Group Package Accounts

BLUE TRANSMISSION

Blue Transmission Walney 2 (Holdings) Limited

Annual Report and Financial Statements 2022/23

Registered in England and Wales. Company number: 07795885

Blue Transmission Walney 2 (Holdings) Limited
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For the year ended 31 March 2023

Blue Transmission Walney 2 (Holdings) Limited
Company Information
For the year ended 31 March 2023

The board of Directors	Matthew Edwards David Holmes Matthew Pitts Gary Thornton
Company secretary	Infrastructure Managers Limited
Registered office	Cannon Place 78 Cannon Street London EC4N 6AF
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Level 4 Atria One 144 Morrison Street Edinburgh EH3 8EX

Blue Transmission Walney 2 (Holdings) Limited
Strategic Report
For the year ended 31 March 2023

The Directors present the Strategic Report of the Company for the year ended 31 March 2023.

Principal Objective

The principal objective of the Company is that of a holding company.

The Company holds 100% of the ordinary shares of Blue Transmission Walney 2 Limited ("BTW2"), its sole Subsidiary Undertaking. In addition, it holds an investment in unsecured loan notes issued by BTW2.

Review of the Business

The Company's only source of income relates to amounts received from its Subsidiary Undertaking BTW2, which are described further under "Returns from Subsidiary Undertaking" in the Directors' Report.

The Company's sole expense comprises the interest expense on the loan notes it has issued to Blue Transmission Walney 2 Investments Limited ("BTW2I").

Future Developments

The Directors intend for the business to continue to operate as it has done so in prior periods and do not expect any strategic changes.

Key Performance Indicators

Key performance indicators are considered inappropriate for this Company. The performance of the Company's sole subsidiary BTW2 is assessed on a quarterly basis. The key indicator being that cash inflows available for debt service are sufficient to allow for the servicing of the Company's unsecured loan notes held by its parent undertaking. The subsidiary has been performing well and in addition has been compliant with the covenants laid out in its secured loan agreements.

Principal Risks and Uncertainties

The principal financial risks and uncertainties of the Company arise from the performance of its Subsidiary Undertaking, BTW2. The Company can only service its loan obligations and pay ordinary dividends to its parent undertaking if BTW2 continues to service its loan obligations and pay ordinary dividends to the Company.

Approved on behalf of the Board

Gary Thornton
Director
22 June 2023

Blue Transmission Walney 2 (Holdings) Limited
Directors' Report
For the year ended 31 March 2023

Country of Registration and Principal Activity

The Company is registered in England and Wales and its principal activity is as a holding company.

The principal activity of BTW2, the Company's sole Subsidiary Undertaking, is to provide an electricity transmission service to the electricity system operator for Great Britain. BTW2 owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore distribution system operated by Electricity North West ("ENW").

The Company's Financial Position

The profit attributable to equity shareholders for the year amounted to £1,394k (2022: £2,015k).

The Company's income for the year ended 31 March 2023 relates to the interest that was recognised in the Income Statement in respect of the loan notes held in BTW2 and returns from the equity investment in BTW2.

The Company's sole expense comprises the interest expense on the loan notes it has issued to BTW2I – see "Parent undertaking" below.

During the year, multiple interim ordinary dividends amounting to £1,394k (2022: £2,015k) were distributed and on 31 May 2023 the Board approved the distribution of a further interim ordinary dividend of £1,880k which has not been recognised in the financial statements in accordance with UK-adopted IAS. Particulars of the interim ordinary dividend distributions in the year and through to the date of this annual report are shown in note 4 to the financial statements.

Directors

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

Matthew Edwards
David Holmes[1]
Matthew Pitts
Gary Thornton
Graham Farley[2]

[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.

Parent Undertakings

The Company is a wholly owned Subsidiary Undertaking of BTW2I which is incorporated in Jersey. The ultimate parent undertaking is Blue Transmission Investments Limited (BTI). BTI is also incorporated in Jersey.

The Company has issued unsecured loan notes to BTW2I in amounts and on terms that are identical to those unsecured loan notes issued to the Company by BTW2. A description of the unsecured loan notes issued by BTW2 are described below under "Returns from Subsidiary Undertaking".

Returns from Subsidiary Undertaking

On 3 October 2012, BTW2 issued £17,325k unsecured 9.9% Loan Notes 2032 to the Company. During the year ended 31 March 2023, the Company recognised interest income in the Income Statement of £1,728k (2022: £1,728k) in relation to the unsecured Loan Notes 2032 from BTW2, its immediate Subsidiary Undertaking. The principal amount outstanding at 31 March 2023 was £17,458k (2022: £17,458k) and is included within "Investments in Subsidiary Undertaking" in the balance sheet.

The Company recognised interim ordinary dividends received amounting to £1,394k (2022: £2,015k) during the year.

Financial Instruments

With the exception of the Company's equity and loan investments in BTW2, the loan liability to its parent undertaking and any interest due to its parent undertaking, or due from BTW2, the Company has no other financial instruments.

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 financial statements of the Company.

Future Developments

The Directors expect the Company to continue its activities as a holding company for the foreseeable future.

Employee Involvement

The Company does not have any employees and does not expect to engage any employees in the foreseeable future.

