of provision	**-**	(3.1)
Tax charge for the year	**11.4**	43.5

Notes to the Financial Statements (continued)

11. Dividends

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

Group and Company	**2021 £m**	2020 £m
Final dividends for the year ended 31 March 2020 of zero pence (31 March 2019 of 3.54 pence per share)	**-**	16.9
Interim dividends for the year ended 31 March 2021 of 6.44 pence per share (31 March 2020: 4.49 pence)	**30.7**	21.4
	30.7	38.3

In the year ended 31 March 2021, the Company declared interim dividends of £30.7m, which were paid in December 2020 (2020: £21.4m). There was no final dividend declared for the year ended 31 March 2020; the final dividend for the year ended 31 March 2019 of £16.9m was paid in June 2019.

At the Board meeting in June 2021, the Directors proposed a final dividend for the year ended 31 March 2021 of £15.9m, subject to approval by equity holders of the Company, that is not a liability in the financial statements at 31 March 2021.

Notes to the Financial Statements (continued)

12. Intangible assets and goodwill

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
Cost				
At 1 April 2019	10.1	82.3	28.1	120.5
Additions	-	1.0	7.0	8.0
Transfers	-	6.9	(6.9)	-
At 31 March 2020	10.1	90.2	28.2	128.5
Additions	**-**	**1.8**	**6.7**	**8.5**
Transfers	**-**	**3.7**	**(3.7)**	**-**
Reclassification from tangible to intangible	**-**	**3.3**	**-**	**3.3**
At 31 March 2021	**10.1**	**99.0**	**31.2**	**140.3**
Amortisation				
At 1 April 2019	-	68.2	-	68.2
Charge for the year	-	6.5	-	6.5
At 31 March 2020	-	74.7	-	74.7
Charge for the year	**-**	**5.9**	**-**	**5.9**
Reclassification from tangible to intangible	**-**	**0.2**	**-**	**0.2**
At 31 March 2021	**-**	**80.8**	**-**	**80.8**
Net book value				
At 31 March 2021	**10.1**	**18.2**	**31.2**	**59.5**
At 31 March 2020	10.1	15.5	28.2	53.8

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

At 31 March 2021, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £12.5m (2020: £9.2m).

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 (see Note 13).

Notes to the Financial Statements (continued)

13. Property, plant and equipment

Group and Company	Operational Structures £m	Non-operational land and buildings £m	Fixtures, equipment, vehicles and other £m	Assets under the course of construction £m	Right of use assets £m	Total £m
Cost or valuation						
At 1 April 2019	4,704.4	33.7	128.0	147.6	-	5,013.7
Adoption of IFRS 16	-	-	-	-	6.3	6.3
Additions	174.4	0.3	13.4	22.4	-	210.5
Transfers	40.5	0.2	9.0	(49.7)	-	-
Disposals	(3.8)	-	(0.8)	-	-	(4.6)
At 31 March 2020	4,915.5	34.2	149.6	120.3	6.3	5,225.9
Additions	**151.2**	**1.2**	**10.6**	**29.3**	**0.6**	**192.9**
Transfers	**12.1**	**0.5**	**18.1**	**(30.7)**	**-**	**-**
Disposals	**(3.2)**	**-**	**(2.0)**	**-**	**(0.3)**	**(5.5)**
Reclassification from tangible to intangible	**-**	**-**	**(3.3)**	**-**	**-**	**(3.3)**
At 31 March 2021	**5,075.6**	**35.9**	**173.0**	**118.9**	**6.6**	**5,410.0**
Accumulated depreciation and impairment						
At 1 April 2019	1,650.4	10.4	93.2	-	-	1,754.0
Charge for the year	100.3	1.0	12.4	-	1.2	114.9
Disposals	(3.8)	-	(0.8)	-	-	(4.6)
At 31 March 2020	1,746.9	11.4	104.8	-	1.2	1,864.3
Charge for the year	**103.0**	**1.0**	**14.5**	**-**	**1.4**	**119.9**
Disposals	**(3.2)**	**-**	**(2.0)**	**-**	**(0.3)**	**(5.5)**
Reclassification from tangible to intangible	**-**	**-**	**(0.2)**	**-**	**-**	**(0.2)**
At 31 March 2021	**1,846.7**	**12.4**	**117.1**	**-**	**2.3**	**1,978.5**
Net book value						
At 31 March 2021	**3,228.9**	**23.5**	**55.9**	**118.9**	**4.3**	**3,431.5**
At 31 March 2020	3,168.6	22.8	44.8	120.3	5.1	3,361.6

At 31 March 2021, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £97.2m (2020: £99.6m).

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

At 31 March 2021, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £3,325.9m (2020: £3,257.9m). The revaluation reserve is disclosed in Note 28, net of deferred tax. The revaluation reserve arose following North West Water's acquisition of Norweb, in 1997.

Impairment testing of intangible assets and property plant and equipment

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

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

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

The Group has prepared cash flow forecasts for a 27 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. The rate used to discount cash flows reflects an assumed level of risk associated with the cash flows generated from the licence.

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

Notes to the Financial Statements (continued)

14. Investments

	Group £m	Company £m
At 31 March 2020 and 31 March 2021	**-**	**15.4**

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

Details of the investments as at 31 March 2021, all of which were incorporated in the UK, and the principal place of business of each is in the UK, are as follows.

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

There have been no changes to these shareholdings during the year and the address of the registered office of the investments above is Borron Street, Stockport, SK1 2JD, with the exception of Nor.Web DPL Limited whose registered office is 304 Bridgewater Place, Birchwood Park, Warrington, WA3 6XG.

