



BLUE TRANSMISSION

Blue Transmission Walney 2 Limited

Regulatory accounts 2022/23

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Glossary

A description of these regulatory accounts

For the year ended 31 March 2023

Blue Transmission Walney 2 Limited (“the Company” and “the Licensee”) is a holder of an Offshore Electricity Transmission Licence (“the Licence”) granted under the Electricity Act 1989. The Licence was awarded to the Company on 25 September 2012 by The Gas and Electricity Markets Authority (“the Authority”). Under standard condition E2 of this Licence, the Company is required to prepare and publish annual regulatory accounts setting out the financial position and performance of the regulatory business covered by the Licence.

Scope of the regulatory accounts

These regulatory accounts are prepared in respect of the Licensee’s regulatory transmission business. The Company only has one activity – that being the operation of its regulated transmission business; consequently, the regulatory financial statements contained herein reflect the same scope as that reported in the Company’s statutory accounts for the year ended 31 March 2023 as prepared in accordance with Section 396 of the Companies Act 2006. In addition, the Directors’ Report, Strategic Report and Corporate governance statement included within these regulatory accounts also reflect the same activities as reported in the Company’s annual report and financial statements 2022/2023.

Content of the regulatory accounts

In accordance with the Licence these regulatory accounts comprise:

- a Strategic Report commencing on page 3;
- a Directors’ Report commencing on page 24;
- a Corporate governance statement commencing on page 26;
- a Statement of Directors’ responsibilities for preparing regulatory accounts on page 32;
- the Independent auditors’ report on the regulatory accounts commencing on page 33;
- regulatory financial statements commencing on page 38; and
- a statement showing transactions between the Company and its ultimate controller and other related disclosures. The information required by this statement is shown in note 18 to the regulatory financial statements “related party transactions” on pages 64 and 65.

Relationship of regulatory financial statements with statutory accounts

The financial information contained in these regulatory financial statements does not constitute statutory accounts within the meaning of Section 396 of the Companies Act 2006. Statutory accounts for the Company for the year ended 31 March 2023, to which the financial information relates, will be delivered to the registrar of Companies.

The auditors have made a report under Section 495 of the Companies Act 2006 on those statutory accounts which was unqualified and did not contain a statement under Section 498 (2) or (3) of the Act. The auditors’ opinion on the Company’s statutory accounts is addressed to, and for the benefit of, the members of the Company and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it has been prepared for and only for the Company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purposes or to any other persons to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

The regulatory accounts of the Company can be obtained from the website of the Company at www.bluetransmission.com.

Introduction

This Strategic Report explains the operations of the Company and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2023, as well as those matters which are likely to affect its future development and performance.

The ultimate parent company of the Company is Blue Transmission Investments Limited (“BTI”), a Company incorporated and registered in Jersey.

The Company’s principal activity is to provide an electricity transmission service to National Grid Electricity System Operator Limited (“NGESO”), being the electricity transmission system operator for Great Britain.

The Company owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore electricity distribution system owned by Electricity North West Limited (“ENW”).

Background

The Office of Gas and Electricity Markets (“Ofgem”), supporting government initiatives, has developed a regulatory regime for electricity transmission networks connecting offshore wind farms to the onshore electricity system. A key feature of this regime is that each new tranche of transmission assets required by offshore generators will be owned and operated by Offshore Transmission Owners (“OFTOs”). OFTOs are subject to the conditions of a transmission licence.

The Company was awarded the Licence by the Authority that became effective from 26 September 2012. This Licence, amongst other matters, permits and requires the Company to maintain and operate the Walney 2 offshore electricity transmission assets for the period the Licence is in force.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Company to be certified as complying with the unbundling requirements concerning common rules for the internal market in electricity (“the third package”). The Company has been issued a certificate pursuant to Section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Company has ongoing obligations and is required to make certain ongoing declarations to the Authority pursuant to the Licence to ensure compliance with the terms of the certificate which it has met through to the date of this report.

The Company’s offshore electricity transmission system

The Company transmits the electrical power of the Walney 2 wind farm from the offshore connection point of the Company’s electrical assets with the electrical assets owned by Walney (UK) Offshore Windfarms Limited (“WOWL”) to the onshore connection point of the Company’s assets with ENW’s electricity distribution system. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

The Walney 2 offshore wind farm comprises 51 turbines, with a combined capacity of around 183 megawatts (“MW”) and is located off the Cumbrian coast approximately 15km west of Walney Island and some 18km from Barrow-in-Furness. The power that is generated by the wind farm is transported to shore by the Company and connects into the ENW system at Cleveleys in Lancashire.

The wind farm turbines are interconnected in “strings” by medium voltage (33kV) submarine cables that act as a power collection and transport system. The medium voltage cables are owned by WOWL and run to the offshore electricity substation that is owned by the Company. At the offshore electricity substation, the voltage is “stepped up” to 132kV by an electrical transformer and then transported to land by a 43.2km high voltage submarine cable buried in the sea floor. At landfall, the submarine cable is joined to a buried land cable that runs for 5.1km to the Company’s onshore electricity substation at Cleveleys. At the Cleveleys substation the power factor of the electricity is corrected using reactive compensation equipment and the transported power is then connected into ENW’s electricity distribution system.

The Company’s long-term business objectives

The Company is a special purpose vehicle formed to hold the Licence. Its non-financial objectives are, therefore, consistent with the objectives of the Licence. The Company will achieve these objectives by ensuring its compliance with the Licence; industry codes and legislation; and by operating and maintaining its transmission system in accordance with good industry practice.

The Company’s financial objective is to provide financial returns to shareholders consistent with, or in excess of, the business plan that supported its tender offer for the Walney 2 offshore transmission system. The Company will achieve this objective by:

- meeting its revenue targets by operating the transmission system at availability levels equal to, or higher than, the Licence target;
- adopting and maintaining a financing structure that is, as a minimum, as efficient as that contemplated by the business plan; and
- controlling costs and seeking efficiency improvements.

Future Developments

The Company’s sole purpose is to hold and operate its offshore electricity transmission system and comply with the transmission licence which it has been awarded; no changes to this objective are likely in the future.

The Company’s operating model

The Company's business model is to outsource all operational, maintenance (“O&M”) activities and management. O&M activities are outsourced to a third party and management services are outsourced through a Management Services Agreement (“MSA”) with Frontier Power Limited (“FPL”). In addition, technical, accounting and administrative support are provided to the Company by BTI acting as a service company through an outsourced Shared Resources Agreement with FPL. As part of its general asset management responsibilities FPL fulfils the role of an ‘informed buyer’ to ensure that the outsourced O&M services are of the required quality to ensure that the Company meets its Licence obligations and complies with good industry practice. The Company mitigates the performance risk of its outsourced service providers through a contracting process.

BTI acts as a service company so that certain administrative costs can be shared across a number of companies within the same group. During the year ended 31 March 2023 the costs incurred by BTI have been charged to the Company in such a manner that the Company has paid for a fair and equitable proportion of the costs incurred by BTI. The Company is one of four such operating companies participating in this arrangement.

The Company's approach to managing the business

The Company's general approach to the management and operation of its business is based on ensuring that the right balance is achieved between cost, quality, performance, innovation and financial returns so as to optimise the cost of its services to the end consumer. In doing so the Company:

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Company's assets and operations requires an extraordinary focus on Health, Safety and the Environment ("HS&E");
- has the right people working safely to standards using the right processes, technology and systems;
- has implemented a risk management approach that ensures that risks are assessed, managed and reported appropriately; and
- has adopted a governance framework that enforces compliance with law, regulations and licence conditions.

Principal regulatory, industry contracts and industry code matters

The Company is subject to a number of regulatory and contractual obligations arising from and including: the Licence; the Transmission Owner Construction Agreement ("TOCA") with NGESO; and the System Operator – Transmission Owner Code ("STC") with NGESO. The Company's operations are also subject to a range of industry-specific legal requirements.

Summaries of some of the major features of the Licence, industry contracts and electricity code matters are described as follows:

Licence obligations

Under the terms of the Licence the Company is required to carry out its licenced activities and have in place governance arrangements that ensure (amongst other obligations) that the Company does not provide cross-subsidies to, or receive cross-subsidies from, any other business of the Licensee or of any affiliate. In addition, the Licence places restrictions on the Company's activities and how it conducts its transmission activities. In carrying out its transmission activities it must do so in a manner that does not confer upon it an unfair commercial advantage, in particular, in relation to any activity that does not relate to the operation of the offshore transmission business.

A failure by the Company to materially comply with the terms of the Licence could ultimately lead to the revocation of the Licence. The Directors take very seriously their obligations to comply with the terms of the licence and have processes, procedures and controls in place to ensure compliance.

Regulated revenue and incentives

The Licence awarded by the Authority to the Company determines how much the Company may charge for the OFTO services that it provides to NGENSO. In any relevant charging year which runs from 1 April through to the following 31 March all such charges are determined in accordance with the requirements of the Licence. The Licence also provides the Company with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Company's transmission system in any given calendar year versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of the Company's electricity transmission system (as determined by the Company's Services Capability Specification) in any given calendar year, or part thereof.

Transmission charges are based on the target transmission system availability of 98% and increase on 1 April following any given calendar year end by reference to the annual average rate of increase in the UK retail price index ("RPI") in the year to the previous December. The revenue derived from charges based on this target availability represents the Company's "base revenue". For the avoidance of doubt, the Company's transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

As previously noted, the Licence contains mechanisms to incentivise the Company to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The Licence includes incentives to maximise availability on a monthly basis with higher targets and higher potential penalties or credits, in the winter months and lower targets and lower potential penalties or credits, in the summer months. These incentive mechanisms are designed to encourage the Company to proactively manage transmission system availability across the year by focusing maintenance activities, which could lower transmission system availability, into those months with the lowest targets and related penalties or credits.

If the achieved transmission system availability is different to the target availability, then there is a mechanism contained within the Licence that could potentially affect the Company's charges and hence its revenue in future periods. The Licence provides for adjustments to "base revenue" where the OFTO's system availability performance is different from the target system availability. If transmission system availability in any given calendar year is in excess of the target availability level, then credits are "earned" and if availability is less than target then penalties accrue. These availability credits and penalties are measured in megawatt hours ("MWhrs"). The Company is then permitted or required under the Licence, as the case may be, to change its prices to convert the availability credits earned or penalties accrued into a financial adjustment to "base revenue". The maximum availability credit which the Company can "earn" and then collect in charges in any one charging year is the financial equivalent of 5% of base revenue for the immediately preceding charging year and the maximum availability penalty that can be reflected in charges for any one charging year is the financial equivalent of 10% of base revenue for the immediately preceding charging year. Availability credits and penalties that arise in the first and final period of operations reflect a partial period of operations and the financial impact on charges is apportioned accordingly.

The availability penalties and credits, as measured in MWhrs, are recorded on a monthly, but notional basis, during each calendar year. Individual net monthly penalties are first offset against any brought forward net cumulative credits from the previous calendar year. Thereafter, individual monthly net penalties are eligible for offset against credits arising in the current calendar year. The financial conversion of availability credits and penalties is carried out by reference to the "base revenue" for the charging year immediately prior to the charging year that the credits/penalties adjust charges.

Strategic Report continued

For the year ended 31 March 2023

If at the end of any calendar year there is a cumulative net availability credit, this net credit is eligible for collection in charges as an adjustment to charges at the beginning of the sixth financial year following the end of the calendar year in which the first credit arose. The maximum amount of availability credits that are eligible to be converted as a financial adjustment to charges in the sixth financial year, is the lesser of the financial effect of the net availability credit that arose in the first calendar year and the financial effect of the cumulative net availability credit outstanding at the end of the preceding calendar year.

If at the end of any calendar year there is a cumulative net availability penalty then, in principle, the charges in respect of the following financial year are reduced by the financial effect of the net availability penalty. However, the reduction in charges in any charging year can never exceed 10% of the base revenue for the previous charging year. To the extent that availability penalties would have given rise to a financial adjustment that would exceed 10% of the base revenue for the previous charging year, then these “excess” net availability penalties do not have an immediate financial effect but are carried forward on a cumulative and notional basis and aggregated with additional availability credits and penalties arising in subsequent years. Net availability penalties that arise in any one calendar year can only be carried forward for a maximum of five charging years.

There are a number of risks that the Company faces that affect the level of transmission system availability and therefore affects potential incentive credits and penalties that otherwise might arise under the incentive arrangements. The principal factors governing transmission system availability include the following:

- 1) the inherent design of the transmission system e.g. system redundancy;
- 2) the management of maintenance activities so that the assets are maintained to good industry practice, thereby avoiding unnecessary equipment failure and where possible the Company seeks to carry out such maintenance with the minimum number and duration of planned outages whilst having regard to the safe operation of those assets; and
- 3) the management of necessary planned outages of the transmission system having regard to the activities of other interested parties and to bias such outages towards those periods during the year, with the lowest system availability targets and related penalties or credits.

The Company mitigates the risk of system unavailability due to equipment failure through the maintenance regime described above, the holding of strategic spares and a robust contingency plan to respond to any unplanned system outages.

As the end of the 20-year revenue incentive period contained within the Licence approaches, the agreed regulatory formula relating to the Company’s ability to collect credits changes, such that the Company is allowed by its Licence to collect such credits faster as compared with the mechanism described earlier.

In certain circumstances and in respect of certain costs, such as non-domestic rates relating to the Company’s onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the Company is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required.

Strategic Report continued

For the year ended 31 March 2023

Transmission system capability (capacity)

As described earlier, the Company is incentivised to provide the maximum transmission system availability as is possible having regard to the safe running of the system. The maximum availability of the system is defined in the Licence and is expressed in MWhrs.

Transmission system availability for the performance years ended 31 December 2021 and 31 December 2022 was 100%.

The Company continues to manage the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice.

Transmission system quality of supply

The STC sets out the minimum technical, design, operational and performance criteria that offshore transmission owners must ensure that their transmission system can satisfy. For the Company's transmission system, the most significant requirements are in respect of the reactive power capability, voltage control and the quality of the power (as measured by harmonic performance) deliverable at the connection point of the Company's transmission system with the electricity distribution system of ENW.

The Company has met its requirements to transmit electricity in accordance with the parameters agreed with NGENSO during the year under review and through to the date of this report.

Strategic Report continued

For the year ended 31 March 2023

Key performance indicators (“KPIs”)

The Company has identified the following KPIs as being instrumental to the management of the transmission business. Such KPIs include financial and non-financial KPIs:

	Definition	Objective
Financial KPIs		
Cash available for debt service	Net cash inflows from operating activities plus cash inflows from investing activities: £13,454k (2021/22: £11,307k).	To allow for the servicing of the unsecured other borrowing to the Company’s immediate parent undertaking.
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year to 31 December 2022: 100% (2021: 100%).	To exceed the Licence target availability 98%.
Ensure that the quality of electricity at the export connection point is compliant with Security and Quality of Supply Standard (SQSS) and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	To be compliant. This has been achieved for both 2022/23 and 2021/22.
HS&E	<ol style="list-style-type: none"> 1) Zero lost time accidents (“LTIs”) for employees and contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under WOWL’s Marine Management Organisation (“MMO”) Licence; 4) Zero unauthorised access incidents in accordance with Electricity Safety, Quality and Continuity Regulations (“ESQR”); 5) Zero incorrect operations of plant and equipment which could have caused personal injury or serious damage. 	<ol style="list-style-type: none"> 1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence; 4) Zero unauthorised access incidents in accordance with ESQR. 5) Zero incorrect operations of plant and equipment which could have caused personal injury or serious damage. <p>All HS&E KPIs as they applied to 2022/23 and 2021/22 have been met.</p>

Strategic Report continued

For the year ended 31 March 2023

The Company's operational performance

The Company's prime operational objectives are to maximise transmission system availability and to ensure that the quality of electricity at the onshore connection point is compliant with the SQSS and the STC having regard in all respects to the safety of employees, contractors and the general public at large.

In support of these objectives the Company has developed a comprehensive asset management policy and framework that is consistent with good industry practice. The policy and framework are derived by applying a risk assessment model that considers the probability and consequences, of failure to determine overall risk to components within the generic asset classes that comprise the OFTO assets: offshore platform; offshore substation; offshore cable; onshore cables and onshore substation.

During the year, the Company has continued the successful application of its asset management policy and framework and has carried out its asset management activities in accordance with the resulting Asset Operating Plan. Maintenance activities have been successfully carried out in accordance with the maintenance plan, and the Company submitted its network outage plan to NGENSO, the Great Britain electricity system operator.