Blue Transmission Walney 2 (Holdings) Limited
Directors' Report continued

For the year ended 31 March 2023

Cash Flow Statement

No cash flow statement is presented for the year ended 31 March 2023 (2022: none), as no cash flows have been paid or received by 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.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved on behalf of the Board

Gary Thornton
Director
22 June 2023

Blue Transmission Walney 2 (Holdings) Limited
Cannon Place
78 Cannon Street
London
EC4N 6AF

Blue Transmission Walney 2 (Holdings) Limited
Statement of Directors' Responsibilities

For the year ended 31 March 2023

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared these financial statements in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under UK-adopted IAS. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

Directors' confirmations

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

Each of the Directors, whose names are listed in the Directors Report and are in office as at the date of this report confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under UK-adopted IAS, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Approved on behalf of the Board

Gary Thornton
Director
22 June 2023

Blue Transmission Walney 2 (Holdings) Limited
Independent Auditors' Report to the members of Blue Transmission Walney 2 (Holdings) Limited

For the year ended 31 March 2023

Report on the audit of the financial statements

Opinion

In our opinion, Blue Transmission Walney 2 (Holdings) Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2023; the income statement and the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the 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.

Blue Transmission Walney 2 (Holdings) Limited Independent Auditors' Report to the members of Blue Transmission Walney 2 (Holdings) Limited continued

For the year ended 31 March 2023

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

Responsibilities for the financial statements and the audit continued

Responsibilities of the Directors for the financial statements continued

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

Auditors' responsibilities for the audit of the financial statements

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

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 the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to 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;
- review of board minutes;
- challenging management on assumptions and judgements made in their significant accounting estimates; and
- identifying and testing journal entries to assess whether any of the journals appeared unusual, for example impacting distributable reserves.

Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements continued

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Paul Cheshire (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
26 June 2023

Blue Transmission Walney 2 (Holdings) Limited
Accounting policies
For the year ended 31 March 2023

A. Basis of preparation of these financial statements

These financial statements have been prepared on a going concern basis (see "Directors' Report - Going concern" on page 4 which sets out the Company's basis for applying the going concern basis to the preparation of these financial statements) and in accordance with UK-adopted International Accounting Standards ("UK-adopted IAS") and with the requirements of the Companies Act 2006 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 financial statements have been prepared on an historical cost basis. The 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 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. Investments in Subsidiary Undertaking

The investments in Subsidiary Undertaking comprise the Company's investment in the ordinary shares and loan receivable due from its Subsidiary Undertaking. These investments are financial instruments and are classified as 'Investments in Subsidiary Undertaking'.

The loan receivable is recognised at amortised cost, using the effective interest rate method, less any impairment for expected credit losses.

The Company's investment in the ordinary shares of its Subsidiary Undertaking is measured at cost, or where there is evidence of impairment, at fair value less costs to sell.

Expected credit losses in respect of the loan receivable included within the investments in Subsidiary Undertaking are measured using one of the following two approaches:

- where the credit risk has not significantly changed since initial recognition, a credit loss allowance is calculated by assessing the credit risk for the next twelve months; and
- where the credit risk has significantly changed since initial recognition, a credit loss allowance is calculated by assessing the lifetime credit risk.

All impairments are recognised directly in the income statement.

C. Borrowing

Borrowing, which comprises loan notes issued to the Company's parent undertaking, is initially recorded at the net proceeds received. Subsequently the borrowing is stated at amortised cost, using the effective interest rate method.

D. Interest income and expense

Interest income receivable and interest expense payable are recognised in the balance sheet and income statement in accordance with the terms of the contractual arrangements.

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.

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

The preparation of 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 describes the critical accounting policy adopted by the Company together with information about the key judgements, estimations and assumptions that have been applied.

Investments in Subsidiary Undertaking

The carrying value of the loan receivable investment in Subsidiary Undertaking is recorded in the Company's balance sheet at amortised cost less any impairment of the loan receivable as measured by any expected credit loss at the balance sheet date. When considering the appropriate expected credit loss to recognise against the carrying value of the loan receivable, the Directors have to consider and make an appropriate judgement as to the likelihood of default of the Subsidiary Undertaking. Where the loan receivable investment in Subsidiary Undertaking is considered to be subject to low credit risk at the balance sheet date, a 12-month expected credit loss is recognised in the income statement where material. However, if the credit risk is not considered to be low risk, then a lifetime expected credit loss is recognised in the income statement. The expected credit loss is derived using an external rating of the subsidiary and applying a default rate published by an external ratings agency.

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

Investments in Subsidiary Undertaking continued

The carrying value of the ordinary shares investment in Subsidiary Undertaking is recorded in the Company's balance sheet at cost, or where there is evidence of impairment, then the investment is measured at fair value less costs to sell. The Directors have to consider and make an appropriate judgement as to whether there are conditions existing at the balance sheet date that indicate that the investment in the ordinary shares of the Subsidiary Undertaking has been impaired. Such considerations would include a consideration of the trading conditions of the Subsidiary Undertaking and general market factors such as interest rates.

G. Accounting developments

i) Accounting standards as applied to these financial statements

In preparing these financial statements the Company has complied with UK-adopted IAS applicable either for accounting periods starting by 01 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 financial statements that have had any material impact on the measurement, recognition or disclosures included in these financial statements.

ii) New accounting standards, amendments to standards and interpretations issued but not effective in these financial statements

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

H. Cash flow statement

No cash flow statement is presented for the year ended 31 March 2023 (2022: none), as no cash flows have been paid or received by the Company.