15. Inventories

Group and Company	2021 £m	2020 £m
Raw material and consumables	**14.0**	10.8

Notes to the Financial Statements (continued)

16. Trade and other receivables

Group and Company	2021 £m	2020 £m
Trade receivables	**7.7**	7.9
Amounts owed by affiliated undertakings (Note 31)	**6.1**	5.8
Prepayments and accrued income	**61.5**	49.7
Balance at 31 March	**75.3**	63.4

The average credit period taken on sales is 14 days (2020: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £2.5m (2020: £1.3m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

At 31 March 2021, 81% of the Group trade receivables are past due but not impaired (2020: 44%). A balance of £3.1m (2020: £2.4m) is less than 30 days past due, against which an allowance for doubtful debt of £0.4m (2020: nil) has been made; a balance of £5.7m is greater than 30 days past due (2020: £2.1m), against which an allowance for doubtful debt of £2.1m (2020: £1.3m) has been made.

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

Group and Company	2021 £m	2020 £m
Balance at 1 April	**1.3**	1.3
Amounts written off in the year	**(0.1)**	(0.3)
Amounts recognised in the income statement	**1.3**	0.3
Balance at 31 March	**2.5**	1.3

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

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value (RAV) of the Company. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level, under the contract, the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2021 £2.6m (2020: £3.3m) 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 2016 to 31 March 2023) and for the year ended 31 March 2021 is £1,948m (2020: £1,896m) based on the actual retail price index (RPI) for March .

Notes to the Financial Statements (continued)

16. Trade and other receivables (continued)

At 31 March 2021, £143.0m (2020: £132.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £7.4m (2020: £7.2m). 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.

17. Cash and cash equivalents and money market deposits

Group and Company	**2021 £m**	2020 £m
Cash and cash equivalents	**322.4**	56.2
Balance at 31 March	**322.4**	56.2

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

The effective interest rate on all short-term deposits was a weighted average of 0.33% (2020: 0.48%) and these deposits had an average maturity of 1 day (2020: 1 day).

18. Trade and other payables

	Group 2021 £m	**Company 2021 £m**	Group 2020 £m	Company 2020 £m
Trade payables	**26.3**	**26.3**	13.8	13.8
Amounts owed to affiliated undertakings (Note 31)	**7.0**	**7.0**	3.9	3.9
Amounts owed to subsidiary undertakings (Note 31)	**-**	**15.5**	-	15.4
Other taxation and social security	**11.1**	**11.1**	13.7	13.7
Customer contributions (Note 25)	**24.7**	**24.7**	20.3	20.3
Refundable customer deposits (Note 26)	**2.6**	**2.6**	3.3	3.3
Accruals and deferred income	**71.0**	**71.2**	71.2	71.5
Balance at 31 March	**142.7**	**158.4**	126.2	141.9

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 19.7 days from receipt of invoice (2020: 19 days).

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

Notes to the Financial Statements (continued)

19. Borrowings

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

Group and Company	2021 £m	2020 £m
Current liabilities		
Bank and other term borrowings	**7.1**	7.0
Lease liabilities (Note 20)	**1.3**	1.9
Amounts owed to affiliated undertaking (Note 31)	**199.8**	-
	208.2	8.9
Non-current liabilities		
Bonds	**631.9**	634.4
Bank and other term borrowings	**248.2**	282.0
Lease liabilities (Note 20)	**3.3**	3.6
Amounts owed to parent undertaking (Note 31)	**82.2**	77.4
Amounts owed to affiliated undertaking (Note 31)	**298.5**	199.3
	1,264.1	1,196.7
Total borrowings	**1,472.3**	1,205.6

Carrying value by category

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

Group and Company	Nominal value £m	Interest rate %	Maturity year	2021 Carrying value £m	2020 Carrying value £m
Borrowings measured at amortised cost:					
Bond	200.0	8.875%	2026	**197.8**	197.5
Bond	250.0	8.875%	2026	**281.3**	286.5
Index-linked bond	100.0	1.4746%+RPI	2046	**152.8**	150.4
Index-linked loan	135.0	1.5911%+RPI	2024	**174.6**	172.5
Index-linked loan	50.0	0.38% +RPI	2032	**38.8**	41.8
Index-linked loan	50.0	0%+RPI	2033	**41.9**	44.8
Revolving credit facility	50.0	Libor+0.35%	2022	**-**	29.9
Lease liabilities (Note 20)				**4.6**	5.5
Amounts owed to parent undertaking	125.0	2.53%	2023	**82.2**	77.4
Amounts owed to affiliated undertaking	200.0	6.125%	2021	**199.8**	199.3
Amounts owed to affiliated undertaking	300.0	1.415%	2030	**298.5**	-
Total borrowings				**1,472.3**	1,205.6

Notes to the Financial Statements (continued)

19. Borrowings (continued)

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

Group and Company	2021 £m	2020 £m
At 1 April	**1,205.6**	1,168.6
Recognition of lease liabilities on transition to IFRS 16	**-**	6.7
Proceeds from external borrowings	**-**	30.0
Repayments of external borrowings	**(37.0)**	(7.0)
Repayments of lease liabilities	**(1.5)**	(1.2)
New lease liabilities	**0.5**	-
Movement of inter-company loan from parent	**4.8**	2.1
New inter-company loan from affiliated company	**300.0**	-
Transaction costs on new inter-company loan from affiliated company	**(1.6)**	-
Indexation (Note 9)	**5.7**	10.2
Amortisation of transaction costs, bond discounts and premiums	**(4.2)**	(3.8)
At 31 March	**1,472.3**	1,205.6

As at 31 March 2021 all loans and borrowings are unsecured and are in sterling (2020: same). There were no formal bank overdraft facilities in place (2020: same). The fair values of the Group's financial instruments are shown in Note 21.

Borrowing facilities

The Group and Company had £50.0m (2020: £20.0m) unutilised committed bank facilities at 31 March 2021; £50.0m (2020: £nil) expires within one year, nil (2020: £20.0m) expires after one year but less than two years and £nil (2020: £nil) expires in more than two years.