Transmission system availability

The performance of the Company's transmission system for the performance year ended 31 December 2022 and 31 December 2021 was as tabulated below:

MWhrs	Note	Performance Year ended 31 December 2022	Performance Year ended 31 December 2021
Maximum system availability (capability - MWhrs)	(a)	1,470,874	1,470,874
Actual system availability (MWhrs)	(b)	1,470,874	1,470,874
Actual system availability (%)	(b)	100%	100%
Regulatory target system availability (%)		98%	98%
Availability credits (MWhrs)			
Net availability credits at 1 April 2022 (1 April 2021)		162,440	133,022
Availability credits recovered in charges during the financial year		(19,192)	-
Net availability credits for the performance year	(b)	29,418	29,418
Net availability credits at 31 March 2023 (31 March 2022)	(c)	172,666	162,440

- The maximum system availability of the Company's transmission system as declared to NGENSO during the performance year.
- After taking into account any relief permitted by the Licence or otherwise approved by the Authority.
- Net availability credits at 31 March 2023 (31 March 2022) represent "banked" availability credits through to 31 December 2022 (31 December 2021). Consequently, this excludes any potential credits that have arisen between 1 January 2023 and 31 March 2023 (1 January 2022 and 31 March 2022) as these potential availability credits are not eligible to be "banked" until 31 December 2023 (31 December 2022).

Quality of supply

The quality of supply constraints must comply with the requirements of the STC (see “Principal regulatory, industry contracts and industry code matters - Transmission system quality of supply” earlier). The Company is required to transmit electricity within certain parameters in relation to: voltage control; reactive power; and harmonic distortion. A failure to meet these quality of supply constraints could result in NGENO requiring the Company’s transmission system to be disconnected from ENW’s electricity distribution system, resulting in the loss of transmission availability and reduced incentive credits or performance penalties. The Company closely monitors compliance with these quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Company to meet these quality of supply obligations.

During the year ended 31 March 2023 the Company has continued to meet its obligations to transmit electricity compliant with these operational obligations. The Company has continued to comply with these obligations through to the date of this report.

Health, safety and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety and the environment. Safety is critical both to business performance and to the culture of the Company. The operation of the Company’s assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm and to safeguard members of the general public.

The Board is pleased to report that, during the year under review there were no health or safety incidents that required reporting under applicable legislation and that contractor “lost days” arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 were zero.

The Company is committed to reducing the environmental impact of its operations to as low as practically possible. The Company does so by reducing the effect its activities have on the environment by: respecting the environmental status and biodiversity of the area where the Company’s assets are installed; considering whole life environmental costs and benefits in making business decisions; looking for ways to use resources more efficiently through good design, use of sustainable materials, responsibly refurbishing existing assets and reducing and recycling waste; and continually improving management systems to prevent pollution and to reduce the risk of environmental incidents.

The Board is also pleased to report that during the year under review there were no environmental incidents or matters that required reporting to any relevant competent authority and that it has continued to comply with the Marine licence obligations that were transferred to it by WOWL since the transmission assets were acquired by the Company.

Commitment to ethical business practices

The Company is committed to ethical business practices in the way that the Company carries out its business and is committed to complying with all laws and regulations that apply to the Company at all times.

As a member of the BTI group of companies (“the Group”) the Company is subject to the policies of the Group and that of its own policies, which include:

- a code of conduct that governs the activities of those persons directly involved in the business, which applies in particular to the Directors and the employees and consultants engaged by FPL in the provision of service to the Company and the Group generally;
- Modern Slavery policy;
- a tax evasion policy, including a consideration of the implications of the Criminal Finances Act 2017;
- compliance with General Data Protection Regulation; and
- an anti-bribery and anti-corruption policy.

The Company has identified no instances of non-compliance with any of the above policies for the year ended 31 March 2023 and through to the date of this report.

The Company respects the rights of those persons who work directly or indirectly in the business and does not condone in any way modern slavery within its business or that of its supply chain.

The Company has made enquires of key suppliers during the year within its supply chain as to their policies in respect of business ethics generally and human rights and modern slavery policies in particular. Based on the responses received from key suppliers and a review of policies supplied by those key suppliers, it appears clear that those suppliers are also committed to highly ethical business practices.

Stakeholder relationships

The potentially hazardous nature of Company’s operations and the environmentally sensitive nature of the locations where its assets are located require the Company to engage and communicate with a wide audience of stakeholders and to establish good relationships with them. As well as industry participants and local and national government bodies this audience includes: Port Authorities; the emergency services; the maritime community; environmental agencies and organisations; landowners and the general public. Accordingly, the Company has defined and implemented a stakeholder engagement and communications plan which it has continued to apply during the year and through to the date of this report.

The Directors consider that stakeholder relationships are satisfactory.

Principal and emergent risks and uncertainties

The principal and emerging risks and uncertainties faced by the Company have been discussed and referenced in this Strategic Report, alongside a discussion of the operational and financial performance of the Company.

Strategic Report continued

For the year ended 31 March 2023

Statement in respect of section 172 of the Companies Act 2006

The Directors have an obligation under section 172 of the Companies Act to promote the long-term success of the Company for the benefit of its sole shareholder but in doing so, they should have regard to other interested parties, including those businesses in its supply chain and its customers. As the Company does not have any employees, it is crucially important for the Company to have good relationships with businesses within its supply chain. In addition, the Directors should and do have due regard to the impact its operations have on the environment and the local community. The Directors take all of these responsibilities extremely seriously.

This Strategic Report outlines the actions and outcomes that the Board has taken in relation to its obligations under S172 of the Companies Act 2006, references to these are provided below:

- “The Company’s operational performance - Health, safety and environmental performance”;
- “Commitment to ethical business practices”; and
- “Stakeholder relationships”.

The Company has an effective governance process in place, and this is explained in detail in the Corporate governance report that commences on page 26. In addition, the Corporate governance report includes details the Company’s compliance with certain Licence obligations – see page 28 and the impact the Company’s operations have had on the environment – see page 31 for details.

Other

All the Directors of the Company are male.

The Company’s financial performance

Summary

The financial performance of the Company for the year ended 31 March 2023 and its financial position as at 31 March 2023, was satisfactory and is summarised below. In this report, all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k or £’000.

The Company reports its results in accordance with UK-adopted international accounting standards as applicable to companies reporting under UK-adopted IAS; the currency used in reporting these regulatory financial statements is GBP.

	2023	2022
	£’000	£’000
Operating profit	7,609	6,994
Other finance income	80	4
Operating profit plus other finance income	7,689	6,998
Finance costs	(4,450)	(4,361)
Profit before taxation	3,239	2,637
Taxation	(786)	(2,074)
Profit after taxation	2,453	563
Net cash inflow from operating activities and investing activities	13,454	11,307
Net cash flows used in financing activities	(11,455)	(11,596)

Strategic Report continued

For the year ended 31 March 2023

Operating and finance income

Operating and finance income is derived from the Company's activities as a provider of transmission services. The vast majority of the Company's income was derived from NGESO for the year ended 31 March 2023 and the year ended 31 March 2022.

Finance income for the year amounted to £5,808k (2022: £6,097k) and represents the finance income that would have been generated from an efficient standalone "transmission owner". The finance income for the year has reduced as compared with the prior year reflecting the lower absolute return on the average lower value of the carrying value of the transmission owner asset which has been recorded in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company is shown in the accounting policies section of the regulatory financial statements commencing on page 38.

Operating income for the year amounted to £5,633k (2022: £4,494k) and primarily represents the operating income that would be generated by an efficient provider of operating services to NGESO and also includes £772k (2022: £nil) relating to a final settlement in respect of equipment failure in May 2018. Operating services provided to NGESO include those activities that result in the efficient and safe operation of the transmission assets and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner. Operating income has been recorded in accordance with the principal accounting policies adopted by the Company.

Operating costs

Operating costs for the year amounted to £3,832k (2022: £3,597k)

The most significant cost included within total costs relates to the operations, maintenance and management of the OFTO and amounted to £3,213k (2022: £3,316k). This cost covers operations and maintenance fees, insurance fees, management service fees and non-domestic rates associated with the transmission network.

Included within operating costs is a non-cash charge for the remeasurement of the decommissioning liability during the year ended 31 March 2023 amounting to £326k (2022: £21k). The significant increase in the decommissioning cost for the year is primarily reflective of a change in the expected eventual cost of decommissioning driven by inflation changes.

Operating profit

Operating profit for the year ended 31 March 2023, being the residual of operating income, finance income and operating costs, amounted to £7,609k (2022: £6,994k). The increase in operating profit primarily reflects the increase in operating income which has offset the expected reduction in finance income and increase in decommissioning charge for the reasons given earlier in this section of the Strategic Report

Other finance income

Other finance income of £80k (2022: £4k) relates solely to interest earned on bank deposits, with the increase in finance income being reflective of higher interest rates on deposits earned during the year as compared with the prior year.

Strategic Report continued

For the year ended 31 March 2023

Finance costs

Finance costs amounted to £4,450k (2022: £4,361k).

The vast majority of the finance costs relate to the interest cost of bank loans and other borrowing amounting to £2,398k (2022: £2,567k) and £1,728k (2022: £1,728k) respectively. Interest expense and other financial costs principally arise from the cost of debt used to finance the initial acquisition of the transmission owner asset.

The partial repayment of bank loans during the year resulted in the average loan balance for the year ended 31 March 2023 being lower than for the prior year giving rise to an expected reduction in the interest cost of bank loans.

Finance costs include a net credit of £22k (2022: £249k) that arose as a result of certain hedge ineffectiveness for accounting purposes. The reduction in net credit in respect of hedge ineffectiveness arising for the year ended 31 March 2023 as compared with the prior year, partially offset by a reduction in finance charges arising from bank loans explains the overall increase in net finance costs for the year as compared with the prior year.

Taxation

The net taxation charge on profit before taxation for the year is £786k (2022: £2,074k) of which £626k (2022: £2,074k) relates to deferred taxation. Current taxation arising in the year amounted to £160k (2022: £nil).

The net taxation charge on profit before taxation for the year ended 31 March 2023 has been computed at 19% (2022: 19%). The net taxation charge on profit before taxation for this year also included a charge amounting to £151k (2022: £1,582k) following the remeasurement of deferred taxation balances arising during the year from 19% to 25%. The impact of the remeasurement of deferred taxation balances during the year ended 31 March 2022 was higher than the current year as the deferred taxation charge for this year was impacted by the remeasurement of certain deferred taxation balances at 1 April 2021. The 25% rate of corporation taxation is the rate of corporation tax that was reflected in the Finance Act 2021 and applies to pre taxation profits arising in respect of all years commencing on or after 1 April 2023. This is the corporation taxation rate that would be expected to apply when all (2022: all) of the temporary differences as underlie these deferred taxation balances are anticipated to reverse.

A net taxation charge of £107k (2022: net credit of £2,484k) has been recognised in other comprehensive income relating to pre-taxation gains (2022: losses) arising on marking the Company's cash flow hedges to market at the balance sheet date.

The net taxation charge for the year ended 31 March 2023 (2022: net credit) on other comprehensive income relates solely to deferred taxation and has been computed at 19% (2022: 19%). The net taxation charge for the year ended 31 March 2023 includes a charge amounting to £25k (2022: net credit of £1,050k) relating to the remeasurement of deferred taxation balances during the year ended 31 March 2023, for the same reasons as impacted the taxation charge included in the income statement for the same year as explained above.

Profit after taxation

Profit for the year after taxation amounted to £2,453k (2022: £563k). The increase in profit after taxation as compared with 2022 primarily reflects a lower deferred taxation charge in the year as the deferred taxation charge for 2022 was impacted by the remeasurement of certain deferred taxation balances at 1 April 2021 from 19% to 25% - see "Taxation" earlier in this section of the Strategic Report.

Strategic Report continued

For the year ended 31 March 2023

Cash flows

Net cash flows from operations amounted to £13,374k (2022: £11,303k) primarily reflecting the amounts invoiced and received from NGESO in relation to the provision of transmission services in the year net of cash outflows relating to operating activities incurred during the year. The increase in net cash flows from operations for the year ended 31 March 2023 as compared with the prior year primarily reflects the increase in cash inflows during the year ended 31 March 2023 as a result of the receipt of £772k relating to a final settlement in respect of equipment failure in May 2018.

Net cash flows generated from investing activities for the year ended 31 March 2023 amounted to £80k (2022: £4k) reflecting the receipt of interest income.

Cash available for debt servicing, defined as net cash inflows from operations plus net cash inflows generated from investing activities of £80k (2022: £4k), amounted to £13,454k (2022: £11,307k).

Net cash outflows used in financing activities amounted to £11,455k (2022: £11,596k) and include £121k (2022: £117k) of payments in respect of infrastructure financial liabilities.

Payments to service senior debt holders during the year amounted to £8,190k (2022: £7,713k). Payments to other debt holders during the year amounted to £1,728k (2022: £1,728k).

Interim ordinary dividends amounting to £1,394k were paid during the year (2022: £2,015k).

No income taxation was paid in the year (2022: £nil).

Balance sheet and consideration of financial management

Balance sheet

The Company's balance sheet at 31 March 2023 is summarised below:

	Assets	Liabilities	Net assets/ (liabilities)
	£'000	£'000	£'000
Non-current transmission owner asset	84,506	-	84,506
Non-current deferred taxation	-	(2,952)	(2,952)
Current assets and liabilities ⁺	6,350	(1,021)	5,329
Non-current decommissioning provision	-	(2,546)	(2,546)
Total before net debt	<u>90,856</u>	<u>(6,519)</u>	<u>84,337</u>
Net debt	<u>12,183</u>	<u>(101,056)</u>	<u>(88,873)</u>
Totals at 31 March 2023	<u>103,039</u>	<u>(107,575)</u>	<u>(4,536)</u>
Totals at 31 March 2022	<u>104,466</u>	<u>(110,385)</u>	<u>(5,919)</u>

⁺ Excluding those current assets and liabilities included within net debt.

Transmission owner asset and decommissioning provision

The transmission owner asset is classified as a contract asset and a financial asset and is carried at the cost directly attributable to the acquisition of the Walney 2 offshore transmission system at the date of acquisition, plus finance income and adjusted for any amounts that have been invoiced which are deemed to be attributable to the carrying value of that asset. The net result being that the carrying value of the transmission owner asset reflects the application of the effective interest rate method and is determined in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company that give rise to this balance is shown in the accounting policies section of the regulatory financial statements commencing on page 38.

Strategic Report continued

For the year ended 31 March 2023

The transmission owner asset at the date of acquisition included an estimate of the cost of decommissioning the transmission owner asset at the end of its useful economic life in 2032 and also includes an amount equivalent to the amount recognised as infrastructure liabilities at that date. At 31 March 2023, the carrying value of the transmission owner asset was £92,233k (2022: £95,694k) and the decommissioning provision amounted to £2,546k (2022: £2,130k).

Non-current deferred taxation

The Company has recognised a net deferred taxation liability of £2,952k (2022: £2,219k) which reflects the recognition, in full of the deferred taxation impact of all temporary differences existing at the balance sheet date, including the fair valuing of all derivative financial instruments.

Net debt

Net debt is defined as all borrowings plus any interest accruals, the carrying value of all financial derivative contracts that are marked to market (interest rate swaps and UK Retail Price Index (RPI) related swaps) plus infrastructure financial liabilities, less cash and deposits.

At 31 March 2023 net debt stood at £88,873k (2022: £97,009k) and included £18,571k (2022: £19,024k) of liabilities and £1,761k (2022: £nil) of assets relating to the carrying value of financial derivatives that were marked to market at that date and a further £966k (2022: £1,011k) relating to infrastructure financial liabilities.

A discussion of the capital structure and the use of financial derivatives is provided later.

Current funding structure

The Company is funded by a combination of senior debt, other borrowing, infrastructure financial liabilities and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000. All forms of senior debt rank pari-passu with all other forms of senior debt, are secured and rank above all other borrowing and unsecured creditors.

Senior debt comprises a loan from the European Investment Bank ("EIB") together with loans from a syndicate of commercial lenders. All senior debt is serviced on a quarterly basis and is expected to amortise through to 30 September 2031. The total principal carrying value of EIB and commercial lenders loans outstanding at 31 March 2023 net of unamortised issue costs amounted to £61,874k (2022: £67,514k).

The EIB loan carries a fixed rate coupon while the loans from the syndicate of commercial lenders are at variable rates of interest – all loans are serviced on a quarterly basis.

The Company has entered into a series of interest rate swaps with banks of good standing for the purpose of fixing the interest rate on the vast majority of borrowings from commercial lenders. The commercial lenders loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. Further information relating to interest rate swaps is shown later.

Through to 31 March 2022 the variable rate of interest on the commercial loans and related interest rate swaps was linked to the 3 - month London Inter-Bank Offered Rate (LIBOR). However, following agreement with the commercial lenders and related swap providers to the Company on 22 March 2022, the interest rate on these loans and related swap arrangements is now linked to the Sterling Overnight Index Average (SONIA) interest rate benchmark effective for all quarterly periods ending after 31 March 2022. The impact of these changes to the benchmark interest rate on the Company's net cash flows relating to the commercial loans and related interest rate swaps has been immaterial.

Strategic Report continued

For the year ended 31 March 2023

The other borrowing is unsecured and is held by the Company's immediate parent undertaking, Blue Transmission Walney 2 (Holdings) Limited ("BTW2H"). The other borrowing carries a fixed rate coupon. At 31 March 2023, the total principal carrying value of the other borrowing outstanding amounted to £17,458k (2022: £17,458k).

Infrastructure financial liabilities amounted to £966k (2022: £1,011k) at 31 March 2023 have been recognised.