Blue Transmission Walney 2 (Holdings) Limited

Income statement

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Income from shares in group undertaking		**1,394**	2,015
Interest income	2	**1,728**	1,728
Interest expense	2	**(1,728)**	(1,728)
Profit before taxation		**1,394**	2,015
Taxation on profit	3	**-**	-
Profit attributable to equity shareholders		**1,394**	2,015

The notes on pages 17 to 20 form part of these financial statements.

The results reported above relate to continuing operations.

The Company has no recognised gains and losses other than those included in the profit above (2022: profit above) and therefore no separate statement of comprehensive income has been presented.

Blue Transmission Walney 2 (Holdings) Limited
Balance sheet
As at 31 March 2023

	Notes	2023 £'000	2022 £'000
Non-current assets			
Investments in Subsidiary Undertaking	5	**17,633**	17,633
Total non-current assets		**17,633**	17,633
Current assets			
Amounts owed by Subsidiary Undertaking		**426**	426
Total current assets		**426**	426
Total assets		**18,059**	18,059
Current liabilities			
Amounts owed to parent undertaking		**(426)**	(426)
Total current liabilities		**(426)**	(426)
Non-current liabilities			
Borrowing	6	**(17,458)**	(17,458)
Total non-current liabilities		**(17,458)**	(17,458)
Total liabilities		**(17,884)**	(17,884)
Net assets		**175**	175
Equity			
Called up share capital	7	**175**	175
Retained earnings	9	**-**	-
Total shareholders' equity		**175**	175

Company number: 07795885

The financial statements set out on pages 11 to 20 were approved by the Board of Directors on 22 June 2023 and were signed on its behalf by:

Gary Thornton
Director

Blue Transmission Walney 2 (Holdings) Limited
Statement of changes in equity
For the year ended 31 March 2023

	Note	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 01 April 2021		175	-	175
Profit attributable to equity shareholders		-	2,015	2,015
Interim ordinary dividend distributions	4	-	(2,015)	(2,015)
At 31 March 2022		175	-	175
Profit attributable to equity shareholders		-	1,394	1,394
Interim ordinary dividend distributions	4	-	(1,394)	(1,394)
At 31 March 2023		**175**	**-**	**175**

Blue Transmission Walney 2 (Holdings) Limited
Notes to the financial statements
For the year ended 31 March 2023

1. Profit attributable to equity shareholders
Auditors' remuneration is borne by the Subsidiary Undertaking.

The Directors did not receive any remuneration from the Company during the year (2022: £nil).

There were no employees in the year (2022: none).

2. Net interest expense

Net interest expense is as tabulated below:

	2023 £'000	2022 £'000
Interest income		
Interest on loan notes to Subsidiary Undertaking	**1,728**	1,728
	1,728	1,728
Interest expense		
Interest on loan notes from parent undertaking	**(1,728)**	(1,728)
	(1,728)	(1,728)
Net interest expense	**-**	-

3. Taxation on profit

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

	2023 £'000	2022 £'000
Profit before taxation	**1,394**	2,015
Taxation at 19% (2022: 19%) on profit before taxation	**265**	383
Effects of:		
- income not chargeable for tax purposes	**(265)**	(383)
Taxation charge for the year	**-**	-

4. Ordinary dividends

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

	2023 £'000	2022 £'000
Interim ordinary dividends	**1,394**	2,015

Interim ordinary dividends of 796.67p (2022: 1,151.58p) per ordinary share were distributed during the year to the Company's immediate parent undertaking BTW2I.

On 31 May 2023, the Board approved the distribution of an interim ordinary dividend of 1,074.42p per ordinary share amounting to £1,880k. This interim ordinary dividend is not recognised in the financial statements for the year ended 31 March 2023 in accordance with UK-adopted IAS.

5. Investments in Subsidiary Undertaking

	2023 £'000	2022 £'000
Cost at 01 April and 31 March	**17,633**	17,633

The investments held at 31 March 2023 comprise: £175k (2022: £175k) in all of the ordinary share capital of BTW2; and £17,458k (2022: £17,458k) in respect of unsecured 9.9% Loan Notes 2032.

The Directors have considered expected credit losses in relation to the carrying value of loan receivable included within the Investments in Subsidiary Undertaking 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).

The principal activity of BTW2 is to provide an electricity transmission service to the electricity system operator of Great Britain.

The results of BTW2 for the year ended 31 March 2023 and the capital & reserves at 31 March 2023 were as follows:

	2023 £'000	2022 £'000
Profit attributable to equity shareholders for the year	**2,453**	563
Capital and Reserves	**(4,536)**	(5,919)

The registered office of BTW2 is Cannon Place, 78 Cannon Street, London, EC4N 6AF.

6. Borrowing

The following table analyses the Company's borrowing:

	2023 £'000	2022 £'000
Non-current		
Amount owed to parent undertaking	**17,458**	17,458

The amount owed to parent undertaking is unsecured and carries a fixed coupon of 9.9% per annum. This loan is contractually repayable on 31 October 2032.

The borrowing is carried at amortised cost.

There have been no instances of default or other breaches of the terms of the loan agreement during the year in respect of the loan outstanding at 31 March 2023 (2022: none).

7. Called up share capital

Share capital is as analysed below.

	No. (thousands)	£'000
Allotted, called up and fully paid		
At 01 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 ordinary dividends as declared and are entitled to one vote per share at meetings of the Company.