Notes to the Financial Statements (continued)

20. Leases

	Group 2021 £m	Company 2021 £m	Group 2020 £m	Company 2020 £m
Lease assets:				
Land and buildings	**2.3**	**2.3**	2.5	2.5
Telecoms	**0.1**	**0.1**	0.2	0.2
Vehicles	**1.9**	**1.9**	2.4	2.4
Total assets (Note 13)	**4.3**	**4.3**	5.1	5.1
Lease liabilities:				
Land and buildings	**2.6**	**2.6**	2.9	2.9
Telecoms	**0.1**	**0.1**	0.2	0.2
Vehicles	**1.9**	**1.9**	2.4	2.4
Total liabilities (Note 19)	**4.6**	**4.6**	5.5	5.5

The lease liabilities have been discounted at 5% for land and buildings, and telecoms; and at 6% for vehicles.

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

Group and Company	**<1 year £m**	**1 – 2 years £m**	**2 – 3 years £m**	**3 – 4 years £m**	**>4 years £m**	**Total £m**
At 31 March 2020:	**1.9**	**2.0**	**0.7**	**0.2**	**0.7**	**5.5**
At 31 March 2021:	**1.3**	**1.3**	**0.3**	**0.4**	**1.3**	**4.6**

Notes to the Financial Statements (continued)

21. Financial instruments

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

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

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

The accounting policy for derivatives is provided in Note 2.

Categories of financial instruments

Group and Company	Group 2021 £m	Company 2021 £m	Group 2020 £m	Company 2020 £m
Financial assets:				
Cash and cash equivalents (Note 17)	**322.4**	**322.4**	56.2	56.2
Trade and other receivables (exc. prepayments) (Note 16)	**13.8**	**13.8**	13.7	13.7
Financial liabilities:				
Derivative instruments at FVTPL	**(474.9)**	**(474.9)**	(416.9)	(416.9)
Financial liabilities at amortised cost (Note 19)	**(1,472.3)**	**(1,472.3)**	(1,205.6)	(1,205.6)
Trade and other payables (exc. accruals) (Note 18)	**(60.6)**	**(76.1)**	(41.3)	(56.7)

Control over financial instruments

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

Risk management

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

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Group's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

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

Credit risk

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

Treasury activities

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

The Directors do not believe that the Group is exposed to any material concentrations of credit risk in relation to treasury investments, including amounts on deposit with counterparties. As at 31 March 2021, none (2020: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been re-negotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

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

Group and Company	**2021 £m**	**2021 %**	2020 £m	2020 %
AAA	**60.9**	**17.9**	23.2	29.7
AA	**-**	**-**	-	-
AA-	**-**	**-**	1.7	2.1
A+	**159.3**	**46.8**	33.7	43.1
A	**120.4**	**35.3**	19.7	25.1
	340.6	**100.0**	78.3	100.0

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Trade receivables

Significant changes in the economy or in the utilities sector could result in losses not necessarily provided for at the Statement of Financial Position date. Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers; there are only three (2020: three) principal customers, see Note 4. Each of these customers has a contract in place with the Group, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management, therefore, closely monitor adherence to this process, including closely monitoring the credit worthiness of each of these customers.

At 31 March 2021 there was £8.8m receivables past due (2020: £4.6m) against which an allowance for doubtful debts of £2.5m has been made (2020: £1.3m).

Exposure to credit risk

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

Group and Company	**2021 £m**	2020 £m
Trade receivables (Note 16)	**7.7**	7.9
Amounts owed by Group undertakings (Note 16)	**6.1**	5.8
Cash and cash equivalents (Note 17)	**322.4**	56.2
Balance at 31 March	**336.2**	69.9

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which currently project cash flows out 27 years ahead, to the end of the Regulatory Period ending 31 March 2048. A medium-term view is provided by the Group business plan covering the remainder of the current Regulatory Period ending 31 March 2023, which is updated and approved annually by the Board. The Board has approved a liquidity framework within which the business operates, including the maintenance of a minimum of 18 months liquidity, subject to excluding any ENWL and ENW Finance plc debt maturing between 12 and 18 months whilst maintaining appropriate credit ratings.

Available liquidity at 31 March was as follows:

Group and Company	**2021 £m**	2020 £m
Cash and cash equivalents	**322.4**	56.2
Committed undrawn bank facilities	**50.0**	20.0
Balance at 31 March	**372.4**	76.2

Cash and cash equivalents comprise cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of less than three months, net of any unpresented cheques. There was no formal bank overdraft facility in place during the year (2020: none).

At 31 March 2021, the Group and Company had committed undrawn bank facilities of £50.0m (2020: £20.0m), including £50.0m (2020: £nil) expiring within one year, £nil (2020: £20.0m) expiring after one year but less than two years and £nil (2020: £nil) expiring in more than two years.

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cash flows within particular time periods. The Group uses economic hedges to ensure that certain cash flows can be matched.

The following is an analysis of the maturity profile of contractual cash flows of financial liabilities, including principal and interest payable under financial liabilities and derivative financial instruments on an undiscounted basis. Derivative cash flows have been shown net; all other cash flows are shown gross.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Group and Company	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
At 31 March 2021:						
Trade payables	**(26.3)**	**-**	**-**	**-**	**-**	**(26.3)**
Refundable customer deposits	**(2.6)**	**-**	**-**	**-**	**-**	**(2.6)**
Amounts owed to parent undertaking	**(2.0)**	**(84.9)**	**-**	**-**	**-**	**(86.9)**
Amounts owed to affiliated companies	**(210.3)**	**(4.3)**	**(4.3)**	**(4.3)**	**(325.5)**	**(548.7)**
Bonds	**(42.2)**	**(42.2)**	**(42.2)**	**(42.2)**	**(692.3)**	**(861.1)**
Borrowings and overdrafts	**(10.0)**	**(9.9)**	**(184.9)**	**(7.2)**	**(53.3)**	**(265.3)**
Derivative financial instruments	**3.2**	**(11.4)**	**(45.5)**	**(2.7)**	**(366.3)**	**(422.7)**
	(290.2)	**(152.7)**	**(276.9)**	**(56.4)**	**(1,437.4)**	**(2,213.6)**
At 31 March 2020:						
Trade payables	(13.8)	-	-	-	-	(13.8)
Refundable customer deposits	(3.3)	-	-	-	-	(3.3)
Amounts owed to parent undertaking	(2.0)	(2.0)	(80.0)	-	-	(84.0)
Amounts owed to affiliated companies	(12.3)	(206.1)	-	-	-	(218.4)
Bonds	(42.2)	(42.2)	(42.2)	(42.2)	(731.8)	(900.6)
Borrowings and overdrafts	(39.9)	(9.9)	(9.9)	(182.4)	(59.6)	(301.7)
Derivative financial instruments	9.6	4.1	(9.6)	(42.1)	(264.1)	(302.1)
	(103.9)	(256.1)	(141.7)	(266.7)	(1,055.5)	(1,823.9)

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk, and these are explained below.