Ordinary equity share capital amounted to £175k at 31 March 2023 (2022: £175k).

Going concern, liquidity and treasury management

The Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Company is a going concern and has adequate resources in the foreseeable future to meet its on-going obligations, including the servicing of debt holders, as those obligations fall due. Consequently, they have formed the opinion that it is reasonable to adopt the going concern basis in preparing the regulatory financial statements.

The Directors note that total shareholders' equity at 31 March 2023 is negative (2022: negative) but this position arises as a consequence of the application of certain technical accounting rules associated with hedge accounting which requires the mark-to-market of derivative financial instruments which has resulted in the recognition of a negative cash flow hedge reserve. The existence of a negative cash flow hedge reserve implies derivative net cash outflows will arise in future periods (based on the conditions prevailing at the balance sheet date).

However, when these cash flows are considered together with the expected cash flows to be derived from the underlying position being hedged, then the net cash flow is as expected by the Board and is factored into the financial plans of the Company. Further information regarding the Company's "Hedging arrangements" is discussed later in this Strategic Report. As a result of the cash flow hedging arrangements in place, this provides the Directors with additional evidence to support their opinion that it is reasonable to adopt the going concern basis in preparing the regulatory financial statements. The other evidence considered to arrive at these conclusions is based on a number of factors which are summarised below and on the following page.

The expected cash inflows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable and would not be expected to fall below a certain level as explained earlier under "Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives". All of the cash inflows generated by the Company in respect of its electricity transmission services were derived from NGEN in its capacity as the Great Britain electricity system operator and it continues to settle all invoices to the date of this report in accordance with its obligations under the STC. Similar to the Company, NGEN is also regulated by the Authority.

The Company enjoys certain protections afforded under the Licence granted to the Company. In particular, provided that the Company can demonstrate that it has applied good industry practice in the management of the Company and its assets, then in the event that an unforeseen incident results in the Company suffering a loss in excess of £1,000k (in so far as it relates to its activities under the Licence) it can apply to the Authority for an income adjusting event. In these circumstances the Company may be able to recover any loss it has suffered.

The Company has also put in place prudent insurance arrangements primarily in relation to property damage, third-party liabilities and business interruption, such that it can make claims in the event that an insurable event takes place and thereby continue in business.

Strategic Report continued

For the year ended 31 March 2023

The licence protections together with the insurance arrangements put in place reduce uncertainties and address certain risks regarding potential loss of income and/or loss/destruction of assets that arise from remote and/or catastrophic events.

The Company has also entered into certain hedging and other contractual arrangements that have been put in place to achieve a high degree of certainty (and thereby reduce uncertainty) as to the likely cash out-flows that are expected to occur over the life of the project.

The hedging arrangements are explained in more detail later under “Hedging arrangements”. In summary: 1) the net cash flows that arise in relation to the combined effect of the interest rate swap arrangements and the commercial lenders variable rate loans means that the Company can forecast with a high degree of certainty the net impact of these cash outflows over the life of the project; and 2) the RPI swaps have the impact of effectively converting a high proportion of the variable cash flows arising from the Company’s transmission services activities into a known and rising series of cash flows over the life of the project. The highly certain cash inflows arising from 2) are available to meet the highly certain cash outflows arising from 1).

Other contractual arrangements with third parties have been entered into that have a pricing mechanism that features linkages to RPI or other indices, which has the effect of reducing the uncertainty as to the quantum and frequency of cash outflows arising. As a consequence, it is the opinion of the Directors that the costs and related cash flows associated with these arrangements are more likely than not to vary in a similar manner with the principal cash inflows generated by the Company in relation to its transmission services that are not subject to the RPI swaps arrangements.

The Company also has access to a liquidity facility of £5,000k (2022: £5,000k) that the Company can access in the event that it has an insurable or income-adjusting event. This covers the possible liquidity requirements of the Company while the insurance claim / income adjusting event is settled.

Finally, under the terms of the other borrowing agreement, absent certain matters of default, the loan notes do not have to be redeemed until 2032. Therefore, there is no requirement for the Company to service this debt earlier than this date, although it is expected that it will do so.

Credit rating

It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. The rating agency carries out regular and periodic reviews of the rating. The Company has maintained an investment grade credit rating in respect of its senior debt consistent with its obligations under the licence.

During the rating agency’s assessment of the Company’s credit rating, amongst other matters, the rating agency will and has considered: the cash flows expected to arise over the term of the project; the regulatory environment within which the Company operates; the nature of the principal contractual arrangements in place; the insurance arrangements; unusual and/or material maintenance expenditure; and the credit risk of all material counterparties in arriving at their assessment of the appropriate credit rating.

It is the Directors assessment, that having regards to the principal risks and uncertainties regarding cash flows, the creditworthiness of counterparties; the regulatory environment, the insurance arrangements and other matters that are discussed in this Strategic Report, that there are reasonable grounds to believe that the rating agency will continue to confirm that the Company’s senior debt investment grade status in the foreseeable future based on the information available to the Directors at the date of these regulatory accounts.

On-going funding requirements

The Company does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding. Loan servicing and other obligations of the Company are expected to be met by the cash inflows generated by the Company. Consequently, based on the current capacity of the existing transmission system operated by the Company, there is minimal refinancing risk.

To the extent that a requirement for significant expenditure is required in the future as a result of additional capital works being required to provide incremental transmission capacity, there is a mechanism in the Company's transmission licence to allow the Company to increase its charges in respect of such expenditure. The Directors expect that additional funding would be made available based on the increased cash inflows that would be expected to arise from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

Surplus funds

The Company invests surplus funds in term deposits with banks that have a short-term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's, short term deposit periods typically mature at the end of each quarter. At 31 March 2023, the Company had £10,422k (2022: £8,423k) on deposit of which £7,725k (2022: £7,148k) was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Of the remaining cash and cash equivalents, £2,697k (2022: £1,275k) requires the consent of the Company's lenders prior to use but are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to later under "Lending covenants and other restrictions".

The Company has some variability of cash flows in relation to the interest it earns on its investments, as typically these investments are held in deposits with a typical maturity of 3 months or less and earn variable rates of interest. However, in the context of the other cash flows generated by the Company these amounts are insignificant.

Hedging arrangements

General

It is the policy of the Board that the Company will only enter into derivative financial instruments for the purpose of hedging an economic risk. No derivative financial instruments will be entered into unless there is an underlying economic position to be hedged. No speculative positions are entered into.

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 70%) of variable cash inflows arising from the electricity transmission service it provides to NGEN in exchange for a pre-determined stream of cash inflows with the final payment date expected on 30 September 2031. The period through to 30 September 2031 closely matches the remaining period over which the Company enjoys exclusive rights to operate the offshore transmission system under the Licence and the period over which the vast majority of future cash flows from the project are expected to be generated.

Strategic Report continued

For the year ended 31 March 2023

As previously described (see “Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives”), under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its principal customer, NGENSO, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the average percentage change in RPI over the previous 12-month period measured from January to December. The use of derivative arrangements (“RPI swaps”) has the effect of exchanging the vast majority of variable cash inflows derived from the Company’s transmission services (impacted by changes in actual RPI) in exchange for a known and predetermined stream of rising cash flows over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge. The vast majority of the Company’s cash outflows relate to borrowings that substantially carry a fixed coupon (after interest rate swaps – see below) so that both the resultant principal repayments and coupon payments are largely predetermined. The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the Company can meet its obligations under the terms of the Company’s borrowing arrangements and therefore reduce the risk of default. The Directors believe that the RPI swaps continue to have a highly effective hedging relationship with the forecast cash inflows that are considered to be highly probable and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

The carrying value of RPI swap liabilities at 31 March 2023 was £20,332k (2022: £18,147k).

Further information relating to these derivative financial instruments is contained within notes 13 and 19 to the regulatory financial statements.

Interest rate swaps

The Company has entered into a series of interest rate swaps with banks of good standing.

The Directors believe that the use of these interest rate swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge. The net commercial effect of these arrangements is to convert c97% of the nominal amount of commercial lenders’ variable rate borrowings into fixed rate borrowings.

As explained earlier in this section of the Strategic Report – see “Current funding structure” - the interest rate on all interest swap arrangements and related loans is now linked to the SONIA interest rate benchmark effective for all quarterly periods ending after 31 March 2022.

The impact of these changes to the benchmark interest rate on the Company’s net cash flows relating to the interest rate swaps and related commercial loans has been immaterial.

The vast majority of the Company’s cash inflows (after RPI swaps) can be predicted with a high degree of certainty (thereby reducing uncertainty) for the reasons explained earlier under “RPI swaps”. Consequently, the Company is able to service, with a high degree of confidence, all of the highly certain fixed senior debt cash outflows (after interest rate swaps) from the highly predictable cash inflows (after RPI swaps). Therefore, the risk that the senior debt cash outflows required to be serviced cannot be met from the cash inflows generated is significantly reduced.

The effect of using interest rate swaps in the manner utilised by the Company substantially eliminates the interest rate risk that the Company might otherwise have been subject to.

The Directors believe that the interest rate swap hedging relationship is highly effective and that the forecast cash inflows are highly probable and as a consequence, have concluded that these interest rate derivatives meet the definition of a cash flow hedge and have formally designated them as such. Notwithstanding the changes to the benchmark interest rate, as discussed earlier, these interest rate derivatives continue to be effective for hedge accounting purposes.

The carrying value of interest rate swap assets at 31 March 2023 was £1,761k (2022: liabilities of £877k).

Further information relating to these derivative financial instruments is contained within notes 13 and 19 to the regulatory financial statements.

Lending covenants and other restrictions

The Company is subject to certain covenants and conditions under lending agreements with the senior debt holders. The Company entered into the lending agreements to allow it to fund the acquisition of the transmission owner asset. Under these lending agreements, a Global Agent has been appointed to represent the senior debt holders and to monitor compliance by the Company with the conditions of the lending agreements it has entered into. In addition, a Technical Adviser and an Insurance Adviser have also been appointed under the terms of the lending agreements to support the Global Agent in the discharge of the Agent's duties. The covenants and conditions of the lending agreements include (but are not limited to) the following:

- 1) the Company is required to operate on the basis of a financial plan while the lending agreements are in place (19 years) which the Global Agent has approved and subject to certain allowances; any deviation from that plan requires the approval of the Global Agent. The financial plan is refreshed on a quarterly basis and revised on an annual basis as required;
- 2) the Company is required to deliver financial and other information at specified intervals (typically quarterly) to the Global Agent;
- 3) the Company is required to maintain adequate insurances at all times;
- 4) the lending agreements specify the bank accounts that the Company is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose. Most withdrawals from bank accounts require the consent of the Global Agent;
- 5) the Company is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments, it cannot exceed a specified gearing ratio;
- 6) the Company is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically, this results in the Company investing in term deposits with maturities not exceeding three months; and
- 7) the Company is required to meet all the conditions contained within the lending agreements before any servicing of the other borrowing can take place or any distributions can be made to shareholders.

If the Company materially fails to comply with the terms of the lending agreements or has failed to apply one of the specified remedies, then the Company is in default of the lending agreements. In these circumstances the amounts due under the lending agreements are immediately due and payable or are repayable on demand.

Since entering into the lending agreements, the Company has materially complied with all of the lending covenants and conditions and has continued to do so through to the date of this report.

Accounting policies

The regulatory financial statements present the results of the Company using the accounting policies outlined in the regulatory financial statements and are prepared in accordance with UK-adopted International Accounting Standards (“UK-adopted IAS”) as applicable to companies reporting under UK-adopted IAS. This is explained in more detail in the accounting policies section of the regulatory financial statements under “Basis of preparation of these regulatory financial statements” on page 38.

UK-adopted IAS as applicable to companies reporting under UK-adopted IAS permits certain choices and the following material choices have been made as follows:

Presentation of regulatory financial statements

The Company uses the nature of expense method for the presentation of its income statement and presents its balance sheet showing net assets and total equity.

In the income statement the Company presents a sub-total of operating profit, being the total of operating income, finance income and operating costs. Finance income represents the income derived from the operation of the Company’s transmission owner asset and is included within operating profit to reflect the fact that this is one of the principal revenue generating activities of the Company and relates to the Company’s principal operating activity as a provider of electricity transmission availability services.

Financial Instruments

The Company has elected to apply hedge accounting to its standalone derivative financial instruments.

Critical accounting policies

The application of accounting principles requires the Directors of the Company to make estimates, judgements and assumptions that are likely to affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the regulatory financial statements. Better information, or the impact of an actual outcome, may give rise to a change as compared with any estimates used and consequently the actual results may differ significantly from those estimates. The impact of revised estimates, or the impact of actual outcomes, will be reflected in the period when the better information or actual outcome is known.

A discussion of critical accounting policies is contained within the accounting policies section of the regulatory financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the regulatory financial statements commences on page 38.

Approved on behalf of the Board



Gary Thornton
Director
22 June 2023

Directors' Report

For the year ended 31 March 2023

The information in this Directors' Report does not comprise a directors' report within the meaning of the Companies Act 2006; the following sections describe the matters that are required by the Licence for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the regulatory financial statements were:

Matthew Edwards

David Holmes¹

Matthew Pitts

Gary Thornton

Graham Farley²

¹ Appointed on 27 March 2023

² Resigned on 27 March 2023

Qualifying Third Party Indemnity Provisions

Third-party indemnity provisions for the benefit of its Directors have been in place throughout the year and were in force at the reporting date. During the year ended 31 March 2022 these indemnity provisions were provided for the benefit of its Directors in part by the Company and in part by other related parties. Following the renewal of the Company's insurance arrangements during the year ended 31 March 2022 and 31 March 2023 these indemnity provisions were provided for by other related parties for which a fee was not charged to the Company.

Principal activities and business review

A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Strategic Report on pages 3 to 23, which is incorporated by reference into this report.

Material interests in shares

Blue Transmission Walney 2 Limited is a wholly owned subsidiary undertaking of Blue Transmission Walney 2 (Holdings) Limited, which itself is a wholly owned subsidiary undertaking of Blue Transmission Walney 2 (Investments) Limited, which itself is a wholly owned subsidiary undertaking of the ultimate parent company Blue Transmission Investments Limited.

Returns to parent undertaking

During the year ended 31 March 2023, the Company paid £1,728k (2022: £1,728k) of interest in relation to the unsecured Loan Notes 2032 issued to its immediate parent undertaking. The amount outstanding on these loan notes amounted to £17,458k at 31 March 2023 (2022: £17,458k).

Interim ordinary dividends amounting to £1,394k were paid during the year (2022: £2,015k).

On 31 May 2023, the Board approved the payment of an interim ordinary dividend of £1,880k.

The Directors are not proposing a final ordinary dividend (2022: £nil).

Donations and research and development

No charitable or political donations were made during the year (2022: £nil) and expenditure on research and development activities was £nil (2022: £nil).

Directors' Report continued

For the year ended 31 March 2023

Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on pages 20 to 22 in the Strategic Report.

Greenhouse gas emissions

Details of greenhouse gas emissions by the Company during the year are shown in the Corporate governance statement – see page 31.

Going concern

Having made enquiries, the Directors consider that the Company has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the regulatory financial statements of the Company. More details of the Company's funding and liquidity position is provided in the Strategic Report under the headings "Current funding structure" and "Going concern, liquidity and treasury management".

The Company's strategy, long-term business objectives and operating model

The Company's strategy, long-term business objectives and operating model are set out in the Strategic Report and include an explanation of how the Company will generate value over the longer term.

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement and Directors emoluments

The Company does not have any employees and does not expect to engage any employees in the foreseeable future – see "The Company's Operating Model" in the Strategic Report on page 4.

The Directors receive no emoluments from the Company, consequently there is no linkage between service standards and Directors' emoluments, fees or benefits. One Director received indirect remuneration for consultancy services provided to the ultimate parent undertaking, but it is not practical to determine the value of any of these services provided as directly attributable to the Company.

Disclosure of information to the auditors

Each of the persons who is a Director at the date of approval of this Directors' Report confirms that:

So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved on behalf of the Board



Gary Thornton

Director

22 June 2023

Blue Transmission Walney 2 Limited

Cannon Place

78 Cannon Street

London, EC4N 6AF.

Corporate governance statement

Introduction

The Company is required to include within its regulatory accounts a corporate governance statement which describes how the principles of good corporate governance have been applied and which has the same content as the statement a quoted company is required to prepare.

The Company is a wholly owned indirect subsidiary undertaking of BTI, and consequently operates within the corporate governance framework of BTI and its subsidiary undertakings (“the Group”). An understanding of the Group’s governance framework is required to understand the Company’s position within that framework.

The Company is a private company limited by shares and is registered in England.

Appointments to the board of directors of BTI and its subsidiary undertakings are governed by a shareholders’ agreement (“the Agreement”) between the shareholders of BTI.

At 31 March 2022 and 31 March 2023, Diamond Transmission UK Limited (a wholly owned subsidiary of Mitsubishi Corporation) and BIF Offshore Windkraft Holdings Limited (a company ultimately controlled by 3i Group plc) each hold a 50% interest in the ordinary shares of BTI and jointly control this company as a result.