8. Related party transactions

A summary of funding transactions with the immediate parent undertaking (BTW2I) is shown below:

	2023 £'000	2022 £'000
Borrowing from immediate parent undertaking (principal)		
At 01 April and 31 March	**17,458**	17,458

The borrowing from the immediate parent undertaking was negotiated on normal commercial terms and is repayable in accordance with the terms of the unsecured 9.9% loan notes 2032.

Amounts due from BTW2 and owed to BTW2I in respect of accrued interest as at 31 March 2023 amounted to £426k (2022: £426k).

8. Related party transactions continued

During the year, the Company recognised interest income from BTW2 of £1,728k (2022: £1,728k) and interest expense on the loan with BTW2I of £1,728k (2022: £1,728k). The Company recognised interim ordinary dividends received from BTW2 of £1,394k (2022: £2,015k) and recognised interim ordinary dividend distributions of £1,394k (2022: £2,015k) to BTW2I during the year.

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.

9. Retained earnings

	2023 £'000	2022 £'000
At 01 April	-	-
Profit attributable to equity shareholders	**1,394**	2,015
Interim ordinary dividends	**(1,394)**	(2,015)
At 31 March	-	-

The Company recognised interim ordinary dividend distributions amounting to £1,394k (2022: £2,015k) to its immediate parent BTW2I during the year.

10. Parent companies

Blue Transmission Walney 2 (Holdings) Limited's immediate parent company is Blue Transmission Walney 2 Investments Limited (incorporated in Jersey) and the Company's ultimate parent company is Blue Transmission Investments Limited (incorporated in Jersey). 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 financial statements of Blue Transmission Walney 2 (Holdings) Limited. Blue Transmission Investments Limited Group financial statements are filed with Companies House as an appendix to the Annual Report and Financial Statements of Blue Transmission Walney 2 (Holdings) Limited.

Blue Transmission Investments Limited

Annual Report and Group Financial Statements 2022/23

Incorporated in Jersey. Company number: 106705

Contents

Group Strategic Report

For the year ended 31 March 2023

Introduction

This Group Strategic Report explains the operations of Blue Transmission Investments Limited ("the Company") and that of its subsidiaries, and the main trends and factors underlying the development and performance of the Company and its subsidiaries during the year ended 31 March 2023, as well as those matters which are likely to affect its future development and performance.

The principal activity of the Company is that of a holding Company and is incorporated in Jersey. The Company together with its subsidiaries comprise "the Group".

The principal activity of the Group, through its operating subsidiaries Blue Transmission Walney 1 Limited ("BTW1"), Blue Transmission Walney 2 Limited ("BTW2"), Blue Transmission Sheringham Shoal Limited ("BTSS"), and Blue Transmission London Array Limited ("BTLA") is to provide an electricity transmission service to National Grid Electricity System Operator Limited ("NGESO"), being the electricity transmission system operator for Great Britain. Through BTW1, BTW2, BTSS and BTLA the Group owns and operates four transmission systems which electrically connect four offshore wind farm generators to the onshore electricity transmission system owned either by National Grid Electricity Transmission plc ("NGET") or an electricity distribution company.

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 has four operating subsidiaries, all of which are OFTO's, and each OFTO has been granted an Offshore Electricity Transmission Licence ("the Licence"), awarded by The Gas and Electricity Markets Authority ("the Authority") that amongst other matters, permits and requires each OFTO to maintain and operate the assets of the OFTO for the duration of the Licence and permits the OFTO to charge for the provision of transmission services for a period of 20 years from the date of that Licence. A brief description of each OFTO is provided below:

i) BTW1 was awarded a Licence which came into force on 21 October 2011. BTW1 exports the electricity output of the Walney 1 wind farm owned by Walney (UK) Offshore Windfarms Limited ("WOWL") to NGET's onshore electricity transmission system;

ii) BTW2 was awarded a Licence which came into force on 26 September 2012. BTW2 exports the electricity output of the Walney 2 wind farm owned by WOWL to Electricity North West Limited's onshore electricity distribution system;

iii) BTSS was awarded a Licence which came into force on 27 June 2013. BTSS exports the electricity output of the Sheringham Shoal wind farm owned by Scira Offshore Energy Limited ("Scira") to Eastern Power Network's onshore electricity distribution system;

iv) BTLA was awarded a Licence which came into force on 10 September 2013. BTLA exports the electricity output of the London Array wind farm owned by a consortium of investors to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 as issued by the UK government require all UK transmission system operators to be certified as complying with the unbundling requirements concerning common rules for the internal market in electricity ("the third package"). All OFTOs in the Group have been issued a certificate pursuant to Section 10D of the UK Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Group has ongoing obligations and are 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 Group's offshore electricity transmission systems

The Group's principal activity, which is carried out by its OFTO subsidiaries, is to transmit the electrical power of wind farms from the offshore connection points of the Group's electrical assets, which interface with the electrical assets owned by the wind farms, to the onshore connection points of the Group's assets with the electricity transmission system of NGET, or that of an electricity distribution company. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

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 the wind farms and run to offshore electricity substations that are owned by the Group's OFTOs. At the offshore electricity substation, the voltage is "stepped up" to 132kV or 150kV by an electrical transformer and then transported to land by high voltage submarine cables buried in the sea floor. At landfall the submarine cables are joined to land cables that run to the Group's onshore electricity substations. At the substations, the power factor of the electricity is corrected using reactive compensation equipment, and the transported power is then connected into the NGET electricity transmission system, either directly or through an electricity distribution company's electrical network.