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

The Group has no significant foreign exchange, equity or commodity exposure.

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

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Interest rate risk

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

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

Sensitivity analysis on interest

The following sensitivity analysis is used by Group management to monitor interest rate risk and shows the amount by which the fair value of items recorded on the Statement of Financial Position at fair value would be adjusted for a given interest rate movement. As fair value movements are taken to the Income Statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

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

			2021			2020
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in interest rates	**£m**	**£m**	**£m**	£m	£m	£m
Interest rate swaps	**8.2**	**(7.7)**	**(15.0)**	-	-	-
Inflation-linked swaps	**(39.8)**	**52.7**	**93.3**	(57.7)	52.0	99.0
Total finance expense impact	**(31.6)**	**45.0**	**78.3**	(57.7)	52.0	99.0

The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. At 31 March 2021, the Group had no floating rate borrowings (2020: £30.0m). The analysis below shows the impact on profit for the year if interest rates over the course of the year had been different from the actual rates.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Group and Company Change in interest rates	**-0.5%** **£m**	**+0.5%** **£m**	**2021** **+1%** **£m**	-0.5% £m	+0.5% £m	2020 +1% £m
Floating rate borrowings	**-**	**-**	**-**	-	-	-
Total cash flow impact	**-**	**-**	**-**	-	-	-

Although the above measures provide an indication of the Group's exposure to market risk, such measures are limited due to the long-term nature of many of the financial instruments and the uncertainty over future market rates.

Index-linked debt is carried at amortised cost and as such the Statement of Financial Position in relation to this debt is not exposed to movements in interest rates.

Inflation risk

The Group's revenues are linked to movements in inflation, as measured by the Retail Prices Index (RPI). To economically hedge exposure to RPI, the Company links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's index-linked swaps are exposed to a risk of change in their fair value and future cash flows due to changes in inflation rates. The Group's revenues are linked to RPI via returns on the Regulated Asset Value (RAV) and an increase in RPI would increase revenues, mitigating any increase in finance expense.

Sensitivity analysis on inflation

The Group's inflation-linked derivatives are exposed to a risk of change in their fair value due to changes in inflation rates. The following sensitivity analysis is used by Group management to monitor inflation rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve, a range in outcomes that management deem reasonably possible within the next financial year.

Group and Company Change in inflation rates	**-0.5%** **£m**	**+0.5%** **£m**	**2021** **+1%** **£m**	-0.5% £m	+0.5% £m	2020 +1% £m
Inflation-linked swaps	**67.0**	**(73.2)**	**(153.2)**	66.7	(73.2)	(153.7)
Total finance expense impact	**67.0**	**(73.2)**	**(153.2)**	66.7	(73.2)	(153.7)

The sensitivity analysis above shows the amount by which the fair value of items recorded on the Statement of Financial Position at fair value would be adjusted for a given inflation rate movement. As fair value movements are taken to the Income Statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

The Group's inflation-linked borrowings and derivatives are exposed to a risk of change in cash flows due to changes in inflation rates. The analysis below shows the impact on profit for the year if inflation rates over the course of the year had been different from the actual rates. The change in indexation has a corresponding impact on the carrying value of the inflation-linked debt.

			2021			2020
Group and Company	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
Change in inflation rates	**£m**	**£m**	**£m**	£m	£m	£m
Inflation-linked borrowings – indexation charge	**2.0**	**(2.0)**	**(4.1)**	2.1	(2.1)	(4.0)
Inflation-linked borrowings – interest charge	**-**	**-**	**(0.1)**	-	-	(0.1)
Inflation-linked swaps – interest charge	**0.1**	**(0.1)**	**(0.1)**	0.1	(0.1)	(0.1)
Total finance expense impact	**2.1**	**(2.1)**	**(4.3)**	2.2	(2.2)	(4.2)

Notes to the Financial Statements (continued)

21. 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.

Group and Company	At 31 March 2020 £m	Financing cash flows £m	Non-cash changes: Amounts on transition to IFRS 16 £m	Non-cash changes: Fair value movement £m	Non-cash changes: Indexation £m	Non-cash changes: Other changes £m	At 31 March 2021 £m
Bonds	**634.4**	**-**	**-**	**-**	**2.4**	**(4.9)**	**631.9**
Bank borrowings	**289.0**	**(37.0)**	**-**	**-**	**3.3**	**-**	**255.3**
Lease liabilities	**5.5**	**(1.5)**	**-**	**-**	**-**	**0.6**	**4.6**
Amounts owed to parent	**77.4**	**4.8**	**-**	**-**	**-**	**-**	**82.2**
Amount owed to affiliate	**199.3**	**300.0**	**-**	**-**	**-**	**(1.0)**	**498.3**
Derivatives	**416.9**	**-**	**-**	**58.0**	**-**	**-**	**474.9**
	1,622.5	**266.3**	**-**	**58.0**	**5.7**	**(5.3)**	**1,947.2**

Group and Company	At 1 April 2019 £m	Financing cash flows £m	Non-cash changes: Amounts on transition to IFRS 16 £m	Non-cash changes: Fair value movement £m	Non-cash changes: Indexation £m	Non-cash changes: Other changes £m	At 31 March 2020 £m
Bonds	634.8	-	-	-	4.1	(4.5)	634.4
Bank borrowings	259.8	23.0	-	-	6.1	0.1	289.0
Lease liabilities	-	(1.2)	6.7	-	-	-	5.5
Amounts owed to parent	75.3	2.1	-	-	-	-	77.4
Amount owed to affiliate	198.7	-	-	-	-	0.6	199.3
Derivatives	404.6	-	-	12.3		-	416.9
	1,573.2	23.9	6.7	12.3	10.2	(3.8)	1,622.5

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to inflation-linked to more accurately match the revenue profile. The table below summarises the various external derivatives held by the Group at 31 March 2021 (2020: same); each category includes multiple instruments and the pay leg rate stated is the aggregate rate for that category.