The Agreement requires that all boards within the Group comprise four directors, with two directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Group company has a nomination committee, and the performance of the boards is not evaluated.

The Agreement ensures that all boards within the Group are balanced, with no one shareholder having majority representation and allows the Group to draw on the respective financial and operational expertise of each of its shareholders. Accordingly, the Group and Company Directors have the relevant expertise and experience, drawn from their involvement in a wide range of infrastructure companies, to define and to develop the strategy of the Group and Company so as to meet their respective objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the risk management and internal control framework and are satisfied that they are effective.

None of the Directors has declared a conflict of interest, as would be required by Section 175 of the Companies Act 2006 and the Company’s Articles of Association.

Appointments to the board are made in accordance with the shareholders’ agreement which does not include a policy on the diversity of board members.

The Company

Board and management meetings

The Company is governed by a Board of four Directors, none of whom are independent. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board and are convened as required, but usually not less than four times per annum. The Company Board is responsible for monitoring the effectiveness of the day-to-day operation and management of the Company’s regulated transmission business.

The Company’s operating model is to outsource all O&M activities and management capability to third parties. FPL provides asset management capability and other services, through a MSA with BTI. The Company has acceded to that MSA. Additional technical support and accounting & administration support is provided to the Company via its ultimate parent company, BTI, which itself has an agreement with FPL to provide resources under a Shared Resources Agreement.

Corporate governance statement continued

Directors and their attendance at Company board meetings

The Directors of the Company are as shown below. Board meetings were held on 8 occasions during the year under review. Attendance by the Directors at Board meetings expressed as a number of meetings attended out of a number eligible to attend are shown below.

Matthew Edwards	6 of 8
David Holmes ¹	1 of 1
Matthew Pitts	7 of 8
Gary Thornton	8 of 8
Graham Farley ²	8 of 8

¹ Appointed on 27 March 2023

² Resigned on 27 March 2023

Board activity

The Board is responsible for leadership and the setting of objectives and targets to ensure that its business objectives are met and monitors performance against those targets, which it has continued to do so during the year under review. Amongst other matters, the Directors have monitored the operational and financial performance of the Company during Board meetings. In doing so, the Directors have due regard to the objectives of the Company and the business plan that is being executed. In addition, the Directors have attended regular Group operational review meetings during the financial year together with representatives from FPL, the management services provider, where the operations and financial performance of the Company have been scrutinised in detail and the performance of third-party suppliers in managing the assets of the Company were assessed accordingly.

The Board is satisfied with operational and financial performance of the Company during the year ended 31 March 2023 and a discussion of the operational and financial performance of the business is included in the Strategic Report - which commences on page 10.

The Board is responsible for setting policies or applying Group-wide policies set by the BTI board. Responsibility for monitoring compliance with those policies rests with the Board. The Board has satisfied itself that there has been compliance with all of its policies during the year – further details can be seen from the “Strategic Report – Commitment to ethical business practices” on page 12.

The Board recognises that the Company, in carrying out its activities, has to do so in the context of an environment that is subject to risk. The Board is responsible for managing those risks and maintains a risk register which is updated regularly and actively monitored. The principal and emergent risks faced by the Company are discussed throughout the Strategic Report that commences on page 3.

The Board recognises its obligations under S172 of the Companies Act 2006 and a statement to that effect is provided within the Strategic Report on page 13.

Certain licence related compliance activities are delegated for detailed consideration by the compliance committee set up by the Board. Certain other matters are considered by committees of BTI, where it is efficient and effective for certain activities and policies to be considered on a Group-wide basis. Matters discussed at these committee meetings are then considered by the Board on a regular basis and endorsed accordingly. The activities of these committees are discussed on the following pages.

Corporate governance statement continued

Compliance committee

The Company has a compliance committee. The compliance committee is a permanent internal body having an informative and consultative role, without executive functions, with powers of information, assessment and presentations to the Board. David Pagan was the Company's compliance officer for the financial year ended 31 March 2023 and has remained in that position through to the date of this report. David Pagan is not and has never been engaged in the management or operation of the Company's licensed transmission business system, or the activities of any associated business. The compliance officer is required to report to the compliance committee, audit committee and the Boards of the Company and BTI at least once annually.

The principal role of the compliance officer is to provide relevant advice and information to the Directors of the Company, the compliance committee and consultants and other third parties providing services to the Company. The compliance officer is required to facilitate compliance with the Licence as regards the prohibition of cross subsidies; restriction of activities and financial ring fencing; the conduct of the transmission business and restriction on the use of certain information. In addition, the compliance officer is required to monitor the effectiveness of the practices, procedures and systems adopted by the Company in accordance with the compliance statement required by amended standard condition E12 - C2 of the Licence (Separation and Independence of the Transmission Business).

Members of the compliance committee and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the year under review were as follows:

Matthew Edwards	1 of 1
David Holmes ¹	0 of 0
Matthew Pitts	1 of 1
Gary Thornton	1 of 1
Graham Farley ²	1 of 1

¹ Appointed on 27 March 2023

² Resigned on 27 March 2023

Compliance statement and annual compliance report

The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" that addresses how the Company has addressed certain Licence obligations. In addition, the Company publishes an annual compliance report (copies of these reports are available to download from www.bluetransmission.com).

The Company's last annual compliance report dated 24 November 2022 concluded that the Company, as Licensee, had been in compliance with the relevant duties of the Licensee through to 25 September 2022. The committee is not aware of any instance of non-compliance with the relevant duties of the Licensee since 25 September 2022 through to the date of this report.

BTI and its role in the governance of the Company

Meetings of the board of BTI

BTI is governed by a board of four directors, none of whom are independent. The BTI board does not have a separately appointed chairman. Meetings are chaired by a member of the BTI board and are convened as required, but usually not less than four times per annum. The BTI board is accountable to the shareholders of BTI for the good conduct of the Group's affairs, including those of the Company.

Where appropriate, the BTI board sets Group-wide policies that the Company has to comply with. Information relating to policies followed by the Company can be seen from the "Strategic Report – Commitment to ethical business practices" on page 12.

Audit committee

The Group does not have an internal audit function. The BTI directors have concluded that the cost of such a function would be disproportionate to the benefits it would bring. BTI has an audit committee which meets at least twice each year. The purpose of the audit committee is to assist the board of BTI and that of the Company in the effective discharge of their responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency. In so doing, the audit committee acts independently of the management of BTI and its subsidiary undertakings and seeks to safeguard the interests of its shareholders by:

- monitoring the integrity of statutory and regulatory reports issued by BTI and its major subsidiary undertakings with the objective of ensuring that these reports present a fair, clear and balanced assessment of the position and prospects of the Group, BTI or major subsidiary undertakings including the Company as the case may be;
- reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems and the implementation of established policies and procedures;
- considering any significant issues and the extent to which they have been disclosed in the relevant reports and financial statements of all companies in the Group, including a consideration of the critical accounting policies adopted by the Company (a discussion of which is included on pages 43 to 48);
- reviewing and approving the internal control and risk management policies applicable to the Group;
- maintaining an appropriate relationship with the external auditors; and
- assessing the objectivity and independence of the external auditors by considering: the nature and extent of non-audit services; a consideration of the effectiveness of the audit process including a recommendation to the Boards of BTI and other Group companies as to the reappointment of the auditors to the Company (who were appointed at or prior to the commencement of operations in 2012).

Corporate governance statement continued

In carrying out the activities described on the previous page, the audit committee has noted in particular the following:

- the audit committee has considered the disclosures included within the regulatory financial statements. In particular, the audit committee note that the impact of new accounting standards, interpretations and other pronouncements that apply for the first time to these regulatory financial statements has had a minimal impact on the measurement of assets and liabilities and related disclosures. The audit committee also notes that the Company continued to comply with the International Accounting Standards Board's ("IASB's") interest rate benchmark reform project - "Interest Rate Benchmark Reform: Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures", and concluded that all related disclosures are appropriate;
- the audit committee has considered carefully the disclosures contained within the Company's regulatory accounts generally and in particular disclosures relating to "going concern" and climate change and has concluded that the information provided is proportionate and appropriate to the activities and experiences of the Company; and
- the audit committee has also considered the key internal controls and risk management procedures as they applied to the Company and judge them to have operated appropriately during the year. It has also considered all of the related internal control and risk related disclosures contained within the regulatory accounts to be relevant and appropriate to the operations of the Company.

Representatives of the auditors are invited to attend meetings of the audit committee to attend as they see fit; the auditors also have unrestricted access to the audit committee. There have been no issues raised by the auditors' representatives that were of concern to the members of the audit committee.

The audit committee is satisfied as to the auditors' objectivity and independence following enquiry and discussion with the auditors and with management.

Health, safety and environment advisory committee

The boards of both BTI and the Company recognise that the nature of the Group and Company's businesses requires an exceptional focus on health, safety and the environment. Accordingly, the BTI Board has set up a Health, Safety and Environmental Advisory Committee which considers health, safety and environment matters for all companies in the Group including the Company which meets twice a year. The committee is responsible for:

- setting of health, safety and environmental targets for the Group and Company;
- ensuring that the Group's safety and health policy statement and environmental policy statement, are being adhered to;
- setting the health, safety and environmental plan for the year for all companies in the Group, including the objective of carrying out health and safety audits of O&M providers and monitoring the performance against planned targets;
- encouraging greater awareness throughout the Group and the Company of the importance of health, safety and the environment and higher achievement in health, safety and environmental performance;

Corporate governance statement continued

- providing guidance to FPL, the management services company, and all O&M providers and all other sub-contractors to the Group and Company that have the day-to-day responsibility for the management of health, safety and environment; and
- reporting to all boards in the Group including that of the Company as to the activities of the committee throughout the year.

During the year members of the Health Safety and Environment Advisory Committee, who are also members of the Board, closely monitor health and safety matters on a regular basis – both formally through the Health Safety and Environment Advisory Committee and at the more frequent management meetings. As a consequence, prompt actions and responses to matters arising are made as appropriate to the circumstances.

The members of the Health, Safety and Environment Advisory Committee and the Board are pleased to note the Health Safety and Environmental performance for the year – see “Strategic Report - The Company’s operational performance - Health, safety and environmental performance” on page 11 for details.

Climate Change and greenhouse gas emissions

The Board acknowledges that the impact of climate change is apparent, through climate and weather extremes and environmental events that are increasing in frequency and intensity. The Board is proud to be managing a business that is fundamental to the UK’s efforts to achieve net zero emissions by 2050 in line with the Paris Agreement and the UK Government’s target. The activities of the Company allow for the transmission of c184 MW of clean energy from the Walney 2 offshore windfarm to the onshore substation, which is sufficient to power approximately 165,500 homes.

The Company operates facilities that have the potential to emit harmful greenhouse gases. In particular, the Company uses sulphur hexafluoride (SF₆) in the operation of some of the Company’s electrical equipment. SF₆ is an inorganic, colourless, odourless and non-flammable greenhouse gas and the Company has an active maintenance regime in place to monitor equipment for gas leaks and, where necessary, take appropriate actions to repair equipment to prevent the escape of SF₆.

The operation of the Company’s facilities, which are necessary to allow for the transmission of clean energy, also requires the consumption of electricity, which maybe a source of greenhouse gas emissions. Electricity consumption during the year is estimated to be 80 MWh (2022: 75 MWh).

The Directors have calculated that approximately 17 of tonnes of CO₂ (equivalent) have been emitted during the year (2022: approximately 17 tonnes), this calculation being based upon an appropriate factor converting units of electricity consumed or greenhouse gases emitted into tonnes of CO₂ (equivalent). This equates to 0.0000114 tonnes of CO₂ (equivalent) per MWh of the Company’s electricity transmission capacity (2022: 0.0000117 tonnes).

Approved on behalf of the Board



Gary Thornton
Director
22 June 2023

Statement of Directors' responsibilities

For the year ended 31 March 2023

The Directors of the Company are required by standard condition E2 of the Licence to prepare regulatory accounts for each financial year which comply with the requirements set out in that condition. The Directors believe that, based on enquiry and the information available to them, that they have complied with these requirements. The content of the regulatory accounts is described under "A description of these regulatory accounts" on page 2.

- The Directors consider that, in preparing the regulatory financial statements included in the regulatory accounts, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting and financial reporting standards have been followed.
- The Directors have responsibility for preparing the regulatory financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business. Therefore, these regulatory financial statements have been prepared on the going concern basis.

The Directors have responsibility for ensuring that the Company keep accounting records in such form that revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, the transmission business of the Licensee are distinct from any other activity of the Company.

The Directors have responsibility for ensuring that the regulatory financial statements fairly present the financial position, financial performance and cash flows of, or reasonably attributable to, the transmission business.

The Directors have responsibility to ensure that, so far as reasonably practicable, the regulatory financial statements included in the regulatory accounts have the same form and content as the equivalent statutory accounts of the Company and that they comply in all material respects with UK-adopted international accounting standards as applicable to companies reporting under UK-adopted IAS subject to any material departures being disclosed and explained in the regulatory financial statements.

The Directors have responsibility to ensure that the regulatory financial statements include an income statement, a statement of changes in equity and, if appropriate, a statement of comprehensive income, a balance sheet and a cash flow statement, including notes thereto. The Directors also have responsibility to ensure that the regulatory financial statements include a statement of accounting policies adopted, a corporate governance statement, a Directors' Report and a Strategic Report.

The Directors have responsibility to ensure that the regulatory financial statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to the ultimate controller (or that of its subsidiaries other than the Company) of the Company, or that have been determined by allocation or apportionment to the transmission business or between any other business of the Licensee or affiliate or related undertaking together with a description of the basis of apportionment or allocation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and to detect fraud and irregularities.

The Directors, having prepared the regulatory financial statements, have requested the auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Approved on behalf of the Board



Gary Thornton
Director
22 June 2023

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the Directors of Blue Transmission Walney 2 Limited

For the year ended 31 March 2023

Report on the audit of the regulatory financial statements

Opinion

In our opinion, Blue Transmission Walney 2 Limited's regulatory financial statements for the year ended 31 March 2023 have been properly prepared, in all material respects, in accordance with standard condition E2 of the Company's Regulatory Licence and the accounting policies.

We have audited the regulatory financial statements, included within the regulatory accounts which comprise: the balance sheet as at 31 March 2023; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the regulatory financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF (Revised) 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the regulatory financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter - Basis of preparation

In forming our opinion on the regulatory financial statements, which is not modified, we draw attention to the Accounting Policies, which describes the basis of preparation, and in particular, the fact that the accounting policies used and disclosures made are not intended to, and do not, comply with all the requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the Companies Act 2006. The regulatory financial statements are prepared in accordance with a special purpose framework for the Directors of the Company (the "Directors") for the specific purpose as described in the Use of this report paragraph below. As a result, the regulatory financial statements may not be suitable for another purpose.

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the Directors of Blue Transmission Walney 2 Limited continued

For the year ended 31 March 2023

Conclusions relating to going concern

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

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

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

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

Reporting on other information

The other information comprises all of the information in the regulatory accounts other than the regulatory financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the regulatory financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

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

The Directors' Report, Strategic Report and corporate governance statement

The Company's Regulatory Licence, standard condition E2, requires the regulatory financial statements and the Directors' Report, Strategic Report, and corporate governance statement to be prepared as if the Company were a quoted company and as if the regulatory financial statements were the Company's statutory financial statements prepared in accordance with Part 15 of the Companies Act 2006. The Directors have therefore prepared a Directors' Report, Strategic Report, and corporate governance statement accompanying the regulatory financial statements. Under the terms of our contract we have assumed responsibility to provide those opinions that would be provided if this were the statutory annual report of a quoted company, in accordance with the Companies Act 2006.

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the Directors of Blue Transmission Walney 2 Limited continued

For the year ended 31 March 2023

Reporting on other information continued

The Directors' Report, Strategic Report and corporate governance statement continued

In our opinion, based on the responsibilities described above and our work undertaken in the course of the audit:

- the information given in the Directors' Report and Strategic Report for the financial year for which the regulatory accounts are prepared is consistent with the regulatory financial statements and has been prepared in accordance with applicable legal requirements;
- in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report and Strategic Report; and
- the information given in the corporate governance statement set out on pages 26 to 31 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the regulatory financial statements and has been prepared in accordance with applicable legal requirements.

Responsibilities for the regulatory financial statements and the audit

Responsibilities of the Directors for the regulatory financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the regulatory financial statements in accordance with standard condition E2 of the Company's Regulatory Licence, and the accounting policies and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of regulatory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the regulatory financial statements

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

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the Directors of Blue Transmission Walney 2 Limited continued

For the year ended 31 March 2023

Responsibilities for the regulatory financial statements and the audit continued

Auditors' responsibilities for the audit of the regulatory financial statements continued

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, Health and Safety, and a range of industry specific legal requirements pertaining to the Company's licence to operate, including the Electricity Act 1989, and we considered the extent to which non-compliance might have a material effect on the regulatory financial statements. We also considered those laws and regulations that have a direct impact on the regulatory financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the regulatory financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and the risk of management bias in accounting estimates. Audit procedures performed by the engagement team included:

- enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- understanding of management's controls designed to prevent and deter irregularities;
- challenging management on assumptions and judgements made in their significant accounting estimates, in particular in relation to the fair value of derivative financial instruments; and
- identifying and testing journal entries, in particular any unusual account combinations impacting operating income, finance income and distributable reserves.