The Group's long-term business objectives

The Group's OFTO subsidiary undertakings are incorporated as special purpose vehicles to hold offshore electricity transmission licences ("Licences"). The Group's non-financial objectives are, therefore, consistent with the objectives of these Licences. The Group will achieve these objectives by ensuring that the Group is compliant with the Licences; industry codes and legislation; and by operating and maintaining the electricity transmission systems in accordance with good industry practice.

The Group's financial objective is to provide aggregate financial returns to shareholders consistent with, or in excess of, the business plans that supported its tender offers for each of the individual offshore electricity transmission systems that were subsequently acquired. The Group will achieve this objective by:

- meeting its revenue targets by operating the transmission systems at availability levels equal to, or higher than, the Licence targets;
- adopting and maintaining a financing structure for each of its ultimate subsidiary undertakings that is, as a minimum, as efficient as that contemplated by their business plans; and
- controlling costs and seeking efficiency improvements.

Future Developments

The Company's sole purpose is to hold and operate its offshore electricity transmission systems and comply with each Licence which has been awarded to each OFTO in the Group; no changes to this objective are likely in the future.

The Group's operating model

The Group's operating model is to outsource all operational and maintenance ("O&M") activities and management for all four OFTOs to independent third parties.

Frontier Power Limited ("FPL") provides certain management services to the Group through Management Services Agreements ("MSAs"). 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 Group meets its obligations under each Licence issued to the OFTOs and that each OFTO complies with good industry practice. The Group mitigates the performance risk of its outsourced service providers through a contracting process.

Additional technical, accounting and administration support is provided to the Group by Infrastructure Managers Limited ("IML").

At 31 March 2023, the Company had no employees (2022: none). Given the operating model adopted by the Group, it is not expected that the Group or Company is likely to employee any staff directly for the foreseeable in the future.

The Company acts as a service company within the Group so that certain administrative costs can be shared across a number of companies within the Group in such a manner that each company in the Group pays for a fair and equitable proportion of the costs incurred by the Company.

The Group's approach to managing the business

The Group'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 Group:

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Group'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 Group enjoys benefits and is subject to a number of regulatory and contractual obligations arising from and including: the Licences; the Transmission Owner Construction Agreements ("TOCA") with NGESO; and the System Operator – Transmission Owner Code ("STC") with NGESO. The Group's operations are also subject to a range of industry-specific legal requirements.

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

Licence obligations

Under the terms of the Licences issued to the OFTOs in the Group, they are required to carry out their Licenced activities and have in place governance arrangements that ensure (amongst other obligations) that any company in the Group does not provide cross-subsidies to, or receive cross-subsidies from, any other business of any Licensee or of any affiliate of a Licensee. In addition, the Licences place restrictions on the activity of each OFTO in the Group and how each OFTO conducts its transmission activities. While carrying out its transmission business, an OFTO 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 its offshore transmission business.

A failure by the Company or its subsidiary undertakings to materially comply with the terms of any Licence could ultimately lead to the revocation of that Licence. The Directors take very seriously their obligations to comply with the terms of each Licence and has processes, procedures and controls in place to ensure compliance.

Regulated revenue and incentives

The Licences awarded by the Authority determine how much each OFTO in the Group may charge for its transmission services that it provides to NGESO. 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 Licences also provide an incentive to each of the Group's OFTOs to maximise the availability of their respective offshore transmission assets are available to transmit electricity in any given calendar year, also known as the performance year, versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of each of the Group's electricity transmission systems (as determined by each of the OFTO's relevant Services Capability Specification) in any given calendar year, or part thereof.

Transmission charges are based on the target transmission system availability of 98% in respect of each OFTO in the Group; the charges increase on 1 April following any given calendar year end by reference to an increase in a benchmark UK retail price Index ("RPI") applicable to each OFTO. The revenues derived from charges based on this target availability in respect of each individual OFTO represent each individual OFTO's "base revenue". For the avoidance of doubt, none of the Group's transmission charges are exposed to commodity risk and are not exposed to any generation risk.

As previously noted, the Licences contain mechanisms to incentivise each OFTO in the Group to provide the maximum possible electricity transmission system availability, having regard to the safe running of the systems. Each 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 each OFTO in the Group 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 each Licence that could potentially affect the Group's charges and hence its revenue in future periods. The Licences provide 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"). Each OFTO in the Group is then permitted or required under the Licenses, 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 each OFTO 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 for each OFTO. Individual net monthly penalties are first offset against any brought forward net cumulative credits from the previous calendar year in respect of BTW1, BTW2 and BTSS. Thereafter, in respect of these OFTOs and BTLA, 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.

If at the end of any calendar year there is a cumulative net availability credit, then in respect of BTW1, BTW2 and BTSS, 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. In respect of BTLA, any net availability credit is eligible to be converted as a financial adjustment to charges from the beginning of the following financial year. The maximum amount of net availability credit that is available to be converted as a financial adjustment to charges in any one charging year for BTW1, BTW2 and BTSS, 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.

In respect of net availability penalties which are outstanding at the end of the calendar year then, in principle, these net availability penalties would be converted as a financial adjustment to base revenue for the following charging year. Net availability penalties can only be converted as an adjustment to base revenue to the extent that such adjustment does not exceed 10% of the base revenue for the previous charging year. Any net availability penalties not converted as an adjustment to base revenue 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.