Notional	Number	Type	Maturity	Pay Leg	Receive Leg	Accretion
£200m*	14	Index-linked	2038	3.56% + RPI, semi-annual	6.125%, semi-annual	5-yearly, next due July 2022 7-yearly, next due July 2023
£100m**	4	Index-linked	2050	1.51%+RPI, semi-annual	8.875%, annual	10-yearly, next due Sept 2030

*6.125% up to and including the 21 July 2021 settlement date, then changes to 6m Libor for the remaining term of the instruments.
**8.875% up to and including the 26 March 2026 settlement date, then changes to 6m Libor for the remaining term of the instruments.

The Company entered a £200m notional interest rate swap during the year. This swap has an effective date of July 2021 and a maturity date of July 2030. It has been entered to hedge the Libor exposure on the above £200m index-linked swaps, when that begins from July 2021.

The Company also has two inter-company swaps with ENW Finance plc. The first is a back-to-back swap, mirroring the terms of the £200m notional external swaps. The second is a mirror of that back-to-back swap, the terms of which are defined in the £200m inter-company loan between the two entities; this is an embedded derivative that is bifurcated from the host contract and recorded as a separate instrument in the Company.

Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. At 31 March 2021, the Group's derivatives are not designated in formal hedging relationships (2020: same), and instead are measured at fair value through the Income Statement.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the Statement of Financial Position date. Cash and cash equivalents, trade and other receivables and trade and other payables are excluded as the book values approximate to the fair values because of their short-term nature.

Group and Company	2021 Carrying value £m	2021 Fair value £m	2020 Carrying value £m	2020 Fair value £m
Current liabilities:				
Borrowings measured at amortised cost (Note 19)	**(7.1)**	**(7.1)**	(7.0)	(7.0)
Amounts due to affiliated companies (Note 19)	**(199.8)**	**(203.3)**	-	-
Lease liabilities (Note 19)	**(1.3)**	**(1.3)**	(1.9)	(1.9)
Non-current liabilities:				
Borrowings measured at amortised cost (Note 19)	**(880.1)**	**(1,107.7)**	(916.4)	(1,171.9)
Amounts due to parent undertaking (Note 19)	**(82.2)**	**(82.2)**	(77.4)	(77.4)
Amounts due to affiliated companies (Note 19)	**(298.5)**	**(290.2)**	(199.3)	(212.3)
Lease liabilities (Note 19)	**(3.3)**	**(3.3)**	(3.6)	(3.6)
Derivative financial instruments	**(474.9)**	**(474.9)**	(416.9)	(416.9)
	(1,947.2)	**(2,170.0)**	(1,622.5)	(1,891.0)

The value of derivatives is disclosed gross of any collateral held. At 31 March 2021, the group held £nil (2020: £nil) as collateral in relation to derivative financial instruments, included within current liabilities (see Note 18). The cash collateral does not meet the offsetting criteria in IAS 32:42, but it can be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

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)

21. 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 (see Level 2 in the fair value hierarchy above) 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.

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

The adjustment for non-performance risk, as at 31 March 2021, is £76.4m (2020: £106.8m), of which £73.4m (2020: £106.3m) is classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value loss. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. This difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised in profit or loss is £53.0m (2020: £56.6m). The movement in the period all relates to the straight-line release to profit or loss.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Group and Company	2021 £m	2020 £m
FV of derivatives pre IFRS 13 adjustment	**(604.3)**	(580.3)
CVA/DVA adjustment	**76.4**	106.8
Day 1 adjustment	**53.0**	56.6
IFRS 13 FV of derivatives	**(474.9)**	(416.9)

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

Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2021:				
Derivative financial liabilities:				
-£300m notional inflation-linked swaps	**-**	**(47.6)**	**(415.0)**	**(462.6)**
-£200m notional interest rate swaps	**-**	**(12.3)**	**-**	**(12.3)**
	-	**(59.9)**	**(415.0)**	**(474.9)**
At 31 March 2020:				
Derivative financial liabilities:				
-£300m notional inflation-linked swaps	-	(12.6)	(404.3)	(416.9)
	-	(12.6)	(404.3)	(416.9)

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

Group and Company	2021 £m	2020 £m
At 1 April	**(404.3)**	(395.4)
Transfers into Level 3 from Level 2	**-**	-
Transfers from Level 3 into Level 2	**33.1**	-
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	**-**	-
- On instruments carried forward in Level 3	**(43.8)**	(8.9)
At 31 March	**(415.0)**	(404.3)

The movement in the fair values of the derivative portfolio was largely due to fair value movements; additional interest-rate swaps totalling £200m were entered during the year, with fair value of £12.3m liability at 31 March 2021. No swaps were closed out during the year.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

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

Group and Company	**2021 -10bps £m**	**2021 +10bps £m**	2020 -10bps £m	2020 +10bps £m
Inflation-linked swaps	**(2.1)**	**2.0**	(2.0)	1.9

Fair value measurements disclosed but not recognised in the Statement of Financial Position

Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2021:				
Borrowings measured at amortised cost	**(1,118.1)**	**-**	**-**	**(1,118.1)**
Amounts due to affiliated companies	**(493.5)**	**-**	**-**	**(493.5)**
	(1,611.6)	**-**	**-**	**(1,611.6)**
At 31 March 2020:				
Borrowings measured at amortised cost	(1,178.9)	-	-	(1,178.9)
Amounts due to affiliated companies	(212.3)	-	-	(212.3)
	(1,391.2)	-	-	(1,178.9)

Notes to the Financial Statements (continued)

22. Retirement benefit schemes

Group and Company

Nature of Scheme

The Group's retirement benefit arrangement is the Electricity North West Group of the ESPS ("the Scheme") and forms part of the Electricity Supply Pension Scheme (ESPS). The Scheme contains both a defined benefit section and a defined contribution section. The defined benefit section of the Scheme closed to new entrants on 1 September 2006, with new employees of the Group subsequently provided with access to the defined contribution section.