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

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

The nature, form and content of the regulatory financial statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable for the Regulator's purposes. Accordingly, we make no such assessment.

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the Directors of Blue Transmission Walney 2 Limited continued

For the year ended 31 March 2023

Responsibilities for the regulatory financial statements and the audit continued

Auditors' responsibilities for the audit of the regulatory financial statements continued

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2023 on which we reported on 26 June 2023, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come, save where terms are expressly agreed in writing.

In addition, we draw attention to the fact that these regulatory financial statements have not been prepared under section 394 of the Companies Act 2006 and are not the Company's statutory financial statements.

Use of this report

This report, including the opinion, has been prepared for and only for the Company's Directors as a body for the Company to meet its obligation included in standard condition E2 of the Company's Regulatory Licence dated 25 September 2012 and to facilitate the carrying out by the Regulator of its regulatory functions in accordance with our engagement letter dated 05 June 2023. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. In giving this opinion, we only accept or assume responsibility to the Directors of the Company as a body, and not for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual and regulatory obligations of the Company, or for any other purpose, save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
26 June 2023

Accounting policies

For the year ended 31 March 2023

A. Basis of preparation of these regulatory financial statements

These regulatory financial statements have been prepared on a going concern basis (see “Strategic Report - Going concern, liquidity and treasury management” on pages 18 and 19 which sets out the Company’s basis for applying the going concern basis to the preparation of these regulatory financial statements) and in accordance with the requirements of standard condition E2 of the Licence. These regulatory financial statements are prepared in accordance with UK-adopted International Accounting Standards (“UK-adopted IAS”) as applicable to companies reporting under UK-adopted IAS.

The Company continues to apply consistent accounting policies updated, where necessary, to ensure that the accounting policies adopted reflect UK-adopted IAS as is mandatory for the year ended 31 March 2023.

The regulatory financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The regulatory financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

The preparation of regulatory financial statements in accordance with UK-adopted IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

B. Transmission availability arrangements

The Company owns and operates an electricity transmission network that is principally offshore based. This network electrically connects a wind farm generator to an onshore electricity distribution system and then through to the onshore electricity transmission owner. The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available (“transmission availability charges”) to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12 “Service Concession Arrangements”. Consequently, the accounting for charges made by the Company for transmission network availability is consistent with that interpretation.

The major characteristics that result in the application of IFRIC 12 include the following:

- the regulatory arrangements determine the price charged by the Company for its transmission availability services; and
- the regulator has granted a licence to operate the transmission system which provides the Company with the right to charge for the provision of transmission services for an exclusive period of around 20 years and retains the rights to grant a transmission licence to a future operator.

B. Transmission availability arrangements continued

A transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15. The transmission owner asset includes: the cost of acquiring the transmission network asset from the constructor of the network; those costs incurred that are directly attributable to the acquisition of the transmission network including infrastructure financial liabilities; and the estimated cost of decommissioning the transmission network at the end of its estimated useful life. The transmission owner asset has been classified as a contract asset and financial asset and is accounted for as described later – see “C – Financial Instruments”. In accordance with IFRIC 12, transmission availability charges are recognised in the regulatory financial statements in three ways:

- as an adjustment to the carrying value of the transmission owner asset – see “C. Financial Instruments” later;
- as finance income - see “F. Operating and finance income” later; and
- as operating income - see “F. Operating and finance income” later.

Transmission availability payments are recognised at the time the transmission service is provided.

The value of amounts invoiced for transmission availability services in any one year is determined by a regulatory agreement that allows the transmission system operator to invoice an amount primarily relating to the expected availability of the transmission system during that year, together with the recovery of certain costs. Where the level of availability of the transmission system or the costs that are permitted to be recovered is different to that expected this might result in an adjustment to charges in a subsequent accounting period. Such potential adjustments to future charges are not recognised in the regulatory financial statements as assets or liabilities, until such time as prices are changed to reflect these adjustments and consequently there is no impact on the income statement until such time as prices are changed.

C. Financial instruments

Financial assets are measured at amortised cost or at fair value through profit and loss.

Trade receivables are classified at amortised cost as they are held within a business model to collect contracted cash flows. Such receivables are initially recognised at their transaction price, being the expected amount of any consideration receivable. Trade receivables continue to be measured at their transaction price less any expected credit losses using the simplified approach for determine such losses as permitted by IFRS 9 “Financial Instruments”.

Loan receivables, including time deposits and demand deposits, are initially recognised at fair value, which would normally be the transaction price and subsequently measured at amortised cost, less any expected credit losses.

The transmission owner asset is classified as a contract asset and a financial instrument and is carried at amortised cost using the effective interest rate method less any expected credit losses and reflecting adjustments to its carrying value as referenced earlier – see “B. Transmission availability arrangements”. Finance income relating to the transmission owner asset is recognised in the income statement as a separate line item – “Finance income”, see “F. Operating and finance income” later.

C. Financial instruments continued

Expected credit losses are considered at each reporting date. Where the credit risk has not significantly changed since the initial recognition of an asset or class of assets, then lifetime expected credit losses are calculated at an amount equal to the 12-month expected credit losses on that asset or class of assets. For assets where the lifetime credit risk has significantly changed since initial recognition, a credit loss allowance is calculated by assessing the lifetime credit risk. Any loss allowance calculated in relation to lifetime expected credit losses is recognised in the income statement.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which reflects the proceeds received, net of direct issue costs. Subsequently all borrowings are stated at amortised cost, using the effective interest rate method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest rate method.

Derivative financial instruments are measured at fair value through profit and loss and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. Gains and losses arising from the changes in fair value are included in the income statement in the period they arise unless there is a hedge relationship in place – see “D. Hedge accounting” below.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts.

There are no embedded derivatives in host contracts that are not considered to be closely related; consequently, no embedded derivatives are separately accounted for as derivative financial instruments.

D. Hedge accounting

As permitted by IFRS 9, the Company continues to apply the hedge accounting requirements of International Accounting Standard 39.

The Company has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company’s net cash flows.

The Company has also entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows (“interest rate swaps”).

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

D. Hedge accounting- continued

As permitted by the 'Interest Rate Benchmark Reform - Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures (Interbank offered rates reforms or "IBOR reforms")', the Company applied the phase 1 and phase 2 reliefs available under those IBOR reforms as appropriate to the specific hedge accounting requirements as they apply to the interest rate swaps entered into by the Company. These reliefs allowed the Company to continue to apply hedge accounting based on the assumption that the interest rate benchmark – LIBOR – was not altered following the cessation of the publication of this benchmark on 31 December 2021, as the hedge relationship was still subject to interest rate benchmark reform uncertainty. The Company continued to apply the reliefs available under the IBOR reforms until its final transition to the SONIA interest rate benchmark was completed. Consequently, the Company continued to apply hedge accounting through to the ultimate transition of applying the SONIA interest rate benchmark to its variable rate loans and related interest rate swap arrangements which came into effect for all quarters ending after 31 March 2022.

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") including any change in the fair value of those hedges that result from a change in the credit risk of these hedges are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated, and the underlying position being hedged has been extinguished.

E. Income taxation

Income taxation comprises current and deferred taxation. Income taxation is recognised where a taxation asset or liability arises that is permitted to be recognised under generally accepted accounting principles. All identifiable taxation assets or liabilities are recognised in the income statement except to the extent that the taxation arising relates to other items recognised directly in equity, in which case such taxation assets or liabilities are recognised in equity.

Current taxation

Current taxation assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of taxation are those that are enacted, or substantively enacted, by the balance sheet date.

Deferred taxation

Deferred taxation is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the regulatory financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred taxation liabilities are generally recognised on all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation 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 the tax rates (and tax laws) that have been enacted, or substantively enacted, by the balance sheet date.

Accounting policies continued

For the year ended 31 March 2023

E. Income taxation continued

Deferred taxation continued

Unrecognised deferred taxation assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred taxation asset to be recovered.

F. Operating and finance income

General

As indicated earlier, see “B. Transmission availability arrangements”, amounts invoiced in respect of transmission availability charges, net of value added tax, are attributed to operating income, finance income or as an adjustment to the carrying value of the transmission owner asset in the manner described later. Finance and operating income reflect the principal revenue generating activity of the Company, that being revenue associated with the provision of transmission availability services and consequently, are presented as separate line items within the Income statement before other costs and net interest costs.

An estimate has been made as to the appropriate revenue that should be attributable to a standalone operator with responsibility for operations, maintenance and insurance.

Operating income

Operating income represents the income derived from the provision of operating services, principally to NGESO, the Great Britain electricity system operator. Such services include those activities that result in the efficient and safe operation of the Company’s transmission assets and are reflective of the costs incurred in providing those services, including the cost of insuring the transmission assets on behalf of a standalone transmission owner.

Finance income

Finance income arising from the provision of transmission availability services represents the return that an efficient standalone “transmission owner” would expect to generate from the holding of the transmission owner asset and an estimate has been made as to the appropriate return that such an owner would generate having regard to the risks associated with those arrangements. The return that is generated on this asset is allocated to each period using the effective interest rate method.

G. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value.

H. Decommissioning costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission network associated with the safe decommissioning of that network. Provision for these costs is based on future estimated expenditures, discounted to present values. Changes in the provision arising from revised estimates or discount rates, or changes in the expected timing of expenditures, are recognised in the income statement. The unwinding of the discount and changes arising from revisions to the discount rate are included within the income statement as a component of the net interest charge. Changes in estimates arising from revised cost assessments are included within operating costs.

I. Infrastructure financial liabilities

Infrastructure financial liabilities are initially recognised at the present value of the payments expected to be made over the term of the lease arrangements to which these liabilities relate and are discounted using an estimate of the Company's incremental borrowing rate at the date the lease arrangements were entered into. Thereafter, these liabilities are reassessed at each balance sheet date to reflect: a) any future increases in variable lease payments based on an index, which are not reflected in the initial lease liability as such liabilities are only recognised when the change in index takes effect; b) the finance costs on these liabilities; and c) reduced by any payments made in respect of these liabilities. Finance costs relating to these liabilities are recognised in the income statement within net interest expense over the period of the lease using the effective interest rate method.

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty

The preparation of regulatory financial statements requires management to make accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Assumptions and estimates are reviewed on an on-going basis and any revisions to them are recognised in the period the revision occurs. The following is a summary of the critical accounting policies adopted by the Company together with information about the key judgements, estimations and assumptions that have been applied.

i) **Transmission availability arrangements – including a consideration of the judgements applied to recognise income and a transmission owner asset**

The Directors after due enquiry have identified that the characteristics of the regulatory, legal and contractual arrangements that give rise to transmission availability charges are consistent with the principles contained within IFRIC 12 and IFRS 15 where appropriate. Consequently, the accounting for charges made by the Company for transmission network availability is consistent with IFRIC 12 and IFRS 15.

As a consequence of the application of this judgement, the following outcomes follow:

- a. A transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15; and
- b. In accordance with IFRIC 12, transmission availability charges are recognised in the regulatory financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the transmission owner asset.

An alternative accounting analysis giving rise to an alternative judgement could result in a significantly different accounting outcome which would affect the amounts and classification of asset and liabilities in the balance sheet and alter the income recognition and presentation of amounts included within the income statement.

The Company has also determined that the transmission owner asset is expected to be recovered over a period of 20 years from the date the Licence came into force (26 September 2012) – being the principal period over which the Company is permitted to levy charges for transmission availability and therefore the expected useful life of the transmission owner asset. This judgement has the effect of determining the amount of finance income and carrying value of the transmission owner asset that is recognised in any one year over the life of the project.

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

ii) Operating and finance income

Operating income – including identification of key estimates

Operating income represents the income derived from the provision of operating services, principally to NGESO, the Great Britain electricity system operator, and following the application of the judgements referenced above – see “i) Transmission availability arrangements – including a consideration of the judgements applied to recognise income and a transmission owner asset.”

Such operating services include those activities that result in the efficient and safe operation of those assets and the value attributable to these services are reflective of an estimate of costs incurred in providing those services, including the cost of insuring those assets on behalf of a standalone transmission owner.

Estimates were made by management with effect from the date that the Licence came into force (26 September 2012), to determine the appropriate amount of revenue that would be attributable to this income classification as if this service were provided by an independent standalone operator with responsibility for operations, maintenance and insurance. The principles attributable to these estimates determined with effect from the date that the Licence came into force continue to apply to the charges made by the Company for transmission network availability in each financial year over the expected useful life of the transmission owner asset. To the extent that an alternative estimate could have been made at the date that the Licence came into force as to a reasonable level of revenue attributable to this income classification then the estimate of income attributable to finance income (see below) may have been amended.

Finance income - including identification of key estimates

Following the application of the judgements referenced earlier – see “i) Transmission availability arrangements – including a consideration of the judgements applied to recognise income and a transmission owner asset” - finance income arising from the provision of transmission availability services represents an estimate of the return that an efficient standalone and independent “transmission owner” would expect to generate from the holding of the transmission owner asset. An estimate of an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements was carried out by the Company from the date the Licence came into force (26 September 2012) and applies over the expected useful life of the transmission owner asset accordingly. The return that is generated on this asset is allocated to each period using the effective interest rate method. To the extent that an alternative estimate could have been made as to a reasonable level of return attributable to such a transmission asset owner from the date the Licence came into force, then the estimate of income attributed to operating income (see earlier) would have been amended accordingly.

iii) Hedge accounting and consideration of the fair value of financial instruments

General

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in interest rates and movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those instruments on its balance sheet.

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

iii) Hedge accounting and consideration of the fair value of financial instruments continued

Application of judgements to hedge accounting and deriving fair values

Movements in the fair values of the Company's derivative financial instruments may be accounted for using hedge accounting where the requirements of hedge accounting are met under UK-adopted IAS including the creation of compliant documentation and meeting the effectiveness testing requirements. In principle, while the application of the requirements of UK-adopted IAS hedge accounting rules do not require the exercise of judgement – consideration and judgements need to be made from time to time to determine if a hedge continues to meet the criteria for hedge accounting, which may include a consideration of whether there has been a substantial modification to the terms of the hedge, or where there is some degree of ineffectiveness identified in respect of the hedging relationship, then the change in fair value in relation to these items will be recorded in the income statement. If a hedging relationship is judged to be discontinued for hedge accounting, then any amounts previously deferred in other comprehensive income must immediately be recognised in the income statement. Otherwise, in respect of the Company's derivative financial instruments, these changes in fair value are recognised in other comprehensive income.

As referred to earlier, the Company carries its derivative financial instruments in its balance sheet at fair value. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by the shareholders of BTI based on the lenders counterparty swap valuation that is independent of the Company but also use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments. Where observable market data is not available, as in the case of valuing the transmission owner asset for the purposes of disclosure only, unobservable market data is used.

iv) Income taxation

Current taxation including a consideration of the judgements and estimates used in determining current taxation liabilities

Current taxation is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items, that are never taxable or tax deductible. The Company is required to estimate the current tax liability based on its understanding of taxation law and the anticipated decisions of HM Revenue and Customs. However, actual tax liabilities could differ from any recorded current taxation liability and in such event the Company would be required to make an adjustment in a subsequent period which could have a material impact on the reported profit for subsequent reporting periods.

Deferred taxation including a consideration of the judgements and estimates used in determining deferred taxation liabilities and assets

Deferred taxation is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the regulatory financial statements and the corresponding taxation bases used in the computation of taxable profit.

The recognition of deferred taxation reflects the expected manner of recovery of deferred taxation assets or the settlement of a deferred taxation liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred taxation assets are not recognised where it is more likely than not that the assets will not be realised in the future.

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

iv) Income taxation continued

Deferred taxation including a consideration of the judgements and estimates used in determining deferred taxation liabilities and assets continued

Judgements are required to be made as to the calculation and identification of temporary differences and in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgement requires the Directors to consider forecast information over a long-time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

v) Expected credit losses

General

The carrying value of those financial assets recorded in the Company's balance sheet at amortised cost, including the transmission owner asset, could be materially reduced if the value of those financial assets were assessed to have been impaired.

Expected credit losses arise as a result of all possible default events over the expected life of a financial instrument. Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Application of judgements to the recognition of expected credit losses

At each reporting date, the Company performs an assessment as to whether the credit risk on a financial instrument has increased. Depending upon the outcome of that assessment, which requires the application of judgement, the Company will determine if there is any requirement for any expected credit losses to be applied and that assessment will also determine whether credit losses are determined by reference to a 12-month period or by reference to expected credit losses over the lifetime of the financial instrument.

Application of estimates to the recognition of expected credit losses

Having applied judgement as to whether there should be any adjustment to the carrying value of financial assets the Company estimates an appropriate allowance for expected credit losses in accordance with the requirements of IFRS 9, recognising any material allowance for credit losses using the 12-month expected credit losses where there has been no significant change in credit risk or on the basis of lifetime credit losses where there has been a significant change in the credit risk. This assessment involves considering reasonable and supportable information involving the significant use of assumptions.