In respect of BTSS, it has an arrangement in place with its O&M provider, that as part of the arrangements relating to the provision of O&M services, the benefits earned, or penalties suffered under the incentive arrangements described earlier - over the 20-year revenue entitlement period of the Licence - are passed to that provider.

As a result of the arrangements described earlier, there are a number of risks that the Group faces that affect the level of transmission system availability and therefore affect 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, each OFTO in the Group 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 OFTO's in the Group mitigate 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 ability of certain OFTO's in the Group to collect availability credits changes. This change means that BTW1, BTW2 and BTSS are allowed by their 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 onshore electricity transmission system, and costs charged by the Authority associated with running the OFTO tender regime, each OFTO is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required.

Transmission system capability (capacity)

As described earlier, each OFTO in the Group 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 each of the transmission systems is defined in the respective OFTO's Licence and is expressed in MWhrs.

Transmission system availability for the performance year ended 31 December 2022 is provided in the Key performance indicators section later.

Transmission system quality of supply

The STC sets out the minimum technical, design, operational and performance criteria that offshore transmission owners must follow to ensure the compliance of their transmission systems. For the Group's transmission systems, 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 each of the Group's transmission systems with the onshore electricity system. Each OFTO within the Group is required to transmit electricity within certain parameters agreed with NGESO. A failure to meet these quality of supply constraints could result in NGESO requiring any one of the Group's transmission systems to be disconnected from the onshore electrical system, resulting in the loss of transmission availability and reduced incentive credits or performance penalties. Each OFTO in the Group closely monitors compliance with these quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow each OFTO to meet these quality of supply obligations.

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

Group Strategic Report continued

For the year ended 31 March 2023

Key performance indicators ("KPIs")

The Group has identified the following KPIs as being instrumental to the management of the Group's transmission businesses. Such KPIs include financial and non-financial KPIs:

	Definition	**Objective**
Financial KPIs		
Cash available for debt service for each OFTO	Net cash inflows from operating activities plus cash inflows from investing activities BTW1: £13,440k (2021/22: £12,728k) BTW2: £13,454k (2021/22: £11,307k) BTSS: £21,599k (2021/22: £20,549k) BTLA: £44,618k (2021/22: £42,618k)	To allow for the servicing of the unsecured other borrowing by each OFTO.
Non-Financial KPIs		
Maximise transmission availability for each OFTO	Making the transmission system available to transmit electricity over the performance year to 31 December. BTW1 – 2022: 100%; 2021: 99.49[1]% BTW2 – 2022: 100%; 2021: 100% BTSS – 2022: 99.71%; 2021: 99.76%; BTLA - 2022: 99.72%; 2021: 100%.	To exceed the Licence target availability of 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 - – having regard to any authorised derogations from those standards	To be compliant. This has been achieved for each OFTO for both 2022/23 and 2021/22.
HS&E	1) Zero lost time accidents ("LTIs") for employees and contractors; 2) Zero reportable environmental incidents; 3) Compliance with any obligations transferred to each OFTO relating to the 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.	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. All HS&E KPIs as they applied to 2022/23 and 2021/22 have been met.

[1] Restated for a successful Exceptional Event claim notified to the Group by the Authority during the year ended 31 March 2023 in respect of an outage required to repair the earthing terminations of fibre optic cables – resulting in system availability for the performance year ended 31 December 2021 being restated from 98.94% to 99.49%.

The Group's operational performance

The Group's prime operational objectives are to maximise transmission system availability for each of its OFTOs, and to ensure that the quality of electricity at the respective onshore connection point is compliant with the SQSS and the STC or any derogation thereto having regard in all respects to the safety of employees, contractors and the general public at large.

In support of these objectives the Group has developed a comprehensive asset management policy and framework that is consistent with good industry practice and is applied to each OFTO having regard to their specific circumstances. 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 Group 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 as it applied to each OFTO in the Group. Maintenance activities have been successfully carried out in accordance with the maintenance plan, and each OFTO has developed its network outage plan, and this has been submitted to NGESO, the Great Britain electricity system operator.

Group Strategic Report continued

For the year ended 31 March 2023

Transmission system availability

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

		Performance year ended 31 December 2022			
MWhrs	Notes	**BTW1**	**BTW2**	**BTSS**	**BTLA**
Maximum system availability (capability - MWhrs)	(a)	1,470,874	1,470,874	2,757,495	5,515,776
Actual system capability (availability - MWhrs)	(b)	1,470,874	1,470,874	2,749,501	5,500,537
Actual system availability (%)	(b)	100%	100%	99.71%	99.72%
Regulatory target system availability (%)		98%	98%	98%	98%
Availability credits (MWhrs)					
Net availability credits at 1 April 2022		163,684	162,440	311,557	110,316
Availability credits recovered in charges during financial year 2022/23 or approved for collection in future years		(20,989)	(19,192)	(52,210)	(110,316)
Net movement in availability credits for the performance year	(b)	29,418	29,418	47,157	95,076
Net availability credits at 31 March 2023	(c)	172,113	172,666	306,504	95,076