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

During the prior year, the scheme completed a pensioner buy-in for around 80% of the its pensioner liabilities. This has the effect of removing longevity and investment risks for this part of the membership. The gross liability remains recognised on the balance sheet, with an equivalent insurance asset recognised. The impact of the purchase of the pensioner buy-in was recognised as part of Other Comprehensive Income in the prior year.

During the year the Group made contributions of £28.5m (2020: £30.3m) to the defined benefit section of the Scheme. This includes £18.9m (2020: £18.3m) of deficit contributions. The Group estimates that contributions for the year ending 31 March 2022 will amount to around £29.6m which includes £19.4m of expected deficit contribution payments. The total defined benefit pension expense for the year was £15.1m (2020: £15.2m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2021 contributions of £2.4m (2020: £2.5m) relating to the current reporting period had not been paid over to the defined benefit Scheme.

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

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

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Funding the liabilities

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation was carried out as at 31 March 2019 and identified a shortfall of £69.5m against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2019 actuarial valuation the Group agreed to remove the shortfall by paying annual contributions to 2023.

The results of the 2019 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 *'Employee Benefits'* in order to assess the position as at 31 March 2021 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 deficit under IAS 19 (revised 2011) of £68.6m is included in the Statement of Financial Position at 31 March 2021 (2020: deficit of £26.3m).

The weighted average duration of the defined benefit obligation is approximately 18 years (2020: 17 years).

Investment risks

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

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

Other risks

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

These risks are managed through de-risking and hedging strategies and are measured and reported at Board level. In particular in October 2019 the Scheme completed a pensioner buy-in with Scottish Widows for around 80% of the Scheme's pensioner liabilities. This had the effect of removing longevity and investment risks for this part of the membership.

Winding up

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

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Defined Contribution arrangements

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

The total cost charged to the Income Statement in relation to the defined contribution section for the year ended 31 March 2021 was £6.3m (2020: £5.7m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2021 contributions of £nil (2020: £nil) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

Defined Benefits employee benefits

The reconciliation of the opening and closing Statement of Financial Position is as follows:

Group and Company	2021 £m	2020 £m
At 1 April	**(26.3)**	32.8
Expense recognised in the Income Statement	**(15.1)**	(15.2)
Contributions paid	**28.5**	30.3
Total re-measurement included in Other Comprehensive Income	**(55.7)**	(74.1)
At 31 March	**(68.6)**	(26.3)

The balance recognised in the Statement of Financial Position is as follows:

Group and Company	2021 £m	2020 £m
Present value of defined benefit obligations	**(1,434.9)**	(1,317.9)
Fair value of plan assets	**1,366.3**	1,291.7
Net liability arising from defined benefit obligation	**(68.6)**	(26.3)

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

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

Group and Company	2021 £m	2020 £m
At 1 April	**1,317.9**	1,372.1
Current service cost	**13.9**	15.0
Interest expense	**28.3**	32.3
Member contributions	**1.5**	1.6
Past service costs:		
Augmentation	**-**	-
GMP equalisation	**-**	-
Re-measurement:		
Effect of changes in demographic assumptions	**(1.2)**	12.4
Effect of changes in financial assumptions	**144.1**	(43.4)
Effect of experience adjustments	**-**	(6.5)
Benefits paid	**(69.6)**	(65.6)
At 31 March	**1,434.9**	1,317.9

The liability value as at 31 March is made up of the following approximate splits:

Group and Company	2021 £m	2020 £m
Liabilities owing to active members	**490.2**	394.0
Liabilities owing to deferred members	**76.7**	83.0
Liabilities owing to pensioner members	**868.0**	840.9
Total liability at 31 March	**1,434.9**	1,317.9

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

Group and Company	2021 £m	2020 £m
At 1 April	**1,291.7**	1,404.9
Interest income	**28.0**	33.3
Return on plan assets (net of interest income)	**87.1**	(111.6)
Employer contributions	**28.5**	30.3
Member contributions	**1.5**	1.6
Benefits paid	**(69.6)**	(65.6)
Scheme administration expenses	**(0.9)**	(1.2)
At 31 March	**1,366.3**	1,291.7

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

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

Group and Company	2021 £m	2020 £m
Current service cost	**(13.9)**	(15.0)
Past service cost:		
Augmentation	**-**	-
GMP equalisation	**-**	-
Interest income on plan assets	**28.0**	33.3
Interest (expense) on Scheme obligations	**(28.3)**	(32.3)
Administration expenses	**(0.9)**	(1.2)
Net pension expense before taxation	**(15.1)**	(15.2)

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

The amounts recognised in Other Comprehensive Income is as follows:

Group and Company	2021 £m	2020 £m
Return on scheme assets excluding interest income	**87.1**	(111.6)
Actuarial gain / (loss) arising from changes in demographic assumptions	**1.2**	(12.4)
Actuarial (loss) / gain arising from changes in financial assumptions	**(144.1)**	43.4
Experience gains on liabilities	**-**	6.5
Total loss recognised in Other Comprehensive Income	**(55.7)**	(74.1)

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

Group and Company	2021 %	2020 %
Discount rate	**2.00**	2.20
Pensionable salary increases	**3.40**	2.70
Pension increases	**3.20**	2.70
Price inflation (RPI)	**3.40**	2.70

The mortality rates utilised in the valuation are based on the standard actuarial tables S2PA (birth year) tables with a loading of 100% for male pensioners (2020: 100%), 95% for female pensioners (2020: 95%), 110% for male non-pensioners/future pensioners (2020: 110%) and 105% for female non-pensioners/future pensioners (2020: 105%). These loading factors allow for differences in expected mortality between the Scheme population and the population used in the standard tables. A long-term improvement rate of 1.5% p.a. is assumed within the underlying CMI 2020 model (2020: 1.5% CMI 2019 model).