Any reduction in value arising from such a review would be recorded in the income statement.

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

vi) Decommissioning provision

General

Provisions are made for certain liabilities where the timing and amount of the liability is uncertain. The Company's only provision relates to the estimated costs of decommissioning the Company's offshore transmission system at the end of its expected economic life – being 20 years. These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The plan for decommissioning these assets was approved by the Department of Energy and Climate Change and published on the Company's web site (www.bluetransmission.com) and includes many assumptions.

Application of judgement to determine the carrying value of the decommissioning provision

Significant judgements used in determining the carrying value of this provision include, but are not limited to, the following:

- the estimated useful economic life of the transmission system is assumed to be 20 years being the period the Company has exclusive rights to charge for the provision of transmission services under the Licence and the period which is expected to generate the vast majority of cash flows relating to the ownership of the system. To the extent that the expected useful life is reduced or increased – this could materially change the carrying value of the decommissioning provision with a corresponding impact on the income statement; and
- the carrying value of the decommissioning reflects the decommissioning assumptions contained in any approved decommissioning plan. These assumptions reflect the application of judgements and if those judgements change over time or the execution of the decommissioning plan in accordance with those judgements is not possible – then this could change the carrying value of the decommissioning provision with a corresponding impact on the income statement.

Application of estimates to determine the carrying value of the decommissioning provision

The carrying value of the decommissioning provision has required the extensive use of estimates, which include but are not limited to, the following:

- the estimate of costs relating to the appropriate and safe removal, disposal, recycling and making safe of the transmission system having regard to market prices and access to the appropriate level of technology; and
- discount rate appropriate to the 20-year life of the assets being decommissioned. The Company has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to the decommissioning provision every five years, reflective of the long-term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

The estimates are based on management estimates with the use of technical consultants and are subject to periodic revision. The initial estimated discounted cost of decommissioning the offshore transmission system is included within the carrying value of the transmission owner asset. All subsequent changes to estimates in relation to estimated gross cost of decommissioning or the appropriate discount rate are reflected in the income statement.

J. Critical accounting judgements, key assumptions and sources of estimation uncertainty continued

vii) Infrastructure financial liabilities

General

Infrastructure financial liabilities are initially recognised in the balance sheet at the present value of the future lease payments to which these liabilities relate. A corresponding amount was recognised as an addition to the cost of the transmission owner asset at the date of acquisition.

Application of estimates to determine infrastructure financial liabilities

Management were required to estimate the incremental borrowing cost to the Company at the date the lease arrangements giving rise to infrastructure financial liabilities were entered into as a proxy for the interest rate implicit in those lease arrangements. This interest rate was then used to discount the expected future cash flows to derive the present value of the future lease payments.

Application of judgements to determine infrastructure financial liabilities

Management applied judgements to both determine the period over which payments would be made that are the subject of discounting to arrive at a present value and also to determine the incremental borrowing cost to apply to the discounting of those cash flows.

Any future change to the period over which payments are expected to be made would result in the reassessment of the infrastructure financial liabilities with the impact of any such reassessment being reflected in the income statement.

K. Accounting developments

i) Accounting standards, amendments to accounting standards and interpretations as applied to these regulatory financial statements

In preparing these regulatory financial statements the Company has complied with UK-adopted IAS applicable either for accounting periods starting by 1 April 2022 or ending by 31 March 2023.

There are no new accounting standards, amendments to standards, interpretations or other pronouncements that have been issued and are effective in respect of these regulatory financial statements that have had any material impact on the measurement, recognition or disclosures included in these regulatory financial statements.

ii) New accounting standards, amendments to standards and interpretations issued that may be relevant to the Company's activities but are not effective in these regulatory financial statements

No new accounting standards, amendments to standards, interpretations or other pronouncements that have been issued, which are not effective in these regulatory financial statements are likely to have any significant impact on the measurement of assets and/or liabilities or any of the disclosures included herein.

Income statement

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Operating income	2	5,633	4,494
Finance income	2	5,808	6,097
Total income		11,441	10,591
Operating costs	3	(3,832)	(3,597)
Operating profit		7,609	6,994
Other finance income	4	80	4
Finance costs	4	(4,450)	(4,361)
Net interest expense	4	(4,370)	(4,357)
Profit before taxation		3,239	2,637
Income taxation charge	5	(786)	(2,074)
Profit attributable to equity shareholders		2,453	563

The notes on pages 54 to 73 form part of these regulatory financial statements.

The results reported above relate to continuing operations.

Statement of comprehensive income

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Profit attributable to equity shareholders		2,453	563
Other comprehensive income / (loss)			
<u>Items that may be subsequently reclassified to Profit and Loss:</u>			
Net gains/ (losses) taken to equity in respect of cash flow hedges	13	431	(7,553)
Deferred taxation on cash flow hedges	5	(107)	2,484
Total other comprehensive income / (loss)		324	(5,069)
Total comprehensive income / (loss) for the year attributable to equity shareholders		2,777	(4,506)

Balance sheet

As at 31 March 2023

	Notes	2023 £'000	2022 £'000
Non-current assets			
Transmission owner asset	7	84,506	90,396
Derivative financial assets	13	1,761	-
Total non-current assets		86,267	90,396
Current assets			
Prepayments		384	349
Transmission owner asset	7	5,966	5,298
Cash and cash equivalents	9	10,422	8,423
Total current assets		16,772	14,070
Total assets		103,039	104,466
Current liabilities			
Borrowings	10	(5,654)	(5,701)
Infrastructure financial liabilities	11	(72)	(78)
Trade and other payables	12	(1,287)	(1,030)
Current income tax liabilities		(160)	-
Total current liabilities		(7,173)	(6,809)
Non-current liabilities			
Borrowings	10	(73,678)	(79,270)
Infrastructure financial liabilities	11	(894)	(933)
Derivative financial liabilities	13	(20,332)	(19,024)
Deferred taxation liability	8	(2,952)	(2,219)
Decommissioning provision	14	(2,546)	(2,130)
Total non-current liabilities		(100,402)	(103,576)
Total liabilities		(107,575)	(110,385)
Net liabilities		(4,536)	(5,919)
Equity			
Called up share capital	15	175	175
Retained earnings	16	8,083	7,024
Cash flow hedge reserve	16	(12,794)	(13,118)
Total shareholders' deficit		(4,536)	(5,919)

The regulatory financial statements set out on pages 38 to 73 were approved by the Board of Directors on 22 June 2023 and were signed on its behalf by:



Gary Thornton
Director

Statement of changes in equity

For the year ended 31 March 2023

	Called up share capital	Cash flow hedge reserve	Retained earnings	Total equity
Note	£'000	£'000	£'000	£'000
At 1 April 2021	175	(8,049)	8,476	602
Profit for the year recognised in the income statement	-	-	563	563
Other comprehensive loss for the year	-	(5,069)	-	(5,069)
Interim ordinary dividends	6	-	(2,015)	(2,015)
At 31 March 2022	<u>175</u>	<u>(13,118)</u>	<u>7,024</u>	<u>(5,919)</u>
Profit for the year recognised in the income statement	-	-	2,453	2,453
Other comprehensive income for the year	-	324	-	324
Interim ordinary dividends	6	-	(1,394)	(1,394)
At 31 March 2023	<u>175</u>	<u>(12,794)</u>	<u>8,083</u>	<u>(4,536)</u>

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory and borrowing obligations, including a requirement to ensure it has sufficient resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

The cash flow hedge reserve recognises the effective portion of cash flow hedges whilst any ineffectiveness is taken to the income statement.

Cash flow statement

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
<u>Cash flows from operating activities</u>			
Profit attributable to equity shareholders for the year		2,453	563
Adjustments for:			
Net interest charges		4,370	4,357
Taxation charge		786	2,074
Non-cash movement relating to finance income		5,222	4,373
Changes in working capital		543	(64)
		<u>10,921</u>	<u>10,740</u>
Net cash flows from operating activities		13,374	11,303
<u>Cash flows from investing activities</u>			
Interest received		80	4
Cash flows from investing activities		80	4
<u>Cash flows used in financing activities</u>			
Partial repayment of senior loans	17	(5,792)	(5,147)
Interest paid		(4,126)	(4,295)
Interim ordinary dividends paid	6	(1,394)	(2,015)
Other finance charges		(143)	(139)
Net cash flows used in financing activities		(11,455)	(11,596)
Net increase / (decrease) in cash and cash equivalents		1,999	(289)
Cash and cash equivalents at the start of the year		8,423	8,712
Cash and cash equivalents at the end of the year	17	10,422	8,423

Notes to the regulatory financial statements

For the year ended 31 March 2023

1. Operating segment

The Board of Directors is the Company's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation and cash available for debt service (net cash inflows from operating activities plus cash flows from investing activities). The Company and segmental results, balance sheet and relevant cash flows can be seen in the income statement, the balance sheet and cash flow statement on pages 49, 51 and 53 respectively. Additional notes relating to the Company and segment are shown in the notes to the regulatory financial statements on pages 54 to 73.

The electricity transmission operation of the Company comprises the transmission of electricity from a wind farm located in the Irish Sea off the coastline of Walney Island in the northwest of England and then connecting directly into the local distribution system at an electricity substation near Cleveleys.

All of the Company's sales and operations take place in the UK.

All of the assets and liabilities of the Company arise from the activities of the segment.

2. Operating and finance income

Operating income of £5,633k (2022: £4,494k) and finance income of £5,808k (2022: £6,097k) primarily relates to the Company's activity as a provider of electricity transmission services to the Company's principal customer – National Grid Electricity System Operator Limited (NGESO). The vast majority of the Company's income is derived from NGESO. Finance income is calculated using the effective interest rate method – consistent with the Company's accounting policy – see "Accounting policies - F. Operating and finance income".

3. Operating costs

Operating costs are analysed below:

	2023	2022
	£'000	£'000
Operations, maintenance and management ¹	3,213	3,316
Auditors' remuneration	37	33
Other	582	248
Total	<u>3,832</u>	<u>3,597</u>
<u>Auditors' remuneration comprises:</u>		
Audit services	18	16
Tax services	8	7
Other services supplied pursuant to legislation ²	11	10
Total	<u>37</u>	<u>33</u>

¹ This represents costs associated with the provision of operating, maintenance and management to the OFTO, which covers operation and maintenance costs, insurance premiums, management service fees and non-domestic rates related to the transmission network.

² These represent fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular, this includes fees for audit reports on regulatory returns.

No Director receives emoluments directly from the Company. One Director indirectly received remuneration for consultancy services provided to the ultimate parent undertaking, but it is not practical to determine the value of any of these services provided that are directly attributable to the Company.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

4. Net interest expense

Net interest expense is as tabulated below:

	2023 £'000	2022 £'000
Interest income		
Interest on bank deposits	80	4
Interest expense and other financial costs		
Interest on bank loans	(2,398)	(2,567)
Interest on other borrowing	(1,728)	(1,728)
Other financial costs ¹	(324)	(66)
	<u>(4,450)</u>	<u>(4,361)</u>
Net interest expense	<u>(4,370)</u>	<u>(4,357)</u>

¹ Includes a £22k net credit (2022: £249k) as a result of certain hedge ineffectiveness and a charge of £81k (2022: £42k) relating to infrastructure financial liabilities.

5. Income taxation charge

a) Taxation on items included in the income statement

The net taxation charge for the year is £786k (2022: £2,074k) and has been computed at 19%. The net taxation charge for the year comprises deferred taxation amounting to £626k (2022: £2,074k) and current taxation of £160k (2022: £nil). The deferred taxation charge includes an amount of £475k (2022: £492k) relating to current year profits arising and a charge amounting to £151k (2022: £1,582k) resulting from the remeasurement of deferred taxation balances during the year ended 31 March 2023. Further details as to the composition of the net taxation charge for the year is shown below.

The taxation charge for the year differs from (2022: differs from) the standard rate of corporation tax in the UK of 19% (2022: 19%) for the reasons outlined below:

	2023 £'000	2022 £'000
Profit before taxation	3,239	2,637
Taxation at 19% (2022: 19%) on profit before taxation	615	501
Effects of:		
- expenses not deductible for tax purposes	20	16
- change in tax rates on deferred tax ¹	151	1,582
- adjustment in respect of prior periods	-	(25)
Taxation charge for the year	<u>786</u>	<u>2,074</u>

¹ The deferred taxation charge relating to a change in tax rates during the year ended 31 March 2023 reflected the remeasurement of deferred taxation amounts arising during this year from 19% to 25%. The equivalent deferred taxation charge for the year ended 31 March 2022 also reflected this change but in addition, included the impact of remeasuring all deferred taxation balances included in the balance sheet at 1 April 2021 from 19% to 25%.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

5. Income taxation charge continued

b) Taxation on items included in other comprehensive income

The net taxation charge on items included in other comprehensive income for the year is £107k (2022: net credit of £2,484k) and comprises a charge on items arising in the current year computed at 19% (2022: 19%) of £82k (2022: net credit of £1,435k) and a charge of £25k (2022: net credit of £1,050k) arising from a change in corporation taxation rates. The net taxation charge (2022: net credit) on other comprehensive income arising in the year represents deferred taxation. There is no current taxation included in other comprehensive income (2022: £nil).

c) Taxation – future years

Future tax charges, and therefore the Company's future effective tax rate, could be affected by future changes in legislation. Similarly, the interpretation of existing legislation by the Company and or the relevant tax authorities could also impact the Company's future tax charges and future effective tax rate.

6. Interim ordinary dividends

Interim ordinary dividends were approved by the Board and paid during the year as follows:

	2023 £'000	2022 £'000
Interim ordinary dividends	<u>1,394</u>	<u>2,015</u>

Interim ordinary dividends of 796.57p (2022: 1,151.43p) per ordinary share were paid during the year to the Company's immediate parent undertaking – Blue Transmission Walney 2 (Holdings) Limited ("BTW2H").

On 31 May 2023, the Board approved the payment of an interim ordinary dividend of 1,074.62p per ordinary share amounting to £1,880k. This interim ordinary dividend is not recognised in the regulatory financial statements for the year ended 31 March 2023 in accordance with UK-adopted IAS.

7. Transmission owner asset

The movement in the carrying value of the transmission owner asset is shown in the table below:

	2023 £'000	2022 £'000
At 1 April	95,694	100,067
Adjustment to the carrying value ⁺	<u>(5,222)</u>	<u>(4,373)</u>
At 31 March	<u>90,472</u>	<u>95,694</u>
Comprising:		
Amounts falling due within one year	5,966	5,298
Amounts falling due after more than one year	<u>84,506</u>	<u>90,396</u>
	<u>90,472</u>	<u>95,694</u>

⁺ Arising from the application of the effective interest rate method.

The transmission owner asset is a contract asset and is carried at amortised cost. The estimated fair value of the transmission owner asset at 31 March 2023 was £115,081k (2022: £109,005k). The basis for estimating the fair value of the transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project and to discount those expected net cash flows at a discount rate of 6.28% (2022: 6.28%) per annum.

The Directors have considered expected credit losses in relation to the carrying value of the transmission owner asset and have concluded that these are expected to be immaterial and as a result no provision for expected credit losses has been recognised at 31 March 2023 (2022: £nil).

Notes to the regulatory financial statements

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For the year ended 31 March 2023

8. Deferred taxation liability

The net deferred taxation liability recognised in the balance sheet arises as follows:

	Fair value net losses on derivatives £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 April 2021	2,227	(9,261)	4,405	(2,629)
Movements reflected through the income statement	44	(3,609)	1,491	(2,074)
Movements reflected through other comprehensive income	2,484	-	-	2,484
At 31 March 2022	4,755	(12,870)	5,896	(2,219)
Current year movements through the income statement	(6)	(356)	(264)	(626)
Current year movements reflected through other comprehensive income	(107)	-	-	(107)
At 31 March 2023	4,642	(13,226)	5,632	(2,952)

Other deferred taxation assets relate primarily to temporary differences arising from current taxation losses.

The carrying value of all deferred taxation balances have been computed at 25% (2022: 25%) - being the rate of corporation tax that is expected to apply when the temporary differences reverse and reflects the latest enacted legislation in force at the balance sheet date.

9. Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £10,422k (2022: £8,423k). Short-term deposits are made for various periods of between one day and 3 months, depending on the timing of cash requirements and earn interest at the respective short-term deposit rates. All cash and equivalents are carried at amortised cost.

Cash and cash equivalents include amounts of £7,725k (2022: £7,148k) that the Company can only use for specific purposes and with the consent of the Company's lenders. Of the remaining cash and cash equivalents £2,697k (2022: £1,275k) this is held for general corporate purposes, but the consent of the Company's lenders is required prior to use.

The estimated fair value of cash and cash equivalents approximates to their carrying value.