		Performance year ended 31 December 2021			
MWhrs	Notes	**BTW1**	**BTW2**	**BTSS**	**BTLA**
Maximum system availability (capability - MWhrs)	(a)	1,470,874	1,470,874	2,757,495	5,515,776
Actual system capability (availability - MWhrs)	(b)	1,463,412[1]	1,470,874	2,750,929	5,515,776
Actual system availability (%)	(b)	99.49%[1]	100%	99.76%	100%
Regulatory target system availability (%)		98%	98%	98%	98%
Availability credits (MWhrs)					
Net availability credits at 1 April 2021		171,145	133,022	318,123	99,574
Availability credits recovered in charges during financial year 2021/22 or approved for collection in future years		(29,418)	-	(55,150)	(99,574)
Net movement in availability credits for the performance year	(b)	21,957[1]	29,418	48,584	110,316
Net availability credits at 31 March 2022	(c)	163,684[1]	162,440	311,557	110,316

[1] Restated for a successful Exceptional Event claim notified to the Group by the Authority during the year ended 31 March 2023 in respect of an outage required to repair the earthing terminations of fibre optic cables – resulting in system availability for the performance year ended 31 December 2021 being restated from 98.94% to 99.49%.

a) The maximum system availability of the each individual OFTO's transmission system as declared to NGESO during the performance year.

b) After taking into account any relief permitted by each OFTO Licence or otherwise approved by the Authority.

c) 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 net penalties or potential credits that have arisen between 1 January 2023 and 31 March 2023 (1 January 2022 and 31 March 2022). Scira is the ultimate beneficiary of any potential availability credits or penalties earned or suffered by BTSS – see commentary on BTSS availability performance on the following page.

All reported availability performance figures exclude the impact of any outages that are attributable to third parties as such outages are permitted to be excluded from the calculation of the reported incentive performance to the Authority and are not reflected in the actual reported availability included in the table on the previous page.

The Group manages 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.

The following is a review of the availability performance of each OFTO:

i) BTW1: There was 100% reported availability of the transmission system during the performance year ended 31 December 2022 compared with 99.49% (restated) for the performance year ended 31 December 2021. There were two outages during the performance year ended 31 December 2021 that impacted or potentially impacted the reported incentive-based availability for this year – one outage related to routine maintenance and a second outage was required to repair the earthing terminations of fibre optic cables. In respect of this second outage, BTW1 made a claim to the Authority for the impact of this outage to be excluded from the calculation of reported incentive-based availability for the performance year ended 31 December 2021. This claim was accepted by the Authority and BTW1 was notified of this decision during the year ended 31 March 2023. This has resulted in a restatement and improvement in the reported incentive-based availability for the performance year ended 31 December 2021 from 98.94% to 99.49%.

ii) BTW2: Transmission system availability for the performance year ended 31 December 2022 and 31 December 2021 was 100%.

iii) BTSS: Transmission system availability for the performance year ended 31 December 2022 was 99.71% reflecting the impact of some routine maintenance operations on availability during this performance year and compares with 99.76% availability in the performance year ended 31 December 2021.

As a result of the arrangements in place with Scira (the O&M provider), any financial penalties or credits arising from actual system availability, have and will continue to be passed by BTSS to Scira. See "The Group's financial performance – Operating costs" later in this Group Strategic Report.

iv) BTLA: Reported availability of the transmission system during the performance year ended 31 December 2022 was 99.72%, compared with 100% in the performance year ended 31 December 2021 reflecting some minor unplanned and planned maintenance activities in the performance year but excluding any outages as permitted by the Licence or otherwise approved by the Authority.

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 Group. The operation of the Group'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. This objective was met during the year ended 31 March 2023.

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 Group is committed to reducing the environmental impact of its operations to as low as practically possible. The Group does so by reducing the effect its activities have on the environment by: respecting the environmental status and biodiversity of the area where the Group'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 each OFTO within the Group has continued to comply with the Marine licence obligations transferred to it since the transmission assets were acquired.

Commitment to ethical business practices

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

Each company within the Group is subject to the policies of the Group which include:

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

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

The Group 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 Group 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 Group's operations and the environmentally sensitive nature of the locations where its assets are located require each OFTO in the Group 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, each OFTO in the Group 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 Group have been discussed and referenced in this Group Strategic Report, alongside, where appropriate a discussion of the operational and financial performance of the Group.

Other

All the Directors of the Company are male.

The Group's financial performance

Summary

The financial performance of the Group 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 Group reports its results in accordance with international accounting standards as adopted in the UK ("UK-adopted IAS") and the applicable legal requirements of Jersey Law; the currency used in reporting these financial statements is GBP.

	2023	2022
	£k	£k
Operating profit	**51,334**	52,562
Other finance income	**1,246**	49
Operating profit plus other finance income	**52,580**	52,611
Finance costs	**(32,977)**	(38,892)
Profit before taxation	**19,603**	13,719
Taxation	**(5,036)**	(10,836)
Profit after taxation	**14,567**	2,883
Net cash inflow from operating activities and investing activities	**93,119**	87,206
Net cash flows used in financing activities	**(88,817)**	(84,454)

Operating and finance income

Operating and finance income is derived from the Group's activities as a provider of transmission services. The vast majority of the Group's operating 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 £38,624k (2022: £40,542k), and represents the finance income that would have been generated from efficient standalone "transmission owners". 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 assets which have been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 38.

Operating income for the year amounted to £28,444k (2022: £26,394k), and primarily represents the operating income that would be generated by efficient providers of operating services to NGESO. The increase in operating income is reflective of higher availability payments received in the year and also includes £772k (2022: £nil) relating to a final settlement in respect of equipment failure in May 2018. Such operating services 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 each standalone transmission owner. Operating income has been recorded in accordance with the principal accounting policies adopted by the Group.