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

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

Group and Company **Male life expectancy at age 60**	**2021** **Years**	2020 Years
Retired member	**27.1**	27.1
Non-retired member (current age 45)	**27.7**	27.6

The following table presents a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension deficit, the measurement of which depends on a number of factors including the fair value of Scheme assets. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase.

Group and Company **Increase in Defined Benefit Obligation**	**2021** **£m**	2020 £m
Discount rate: decrease by 25 basis points	**65.9**	57.9
Price inflation: increase by 25 basis points	**43.7**	52.5
Life expectancy: increase longevity by 1 year	**64.2**	59.0

As at 31 March 2021, the fair value of the Scheme's assets and liabilities recognised in the Statement of Financial Position were as follows:

Group and Company **At 31 March**	**Scheme assets** **2021** **%**	**Quoted on exchange / liquid**	**Unquoted**	**Total Value** **2021** **£m**	Scheme assets 2020 %	Value 2020 £m
Cash and Cash equivalents	**3.2**	**43.9**	**-**	**43.9**	0.8	10.6
Equity instruments	**3.6**	**48.7**	**-**	**48.7**	2.7	35.3
Debt instruments	**30.6**	**333.0**	**84.8**	**417.8**	32.1	414.5
Real estate	**9.4**	**-**	**128.0**	**128.0**	11.3	146.4
Distressed debt	**0.9**	**-**	**11.9**	**11.9**	1.3	16.2
Hedge funds	**-**	**-**	**-**	**-**	-	-
Pensioner buy-in	**52.3**	**-**	**716.0**	**716.0**	51.8	668.7
Total fair value of assets	**100.0**	**425.6**	**940.7**	**1,366.3**	**100.0**	1,291.7
Present value of liabilities				**(1,434.9)**		(1,317.9)
Net retirement benefit obligation				**(55.7)**		**(26.3)**

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)

23. Provisions

Group and Company	2021 £m	2020 £m
At 1 April	**1.8**	3.0
Amounts charged/ (released) to the income statement (Note 5)	**0.1**	(0.2)
Reclassified under IFRS 16 as property lease liabilities	**-**	(0.6)
Utilisation of provision	**(0.2)**	(0.4)
At 31 March	**1.7**	1.8

Group and Company	2021 £m	2020 £m
Current	**0.4**	0.1
Non-current	**1.3**	1.7
At 31 March	**1.7**	1.8

The Company 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 2021 of £1.5m (2020: £1.7m) on a discounted basis relates to the Company's 6.7% share of the liabilities.

The remainder of the provision relates to Comet properties and is all due less than one year.

Notes to the Financial Statements (continued)

24. Deferred tax

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

Group and Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2019	195.0	5.3	(50.3)	150.0
Charged/(credited) to the Income Statement	24.3	5.2	(8.0)	21.5
Deferred tax on re-measurement of defined benefit pension scheme	-	(14.0)	-	(14.0)
Adjustment due to change in future tax rates brought forward deferred tax in OCI	-	(1.7)	-	(1.7)
At 31 March 2020	219.3	(5.2)	(58.3)	155.8
Charged/(credited) to the Income Statement	**(0.1)**	**2.5**	**(11.8)**	**(9.4)**
Deferred tax on re-measurement of defined benefit pension scheme	**-**	**(10.6)**	**-**	**(10.6)**
Adjustment due to change in future tax rates brought forward deferred tax in OCI	**-**	**-**	**-**	**-**
At 31 March 2021	**219.2**	**(13.3)**	**(70.1)**	**135.8**

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

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

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

The rate increase, had it been reflected in the accounts, would have increased the deferred tax liability by £42m.

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 and Company	2021 £m	2020 £m
At 1 April	**676.4**	661.8
Additions during the year	**35.0**	32.9
Amortised through revenue (Note 4 & 32)	**(18.9)**	(18.3)
At 31 March	**692.5**	676.4
Split:		
Amounts due in less than one year (see Note 18)	**24.7**	20.3
Amounts due after more than one year	**667.8**	656.1
At 31 March	**692.5**	676.4

26. Refundable customer deposits

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

Group and Company	2021 £m	2020 £m
Amounts due in less than one year (see Note 18)	**2.6**	3.3
Amounts due after more than one year	**-**	-
At 31 March	**2.6**	3.3

Notes to the Financial Statements (continued)

27. Called up share capital

Group and Company	2021 £	2020 £
Authorised:		
569,999,996 ordinary shares of 50 pence each	**284,999,998**	284,999,998
4 'A' ordinary shares of 50 pence each	**2**	2
Special rights redeemable preference share of £1	**1**	1
At 31 March	**285,000,001**	285,000,001

Group and Company	2021 £	2020 £
Allotted, called up and fully paid:		
476,821,341 ordinary shares of 50 pence each	**238,410,671**	238,410,671
4 'A' ordinary shares of 50 pence each	**2**	2
At 31 March	**238,410,673**	238,410,673

The 'A' ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

Notes to the Financial Statements (continued)

28. Shareholders' Equity

	Called up share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
Group:						
At 1 April 2020	238.4	4.4	84.1	8.6	616.8	952.3
Profit for the year	-	-	-	-	**53.4**	**53.4**
Other comprehensive expense for the year	-	-	-	-	**(39.6)**	**(39.6)**
Transfer from revaluation reserve	-	-	**(2.2)**	-	**2.2**	-
	-	-	**(2.2)**	-	**16.0**	**13.8**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	**(30.7)**	**(30.7)**
At 31 March 2021	**238.4**	**4.4**	**81.9**	**8.6**	**602.1**	**935.4**
Company:						
At 1 April 2020	238.4	4.4	84.1	8.6	616.5	952.0
Profit for the year	-	-	-	-	**53.4**	**53.4**
Other comprehensive expense for the year	-	-	-	-	**(45.1)**	**(45.1)**
Transfer from revaluation reserve	-	-	**(2.2)**	-	**2.2**	-
	-	-	**(2.2)**	-	**10.5**	**8.3**
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	**(30.7)**	**(30.7)**
At 31 March 2021	**238.4**	**4.4**	**81.9**	**8.6**	**596.3**	**929.6**

In 1997 the Company undertook a revaluation of certain assets, following North West Water's acquisition of Norweb. This resulted in the creation of a revaluation reserve of £234.9m. The additional depreciation created as a result of the revaluation is transferred from the revaluation reserve to retained earnings on an annual basis.