Notes to the regulatory financial statements

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For the year ended 31 March 2023

10. Borrowings

The following table analyses borrowings:

	2023	2022
	£'000	£'000
Current		
Bank loan – fixed rate	2,771	2,789
Bank loans – variable rate	2,883	2,912
	<u>5,654</u>	<u>5,701</u>
Non-current		
Bank loan – fixed rate	27,726	30,466
Bank loans – variable rate	28,494	31,346
Other borrowing	17,458	17,458
	<u>73,678</u>	<u>79,270</u>
Total borrowings	<u>79,332</u>	<u>84,971</u>
	2023	2022
<u>Total borrowings are repayable as follows:</u>	£'000	£'000
In one year or less	5,654	5,701
In more than one year, but not more than two years	5,961	5,653
In more than two years, but not more than three years	6,585	5,959
In more than three years, but not more than four years	6,998	6,584
In more than four years, but not more than five years	7,214	6,996
In more than five years other than by instalments	46,920	54,078
	<u>79,332</u>	<u>84,971</u>

The fixed rate bank loan is with the European Investment Bank and carries an interest rate of 3.715% per annum. The loan amortises over the period through to 30 September 2031.

Agreement was reached with all lenders and related interest rate swap providers on 22 March 2022 to transition to a new interest rate benchmark – SONIA. As a consequence, as at the balance sheet date, all of the variable rate bank loans and related interest rate swaps which are with a consortium of banks under a commercial facility agreement carry an interest rate linked to the SONIA interest rate benchmark (2022: linked to the 3 - month LIBOR rate).

The impact of the change in net cash flows from these benchmark interest rate changes has been immaterial.

All of the loans under a commercial facility agreement amortise over the period through to 30 September 2031.

The fixed rate loan and the bank loans under the commercial facility taken together comprise the “senior debt” and are secured over all of the assets of the Company via fixed and floating charges, as required under the terms of a debenture document and where permitted by the Licence.

The other borrowing relates to amounts owed to the Company’s immediate parent undertaking - BTW2H. This other borrowing is unsecured and carries a fixed coupon of 9.9% per annum and is contractually repayable on 31 October 2032.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 19.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

10. Borrowings continued

As at 31 March 2023, the Company had a committed credit facility of £5,000k (2022: £5,000k) which was undrawn (2022: undrawn).

There have been no instances of default or other breaches of the terms of the loan agreements during the year in respect of all loans outstanding at 31 March 2023 (2022: no default or breaches).

11. Infrastructure financial liabilities

The movement in the infrastructure financial liabilities is shown in the table below:

	2023	2022
	£'000	£'000
At 1 April 2022:	1,011	1,086
Payments to lessors	(121)	(117)
Finance costs	76	42
At 31 March	<u>966</u>	<u>1,011</u>
Comprising:		
Current	<u>72</u>	78
Non-current	<u>894</u>	<u>933</u>
	<u>966</u>	<u>1,011</u>

12. Trade and other payables

Trade and other payables are as tabulated below.

	2023	2022
	£'000	£'000
Trade payables	130	64
Amounts due to ultimate parent undertaking	25	4
Other taxes	369	332
Accrued expenses	763	630
	<u>1,287</u>	<u>1,030</u>

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value. All trade and other payables are recorded at amortised cost and are all expected to be settled within 12 months of the balance sheet date. Included in accrued expenses are amounts owed to the immediate parent undertaking in respect of interest on other borrowings – see note 18.

13. Derivative financial liabilities

Derivative financial instruments are recorded in the balance sheet at market value and the carrying value of these derivative financial instruments may result in assets and/or liabilities being recognised at the balance sheet date. Derivative financial instruments derive their market value from the price of an underlying item, such as interest rates or other indices and have been entered into for the sole purpose of hedging the underlying economic activity of the Company. All such derivative financial instruments are classified under IFRS 9 at fair value through profit and loss.

All hedge accounting continues to be carried out in accordance with the hedge accounting requirements of IAS 39 as permitted by IFRS 9, and as a consequence, that part of the movement in the fair value of derivative financial instruments that is deemed to be hedge effective under IAS 39 continues to be reflected though other comprehensive income in the cash flow hedge reserve.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

13. Derivative financial liabilities continued

The Company's use of derivative financial instruments is described below.

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 70%) of variable cash inflows arising from the operation of the Company's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments.

The Company's use and strategy relating to RPI swaps is described in more detail in the "Strategic Report - Hedging Arrangements".

The Directors believe that the hedging relationship is highly effective and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Interest rate swaps

The Company has entered into a series of interest rate swaps with third parties which has the commercial effect of swapping the variable rate interest coupon for a fixed rate coupon.

As disclosed in "Note 10. Borrowings", agreement was reached with all interest rate swap providers and lenders to transition to a new interest rate benchmark – SONIA, and as a consequence, with effect from all quarterly periods ending after 31 March 2022 all interest rate swaps carry an interest rate linked to the SONIA interest rate benchmark. Interest rate swaps are in place in respect of approximately 97% of the nominal value of all commercial loans held by the Company.

The impact of the change in net cash flows from these benchmark interest rate changes has been immaterial.

All variable interest rate bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements.

The Company has, at all times, complied with and applied the permitted accounting reliefs arising from all phases of the IBOR reforms – the hedging consequences of which are explained in the "Accounting policies – D. Hedge Accounting" earlier in these regulatory financial statements. The effect of applying the IBOR reforms allowed the continued operation of hedge accounting uninterrupted through to the eventual transition to the use of a new interest rate benchmark of SONIA - without giving rise to accounting impacts that would not have provided useful information to users of these regulatory financial statements.

The Directors believe that the hedging relationship between the interest rate swaps, and related variable rate bank loans is highly effective. As a consequence, the Directors have concluded that these derivatives continue to meet the definition of a cash flow hedge and have formally designated them as such.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

13. Derivative financial liabilities continued

Carrying value of all derivative financial instruments

The carrying value of all derivative financial instruments at 31 March 2023 amounted to net liabilities of £18,571k (2022: £19,024k) comprising liabilities of £20,332k for RPI swaps (2022: £18,147k) and assets of £1,761k for interest rate swaps (2022: liabilities of £877k). Of the total movements during the year in the fair value of these derivative financial instruments amounting to a net gain of £453k (2022: net charge of £7,305k), a £22k net hedge ineffectiveness credit (2022: £249k) has been recorded in the income statement within "other financial costs" and a net credit of £431k (2022: net charge of £7,553k) has been recorded in the cash flow hedge reserve.

Further details regarding derivative financial instruments and their related risks are given in note 19.

14. Decommissioning provision

The movement in the decommissioning provision is analysed below.

	2023	2022
	£'000	£'000
At 1 April	2,130	2,024
Reassessment for the year	326	21
Unwinding of discount	90	85
At 31 March	2,546	2,130

The decommissioning provision is all non-current (2022: all non-current).

The decommissioning provision of £2,546k at 31 March 2023 (2022: £2,130k) represents the net present value of the estimated expenditure expected to be incurred at the end of the economic life of the project to decommission the Walney 2 transmission assets. The decommissioning expenditure relates to the removal and scrapping of all transmission assets above the level of the seabed and the burial of all cable ends. The gross expenditure expected to be incurred on decommissioning amounts to £3,759k (2022: £3,276k) and is expected to be incurred in 2032.

The discount rate used to discount the gross expenditure to be incurred on decommissioning is a pre-taxation 'risk free' rate with a maturity similar to that of the decommissioning liability. This reflects the best estimate of the time value of money risks specific to the liability, as the estimated gross decommissioning costs appropriately reflect the risks associated with that liability.

If the expected nominal cost of decommissioning in 2031 was 10% higher or lower than that reflected in the decommissioning provision at 31 March 2023, this would have the effect of increasing or decreasing the carrying value of the decommissioning provision at 31 March 2023 by £255k (2022: £213k) and £254k (2022: £213k) respectively.

The decommissioning provision arises from the Company's obligations under S105 of the Energy Act 2004 and the contractual obligations relating to the lease of the Walney 2 seabed granted by the Crown Estate Commissioners on 26 September 2012. The draft decommissioning programme was submitted for approval under S105 of the Energy Act 2004 and was subsequently approved by the Secretary for State for Energy and Climate Change under S106 of the Energy Act 2004.

Notes to the regulatory financial statements

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For the year ended 31 March 2023

14. Decommissioning provision continued

Discussions are currently being undertaken with the Department for Energy Security and Net-Zero that may lead to a future revision of the expected decommissioning costs. Until those discussions are completed the amounts included in the balance sheet represent the current best estimate of the Company's decommissioning liability.

The decommissioning provision is a financial instrument under UK-adopted IAS, and the fair value of the obligation equates to its carrying value, as the carrying value represents the net present value of the future expenditure expected to be incurred as described earlier.

15. Called up share capital

Share capital is as analysed below.

	No. (thousands)	£'000
Allotted, called up and fully paid		
At 1 April 2021, 31 March 2022 and 31 March 2023	175	175

The Company has one class of Ordinary Share with a nominal value of £1 each which carries no right to fixed income. The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

16. Reserves

The Company's reserves are analysed below.

	Retained Earnings £'000	Cash flow Hedge £'000	Total £'000
At 1 April 2021	8,476	(8,049)	427
Profit attributable to equity shareholders	563	-	563
Interim ordinary dividends	(2,015)	-	(2,015)
Losses on cash flow hedges taken to equity	-	(7,553)	(7,553)
Deferred taxation on cash flow hedges	-	2,484	2,484
At 31 March 2022	7,024	(13,118)	(6,094)
Profit attributable to equity shareholders	2,453	-	2,453
Interim ordinary dividends	(1,394)	-	(1,394)
Gains on cash flow hedges taken to equity	-	431	431
Deferred taxation on cash flow hedges	-	(107)	(107)
At 31 March 2023	8,083	(12,794)	(4,711)

All reserves with the exception of the cash flow hedge reserve are distributable.

Notes to the regulatory financial statements

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For the year ended 31 March 2023

17. Cash flow statement

a) Reconciliation of net cash flow to movement in net debt

The reconciliation of net cash flow to movement in net debt is as analysed below:

	2023	2022
	£'000	£'000
Movement in cash and cash equivalents	1,999	(289)
Payments in respect of infrastructure financial liabilities	121	117
Net decrease in borrowings	5,792	5,147
Change in net debt resulting from cash flows	7,912	4,975
Non-cash finance costs included in net debt	(229)	(206)
Change in fair values of derivatives	453	(7,305)
Movement in net debt in the year	8,136	(2,536)
Net debt at start of year	(97,009)	(94,473)
Net debt at end of year	(88,873)	(97,009)

b) Analysis of changes in net debt

	Cash and cash equivalents	Infrastructure financial liabilities	Borrowings	Derivatives	Interest accruals	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2021	8,712	(1,086)	(89,953)	(11,719)	(427)	(94,473)
Cash flow	(289)	117	5,147	-	-	4,975
Change in fair values	-	-	-	(7,305)	-	(7,305)
Non-cash finance costs	-	(42)	(165)	-	1	(206)
At 31 March 2022	8,423	(1,011)	(84,971)	(19,024)	(426)	(97,009)
Cash flow	1,999	121	5,792	-	-	7,912
Change in fair values	-	-	-	453	-	453
Non-cash finance costs	-	(76)	(153)	-	-	(229)
At 31 March 2023	10,422	(966)	(79,332)	(18,571)	(426)	(88,873)

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

18. Related party transactions

The following information relates to material transactions with related parties during the year. These transactions were carried out in the normal course of business and at terms equivalent to those that prevail in arm's length transactions. Dividends paid to the immediate parent undertaking, BTW2H are shown in note 6 to the regulatory financial statements, other related party transactions are shown below.

	Parent undertakings (excludes dividends)		Total	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Interest expense ¹	1,728	1,728	1,728	1,728
Services received ²	208	188	208	188
	<u>1,936</u>	<u>1,916</u>	<u>1,936</u>	<u>1,916</u>
Balances outstanding at 31 March:				
Borrowing payable ¹ (principal)	17,458	17,458	17,458	17,458
Interest accrual ¹	426	426	426	426
Other liabilities ³	25	4	25	4
	<u>17,909</u>	<u>17,888</u>	<u>17,909</u>	<u>17,888</u>

¹ Relates to funding related transactions and balances with the immediate parent undertaking (BTW2H); all interest has been directly attributed to the Company.

² Services received from Parent undertakings relate to transactions with the ultimate parent undertaking (Blue Transmission Investments Limited ("BTI")). Services amounting to £108k (2022: £100k) were in respect of services that were directly attributable to the Company and £100k (2022: £88k) were in respect of services that were allocated to the Company.

³ Other liabilities due to parent undertakings relate to amounts due to BTI.

A summary of funding transactions with the immediate parent undertaking is shown below:

	2023 £'000	2022 £'000
Borrowing from immediate parent undertaking (principal)		
At 31 March and 1 April	<u>17,458</u>	<u>17,458</u>

Borrowing from the immediate parent undertaking (BTW2H) were negotiated on normal commercial terms and are repayable in accordance with the terms of the unsecured 9.9% loan notes 2032 ("the notes"). Interest payments were made during the year amounting to £1,728k (2022: £1,728k). Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 31 October 2032.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

18. Related party transactions continued

Transactions with the ultimate parent undertaking (BTI) are for administrative, company secretarial and other such services which are provided on an arm's length basis. Where costs can be identified by BTI as directly attributable to the Company, these costs have been charged as such. Where the costs incurred by BTI are for the general benefit of the Company and other subsidiaries of BTI these costs have been allocated to the Company and other subsidiaries. The basis of the allocation of such costs is on the basis of timesheets, where appropriate and the remaining costs are allocated on a rational basis with the principal drivers of allocation having regard to the complexity and size of operations of the subsidiaries within the Group. The Company is one of four such operating subsidiaries of BTI all of which are OFTOs.

Related party bad and doubtful debts

No amounts have been provided at 31 March 2023 (2022: £nil) and no expense was recognised during the year (2022: £nil) in respect of bad or doubtful debts for any related party transactions.

19. Information relating to financial instruments and the management of risk

a) Fair value disclosures

The following is an analysis of the Company's financial instruments at the balance sheet date comparing the carrying value included in the balance sheet with the fair value of those instruments at that date. None of the Company's financial instruments have quoted prices. Consequently, the following techniques have been used to determine fair values as follows:

- cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- transmission owner asset – based on the net present value of discounted cash flows;
- current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- non-current borrowings – based on the carrying amount in respect of variable rate loans and in respect of the EIB fixed rate loan and unsecured 9.9% loan notes 2032 it is based on the net present value of discounted cash flows;
- derivative financial instruments – based on the net present value of discounted cash flows;
- financial instrument receivables and payables – approximates to the carrying value because of the short maturity of these instruments; and
- decommissioning provision – approximates to carrying value.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

a) Fair value disclosures continued

The table below compares the carrying value of the Company's financial instruments with the fair value of those instruments at 31 March 2023 (plus prior year comparatives) using the techniques described earlier. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table:

	2023		Valuation Method (see as follows)
	Carrying value £'000	Fair value £'000	
Assets			
<u>Non-current</u>			
Transmission owner asset	84,506	107,354	Level 3
Derivative financial assets	1,761	1,761	Level 2
	<u>86,267</u>	<u>109,115</u>	
Liabilities			
<u>Non-current</u>			
Fixed rate bank loan	27,726	24,022	Level 2
Floating rate bank loans	28,494	28,494	Level 2
9.9% loan notes 2032	17,458	15,005	Level 2
Derivative financial liabilities	20,332	20,332	Level 2
Infrastructure financial liabilities	894	926	Level 2
Decommissioning provision	2,546	2,546	Level 3
	<u>97,450</u>	<u>91,325</u>	
2022			
	Carrying value £'000	Fair value £'000	Valuation method (see as follows)
Assets			
<u>Non-current</u>			
Transmission owner asset	90,396	103,707	Level 3
Derivative financial assets	-	-	Level 2
	<u>90,396</u>	<u>103,707</u>	
Liabilities			
<u>Non-current</u>			
Fixed rate bank loan	30,466	29,743	Level 2
Floating rate bank loans	31,346	31,346	Level 2
9.9% loan notes 2032	17,458	17,839	Level 2
Derivative financial liabilities	19,024	19,024	Level 2
Infrastructure financial liabilities	933	892	Level 2
Decommissioning provision	2,130	2,130	Level 3
	<u>101,357</u>	<u>100,974</u>	

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

a) Fair value disclosures continued

The best evidence of fair value is a quoted price in an actively traded market; where this data is available then the instrument is classified as having been determined using a level 1 valuation. In the event that the market for a financial instrument is not active, alternative valuation techniques are used. The Company does not have any financial instruments where it is eligible to apply a level 1 valuation technique.

With the exception of the transmission owner asset and decommissioning provision, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Company's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data.

In the case of the transmission owner asset and decommissioning provision, these have been valued using a valuation technique where significant inputs such as the assumed discount rate are based on unobservable market data. This means that these financial instruments have been classified as having been valued using a level 3 valuation and have been identified as such in the previous table.

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the year (2022: applied throughout the year) and there have been no reclassifications or transfers between the various valuation categories during the year (2022: no reclassifications or transfers during the year).

b) Management of risk

The Board has overall responsibility for the Company's risk management framework. This risk framework is discussed further in the Strategic Report.

The Company's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Company by using financial instruments, including the use of derivative financial instruments – being the RPI swaps and interest rate swaps described in note 13 that are appropriate to the circumstances and economic environment within which the Company operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the year are explained below.

i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Changes in market price are derived from: currency movements; interest rate changes; and changes in prices caused by factors other than those derived from currency or interest rate changes.

The Company operates in the UK and has no significant exposure to foreign currency and therefore this has an immaterial impact on market risk. Short-term financial assets and liabilities, such as trade receivables and payables, are not subject to market risk. Interest rate risk arises from the use of following financial instruments: transmission owner asset; borrowings; and cash and cash equivalents.

The transmission owner asset is classified as a contract asset and is carried at amortised cost and the carrying value is affected by the rate of interest implicit within the calculation of finance income that has a consequential effect on the carrying value of the transmission owner asset.

The fair value of the transmission owner asset is subject to price risk caused by changes in RPI and/or changes in interest rates.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

i) Market risk continued

The Company is not exposed to changes in the market value of infrastructure financial liabilities as the liability is determined by discounting the future cash flows relating to the lease arrangements giving rise to infrastructure financial liabilities by the incremental borrowing cost to the Company at the date the lease arrangements were entered into as a proxy for the interest rate implicit in those lease arrangements. Infrastructure financial liabilities do expose the Company to potential future increases in variable lease payments based on an index, which are not included in the initial lease liability and are only recognised when the change in index takes effect. When adjustments to lease payments are made based on an index taking effect, the lease liability is reassessed and adjusted through the income statement.

Substantially all of the Company's borrowings, net of the impact of interest rate swap arrangements (see note 13), have been issued at fixed rates which exposes the Company to fair value interest rate risk and as a result, the fair value of borrowings (net of the interest rate swap arrangements) fluctuate with changes in interest rates. All borrowings are carried at amortised cost and therefore changes in interest rates, in respect of those borrowings, do not impact the income statement or balance sheet.

The interest rate swaps used to hedge the Company's variable rate borrowings (see note 13) are considered highly effective hedges of those borrowings and are carried at fair value in the balance sheet. For the reasons outlined earlier, the Company is exposed to fair value interest rate risk in respect of the net fixed interest hedged position that has been achieved by the use of these derivatives. In the opinion of the Directors, these arrangements have reduced cash flow interest rate risk and further details of these arrangements are outlined in note 13 and in the "Strategic Report – Hedging Arrangements".

Cash and cash equivalents all attract interest at variable rates and therefore are subject to cash flow interest rate risk as cash flows arising from these sources will fluctuate with changes in interest rates. However, the interest cash flows arising from these sources are insignificant to the Company's activities.

The cash flows arising from the transmission owner asset fluctuate with positive changes in RPI. The Company has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in the "Strategic Report – Hedging Arrangements".

For the reasons outlined in the "Strategic Report", the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the balance sheet. The RPI swaps are considered to be effective cash flow hedges.

ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations.

Credit risk primarily arises from the Company's normal commercial operations that actually, or potentially, arises from the Company's exposure to: a) NGE SO in respect of invoices submitted by the Company for transmission services; b) the counterparties to the RPI swaps described in note 13; c) the counterparties to the interest rate swaps described in "Strategic Report – Hedging Arrangements"; and d) short term deposits. There are no other significant credit exposures to which the Company is exposed. The maximum exposure to credit risk at the 31 March 2023 (and 31 March 2022) is the fair value of all financial assets held by the Company. Information relating to the fair value of all financial assets is given earlier – note 19 (a). None of the Company's financial assets are past due or impaired.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

ii) Credit risk continued

NGESO operates a low risk regulated business within the UK and the regulatory regime under which it operates results in a highly predictable and stable, revenue stream. The regulatory regime is managed by the Authority and is considered by the Directors to have a well-defined regulatory framework which is classified as a predictable and a supportive regime by the major rating agencies. NGESO is subject to a regulatory financial 'ring fence' that restricts its ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges.

Even in the very unlikely circumstance of an NGESO insolvency, it is probable that any amounts outstanding would still be recovered. This arises because NGESO is one of the 'protected energy companies' under the terms of the Energy Act 2004, which allows the Secretary of State to apply for an energy administration order which would give priority to the rescue NGESO as a going concern.

Having considered the credit risks arising in respect of the exposure to NGESO, the Directors consider that those risks are extremely low, given the evidence available to them.

In respect of the counterparties to the cash flow derivative hedges (RPI and interest rate swaps) these arrangements have been entered into with banks of good standing. At 31 March 2023, the fair values attributable to these positions were liabilities amounting to £20,332k (2022: £19,024k) and assets amounting to £1,761k (2022: £nil). The risk of default in relation to the asset positions is considered to be very low.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. It is the Company's policy and a requirement under the Company's lending agreements, that such investments can only be placed with banks and other financial institutions with a short-term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. All of these deposits are subject to insignificant risk of change in value or credit risk.

iii) Liquidity risk and Going Concern

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities. The Board of Directors manages this risk.

As a result of: the regulatory environment under which the Company operates; the credit worthiness of the Company's principal customer (NGESO); and the RPI swaps that have been put in place, the cash inflows generated by the Company are highly predictable and stable. In addition, net of the impact of the interest swap arrangements, substantially all of the Company's senior debt carries a fixed coupon and based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is expected to generate over the whole remaining period of the project. During the year ended 31 March 2023, senior debt-service costs amounted to £8,190k (2022: £7,713k). There is no contractual obligation on the Company to service the other borrowing until 31 October 2032 although it is the Company's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the other borrowing amounted to £1,728k (2022: £1,728k).

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

In accordance with the conditions of the various lending agreements, the Company is required to transfer funds to certain specified bank accounts and/or hold certain amounts on deposit for specified purposes. Access to these bank accounts by the Company is subject to the agreement of the lenders and in particular, access to amounts held on deposit held for specified purposes is restricted under the lending agreements. Such specific purposes include the holding of sufficient funds in restrictive bank accounts to meet senior debt servicing requirements for a period of 3 months in the future. The Company's use of these funds is restricted either to the specific purpose contemplated by the lending agreements, or until certain conditions are met or exceeded.

Where these conditions are met or exceeded then the use of any net cash generated in excess of the minimum necessary to meet the restrictive conditions is unfettered.

At 31 March 2023, cash and cash equivalents included £7,725k (2022: £7,148k) that are held for specific purposes in the manner described earlier and additional amounts of cash and cash deposits amounting to £2,697k (2022: £1,275k) the disbursement of which requires the consent of the Company's lenders but are available for general corporate purposes.

The Company prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Company. These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use. It is the Company's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

In addition to the existing borrowings of the Company, the Company has a committed secured credit facility with a consortium of banks amounting to £5,000k at 31 March 2023 (2022: £5,000k) that expires in 2031. This facility was undrawn at 31 March 2023 (2022: undrawn) and is available to the Company under certain conditions laid down within the Company's lending agreements.

During the year, the Company has continued to meet its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Company will continue to do so for the foreseeable future. The Company has exceeded its targets in relation to the obligations that it has to senior debt holders and the forecasts continue to support that these will continue to be exceeded. In addition, further liquidity is also available in the form of a committed facility, as referenced above. All of these factors have allowed the Directors to conclude that the Company has sufficient headroom to continue as a going concern. The statement of going concern is included in the Strategic Report.

The contractual cash flows shown in the table on the following page are the contractual undiscounted cash flows relating to the relevant financial instruments. Where the contractual cash flows are variable based on a price or index in the future, the contractual cash flows in the table have been determined with reference to the relevant price, interest rate or index as at the balance sheet date.

In determining the interest element of contractual cash flows in cases where the Company has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Company selects the shortest available interest calculation periods.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

Where the holder of an instrument has a choice of when to redeem, the tables below are prepared on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Company's cash flow forecasts for the purposes of considering Liquidity Risk as noted earlier. The following tables show the undiscounted contractual maturities of financial assets and financial liabilities, including interest.

	2023 Contractual cash flows £'000	2023 0-1 years £'000	2023 1-2 years £'000	2023 2-5 years £'000	2023 >5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	180,435	16,883	17,312	54,022	92,218
Cash and cash equivalents	10,422	10,422	-	-	-
	190,857	27,305	17,312	54,022	92,218
Non-derivative financial liabilities					
Borrowings +	(107,893)	(9,983)	(9,880)	(31,384)	(56,646)
Trade and other non-interest-bearing liabilities	(1,287)	(1,287)	-	-	-
Current income tax liabilities	(160)	(160)	-	-	-
Infrastructure financial liabilities +	(1,333)	(144)	(144)	(433)	(612)
Decommissioning provision	(3,759)	-	-	-	(3,759)
	(114,432)	(11,574)	(10,024)	(31,817)	(61,017)
Derivative financial instruments					
RPI and interest rate swaps	(22,637)	(1,963)	(2,119)	(7,427)	(11,128)
Net total	53,788	13,768	5,169	14,778	20,073
	2022 Contractual cash flows £'000	2022 0-1 years £'000	2022 1-2 years £'000	2022 2-5 years £'000	2022 >5 years £'000
Liquidity risk					
Non-derivative financial assets					
Transmission owner asset	190,251	15,890	16,522	51,465	106,374
Cash and cash equivalents	8,423	8,423	-	-	-
	198,674	24,313	16,522	51,465	106,374
Non-derivative financial liabilities					
Borrowings +	(113,349)	(9,545)	(9,308)	(29,242)	(65,254)
Trade and other non-interest-bearing liabilities	(1,030)	(1,030)	-	-	-
Current income tax liabilities	-	-	-	-	-
Infrastructure financial liabilities +	(1,198)	(117)	(117)	(350)	(614)
Decommissioning provision	(3,276)	-	-	-	(3,276)
	(118,853)	(10,692)	(9,425)	(29,592)	(69,144)
Derivative financial instruments					
RPI and interest rate swaps	(25,051)	(1,862)	(2,011)	(7,046)	(14,132)
Net total	54,770	11,759	5,086	14,827	23,098

+ Including finance related payments.

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

iv) Sensitivities

Changes in interest rates and/or RPI affect the carrying value of those financial instruments that are recorded in the balance sheet at fair value. The only financial instruments that are carried in the balance sheet at fair value are the standalone derivative financial instruments - RPI and interest rate swaps as described in note 13 earlier. As previously explained, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Changes in the fair value of interest rate and RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the transmission owner asset and in the case of the interest rate swaps the vast majority of the senior debt variable rate borrowings - are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the regulatory financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Company have no substantive economic impact on the Company because of the corresponding economic impact on the underlying cash flows they are hedging.

Any changes in future cash flows in relation to the derivative financial instruments held by the Company, arising from future changes in RPI and/or interest rates, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the underlying position being hedged.

v) Capital management

The Company is funded by a combination of senior debt, other borrowing, infrastructure financial liabilities and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000.

Senior debt comprises a fixed rate loan from the EIB and a commercial loan facility from a syndicate of commercial lenders which, as at 31 March 2023, carries a coupon linked to SONIA (2022: 3 - month LIBOR). As referenced in the "Strategic Report – Hedging Arrangements", the Company has entered into interest rate swap agreements with banks of good standing which has the commercial effect of swapping the variable rate interest coupon on c97% of the nominal value of those loans for a fixed rate coupon. All of the senior debt and related interest rate derivatives are serviced on a quarterly basis and are expected to amortise through to 30 September 2031. At 31 March 2023, the total principal carrying value of senior debt net of unamortised issue costs excluding any accrued interest amounted to £61,874k (2022: £67,514k).

Other debt has been issued to the Company's immediate parent undertaking, BTW2H and carries a fixed rate coupon (see note 18). At 31 March 2023, the total principal value of the other borrowing outstanding excluding accrued interest amounted to £17,458k (2022: £17,458k).

Infrastructure financial liabilities at 31 March 2023 amounted to £966k (2022: £1,011k).

Notes to the regulatory financial statements

continued

For the year ended 31 March 2023

19. Information relating to financial instruments and the management of risk continued

b) Management of risk continued

v) Capital management continued

Ordinary equity share capital at 31 March 2023 amounted to £175k (2022: £175k).

The Directors consider that the capital structure of the Company meets the Company's objectives and is sufficient to allow the Company to continue its operations for the foreseeable future based on current projections and consequently has no current requirement for additional funding.

20. Parent companies

Blue Transmission Walney 2 Limited's immediate parent Company is Blue Transmission Walney 2 (Holdings) Limited; both are limited companies domiciled in Great Britain and registered in England and Wales. The Company is jointly controlled by Blue Transmission Investments Limited, Mitsubishi Corporation and 3I Group plc. Blue Transmission Investments Limited is the largest and smallest Group which consolidates the statutory financial statements of Blue Transmission Walney 2 Limited.

Glossary

A

The Agreement

The Shareholders Agreement.

The Authority

The Gas and Electricity Markets Authority.

B

Base Revenue

Representing that revenue, in any one charging year, which reflects the Licence target availability of 98%.

Board

The Board of Directors of the Company.

BTI

Blue Transmission Investments Limited.

BTW2H

Blue Transmission Walney 2 (Holdings) Limited.

BTW2

Blue Transmission Walney 2 Limited.

C

called up share capital

Shares (ordinary) that have been issued and have been fully paid for.

carrying value

The amount at which an asset or liability is recorded in the balance sheet.

charging year

The period of time in between 1 April in one calendar year and 31 March, in the following calendar year.

Cash Flow Hedges

a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

the Company, Blue Transmission Walney 2 Limited, BTW2, we, our, or us

The terms 'the Company', 'Blue Transmission Walney 2 Limited', 'BTW2', 'we', 'our', or 'us' are used to refer to Blue Transmission Walney 2 Limited, depending on context.

contingent liabilities

Possible obligations or potential liabilities arising from past events, for which no provision has been recorded, but for which disclosure in the regulatory financial statements is made.

D

deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or received in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability.

derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates, RPI or commodity prices.

DTC

Diamond Transmission Corporation Limited (wholly owned subsidiary of Mitsubishi Corporation).

DTUK

Diamond Transmission UK Limited (wholly owned subsidiary of Mitsubishi Corporation).

E

EIB

The European Investment Bank, the European Union's long-term lending institution, established by the Treaty of Rome in 1958, with the aim of furthering European integration.

ENW

Electricity North West Limited.

equity

In regulatory financial statements, the amount of net assets attributable to shareholders.

F

financial year

For Blue Transmission Walney 2 Limited this is the accounting year ending on 31 March.

FPL

Frontier Power Limited – supplier of management services to the Group.

Glossary

G

Great Britain

The island of Great Britain comprised of its constituent parts, namely: Wales, England and Scotland.

the Group

Blue Transmission Investments Limited and its subsidiary undertakings.

H

HS&E

Health, Safety and the Environment.

I

IAS or IFRS

International accounting standards.

IASB

International Accounting Standards Board.

IFRIC 12

IFRIC 12 Service Concession Arrangements.

IFRS

See IAS.

IML

Infrastructure Managers Limited – supplier of administrative and company secretarial services to the Group.

Interest Rate Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange periodic interest payments on a predetermined principal amount. The Company pays fixed interest amounts in exchange for receipt of variable interest amounts linked to SONIA for all quarterly periods ending after 31 March 2022.

K

KPIs

Key performance indicators.

kV

Kilovolt – an amount of electrical force equal to 1,000 volts.

L

LIBOR

London Interbank Offered Rate.

the Licence

The Offshore Electricity Licence held by Blue Transmission Walney 2 Limited.

LTIs

Lost time injury – an incident arising out of Blue Transmission Walney 2 Limited’s operations which leads to an injury where the employee or contract normally has time off the following day, or shift following, the incident. It relates to one specific (acute) identifiable incident which arises as a result of Blue Transmission Walney 2 Limited’s premise, plant, or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

M

MMO

Marine Management Organisation.

MSA

Management Services Agreement.

MW

Megawatts – an amount of power equal to one million watts.

MWhrs

Megawatt hours – an amount of energy equivalent to delivering one million watts of power over a period of one hour.

N

NGESO

National Grid Electricity System Operator Limited.

the Notes

Unsecured 9.9% Loan Notes 2032.

Glossary

O

Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OFTO(s)

Offshore transmission owner(s).

Other borrowing (see also *the Notes*)

Amounts borrowed by the Company from its immediate parent undertaking, BTW2H.

O&M

Operations and Maintenance.

P

Performance year

The year or part thereof (in the case of the commencement and termination years) over which the Company's transmission availability performance is measured – 1 January through to 31 December (or part thereof).

R

RPI

The UK retail price index as published by the Office for National Statistics.

RPI Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange cash flows relating to RPI on a predetermined principal amount. The Company pays variable cash flows arising from changes in RPI on a predetermined notional amount in exchange for receipt of fixed amounts.

S

Senior Debt

All borrowings except the Notes.

SONIA

Sterling Overnight Index Average.

STC

System Operator Transmission Owner Code.

SQSS

Security and Quality of Supply Standard.

T

TOCA

Transmission Owner Construction Agreement.

U

UK

The United Kingdom of Great Britain and Northern Ireland, comprising: Wales, England, Scotland and Northern Ireland.

W

WOWL

Walney (UK) Offshore Windfarms Limited.