The capital redemption reserve is a non-distributable reserve specifically for the purchase of own shares.

Notes to the Financial Statements (continued)

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. The Company also has 'A' ordinary shares which rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

There exists an unissued special rights redeemable preference share which does not carry any voting rights and can only be held by one of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of her Majesty's Treasury or any other person acting on behalf of the Crown. This share is a legacy from the privatisation of the Company and was issued on 19 November 1990 and redeemed on 31 March 1995.

There are no specific restrictions on the size of a holding or on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions in the transfer of securities or on voting rights.

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, copies of which are available on request; and in the Corporate Governance Report on pages 45 to 59.

30. Ultimate parent undertaking and controlling party

The immediate parent undertaking is North West Electricity Networks plc ("NWEN plc"), a company incorporated and registered in the United Kingdom. The address of the immediate parent undertaking is Borron Street, Stockport, Cheshire SK1 2JD.

The ultimate parent undertaking is North West Electricity Networks (Jersey) ("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 Group is the smallest group in which the results of the Company are consolidated. The consolidated financial statements of this Group are available to the public and may be obtained from Borron Street, Stockport, Cheshire SK1 2JD.

The largest group in which the results of the Company are consolidated is that headed by NWEN (Jersey). The consolidated financial statements of this Group are available to the public and may be obtained from 44 Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG.

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 2021 £m	**Company 2021 £m**	Group 2020 £m	Company 2020 £m
Recharges to:				
Electricity North West (Construction and Maintenance) Ltd	**1.7**	**1.7**	1.6	1.6
Electricity North West Services Ltd	**1.2**	**1.2**	1.8	1.8
Recharges from:				
Electricity North West (Construction and Maintenance) Ltd	**(0.4)**	**(0.4)**	(0.1)	(0.1)
Electricity North West Services Ltd	**(5.0)**	**(5.0)**	(6.7)	(6.7)
Interest payable to:				
North West Electricity Networks plc	**(2.0)**	**(2.0)**	(2.0)	(2.0)
ENW Finance plc	**(15.5)**	**(15.5)**	(12.5)	(12.5)
Total interest payable (Note 9)	**(17.5)**	**(17.5)**	(14.5)	(14.5)
Dividends paid to North West Electricity Networks plc (Note 11)	**(30.7)**	**(30.7)**	(38.3)	(38.3)
Directors' remuneration (Note 7)	**(2.3)**	**(2.3)**	(2.2)	(2.2)

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 2021 £m	**Company 2021 £m**	Group 2020 £m	Company 2020 £m
Amounts owed by:				
North West Electricity Networks plc	**3.4**	**3.4**	3.4	3.4
Electricity North West (Construction and Maintenance) Ltd	**1.1**	**1.1**	0.6	0.6
Electricity North West Services Ltd	**0.4**	**0.4**	0.6	0.6
Electricity North West Property Ltd	**0.1**	**0.1**	0.1	0.1
North West Electricity Networks (Jersey) Ltd	**0.9**	**0.9**	0.9	0.9
North West Electricity Networks (Holdings) Ltd	**0.2**	**0.2**	0.2	0.2
Total (Note 16)	**6.1**	**6.1**	5.8	5.8
Amounts owed to subsidiaries:				
Electricity North West Number 1 Company Ltd (Note 18)	**-**	**(15.5)**	-	(15.4)
Interest payable to Group:				
North West Electricity Networks plc	**(0.6)**	**(0.6)**	(0.6)	(0.6)
ENW Finance plc	**(5.5)**	**(5.5)**	(2.9)	(2.9)
Other amounts payable to Group:				
Electricity North West Services Ltd	**(0.7)**	**(0.7)**	(0.4)	(0.4)
North West Electricity Networks (Holdings) Ltd	**(0.1)**	**(0.1)**	-	-
North West Electricity Networks (Jersey) Ltd	**(0.1)**	**(0.1)**	-	-
Total amounts owed to Group (Note 18)	**(7.0)**	**(7.0)**	(3.9)	(3.9)
Borrowings payable to:				
North West Electricity Networks plc (Note 19)	**(82.2)**	**(82.2)**	(77.4)	(77.4)
ENW Finance plc (Note 19)	**(498.3)**	**(498.3)**	(199.3)	(199.3)
Group tax relief to:				
North West Electricity Networks plc	**(8.7)**	**(8.7)**	(7.9)	(7.9)

The loan from NWEN plc accrues weighted average interest at 2.53% (2020: 2.70%) and is repayable in March 2023. Of the loans from ENW Finance plc, £200m accrues interest at 6.125% (2020: 6.125%) and is repayable in July 2021 and £300m accrues interest at 1.415%.

Notes to the Financial Statements (continued)

32. Cash generated from operations

Group and Company	2021 £m	2020 £m
Operating profit	**176.1**	212.2
Adjustments for:		
Depreciation of property, plant and equipment	**120.0**	114.9
Amortisation of intangible assets	**5.9**	6.5
Amortisation of customer contributions (Note 4 & 25)	**(18.9)**	(18.3)
Profit on disposal of property, plant and equipment	**(0.1)**	(0.6)
Cash contributions in excess of pension charge to operating profit	**(20.7)**	(22.5)
Operating cash flows before movements in working capital	**262.3**	292.2
Changes in working capital:		
(Increase)/decrease in inventories	**(3.2)**	1.5
Increase in trade and other receivables	**(11.8)**	(5.7)
Increase in payables	**9.1**	9.6
Cash generated from operations	**256.4**	297.6