Operating costs

Total operating costs for the year amounted to £15,734k (2022: £14,374k).

The most significant cost included within total costs relates to the operations, maintenance and management of the OFTOs and amounted to £13,218k (2022: £13,357k). This cost covers operations and maintenance costs, insurance premiums, management service fees, and non-domestic rates related to the transmission network.

As referenced earlier in this Strategic Report, under the terms of the contract with Scira – the O&M provider to BTSS – an amount equivalent to the cash value of performance credits collected by BTSS from NGESO is passed to Scira and the cost of this amounting to £1,022k (2022: £1,068k) is included within operating costs.

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 £1,462k (2022: £202k). 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 £51,334k (2022: £52,562k). The net decrease in operating profit for the year reflects the change in finance income, operating income and operating costs as discussed earlier in the Group Strategic Report.

Other finance income

Other finance income of £1,246k (2022: £49k) 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.

Finance costs

Finance costs amounted to £32,977k (2022: £38,892k). The vast majority of the finance costs relates to the interest cost of bank loans and other borrowing amounting to £22,469k (2022: £24,077k) and £11,207k (2022: £11,100k) respectively. Interest expense and other financial costs principally arise from the cost of debt used to finance the initial acquisition of the transmission owner assets.

Finance costs include a net credit amounting to £2,689k (2022: net charge of £1,572k) relating to certain hedge ineffectiveness for accounting purposes. The net credit in respect of hedge ineffectiveness arising for the year ended 31 March 2023, together with a reduction in finance charges arising from bank loans explains the overall reduction in net finance costs for the year as compared with the prior year.

Taxation

The Group is subject to UK corporation tax on taxable profits. The net taxation charge on profit before taxation for the year is £5,036k (2022: £10,836k) of which £4,849k (2022: £10,836k) relates to deferred taxation. Current taxation arising in the year amounted to £187k (2022: £nil).

The net taxation charge on profit before taxation for the year ended 31 March 2023 has been computed at 19% (2022: 19%), being the UK corporation tax rate applicable to taxable profits arising in the UK. The net taxation charge on profit before taxation for this year also included a charge amounting to £1,056k (2022: £8,049k) 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 UK 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: the vast majority) of the temporary differences as underlie these deferred taxation balances are anticipated to reverse.

A net taxation credit of £250k (2022: £16,630k) has been recognised in other comprehensive loss relating to pre-taxation losses (2022: losses) arising on marking the Group's cash flow hedges to market at the balance sheet date.

The net taxation credit for the year ended 31 March 2023 on other comprehensive loss relates solely to deferred taxation and has been computed at 19% (2022: 19%). The net taxation credit for the year ended 31 March 2023 includes a credit amounting to £61k (2022: £5,597k) relating to the remeasurement of certain 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 £14,567k (2022: £2,883k). The increase in profit after taxation as compared with 2022 primarily reflects lower finance costs and 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 Group Strategic Report.

Cash flows

Net cash flows from operations amounted to £91,873k (2022: £87,157k) primarily reflecting the amounts invoiced and received from NGESO in relation to the provision of transmission services net of operating costs.

The overall increase in net cash flows from operations for the year ended 31 March 2023 as compared with the prior year primarily relates to increased cash inflows in this year as compared with the prior year relating to availability payments received from NGESO (inclusive of the impact of RPI swaps on net cash inflows).

Net cash flows generated from investing activities for the year ended 31 March 2023 amounted to £1,246k (2022: £49k) and relates entirely to interest income.

Cash available for debt servicing, defined as net cash inflows from operations plus net cash inflows generated from investing activities of £1,246k (2022: £49k), amounted to £93,119k (2022: £87,206k).

Net cash used in financing activities amounted to £88,817k (2022: £84,454k) and include £385k (2022: £360k) of payments in respect of infrastructure financial liabilities.

Payments to service senior debt holders during the year amounted to £67,091k (2022: £74,734k). Payments to other debt holders during the year amounted to £10,775k (2022: £10,726k).

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

Interim ordinary dividends of £10,465k (2022: £8,103k) were paid in the year.

Balance sheet and consideration of financial management

Consolidated Balance sheet

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

	Assets £'000	Liabilities £'000	Net assets / (liabilities) £'000
Non-current transmission owner assets	648,658	-	648,658
Non-current deferred taxation	1,914	(16,272)	(14,358)
Current assets and liabilities+	43,951	(5,177)	38,774
Non-current decommissioning provision	-	(16,412)	(16,412)
Total before net debt	694,523	(37,861)	656,662
Net debt	66,252	(752,284)	(686,032)
Totals at 31 March 2023	**760,775**	**(790,145)**	**(29,370)**
Totals at 31 March 2022	788,616	(821,344)	(32,728)

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

Transmission owner assets and decommissioning provisions

The transmission owner assets are classified as contract assets and financial assets and accounted for as follows: 1) in respect of the BTW1 and BTLA offshore transmission systems - the directly attributable cost of acquiring those assets; and 2) in respect of the BTW2 and BTSS offshore transmission systems the fair value attributable to the acquisition of those transmission systems at their respective dates of acquisition; plus, finance income and adjusted for any amounts that have been invoiced to NGESO which are deemed to be attributable to the carrying value of those assets. The net result being that the carrying value of the transmission owner assets reflects the application of the effective interest rate method, and the carrying value is determined in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group that give rise to these balances is shown in the accounting policies section of the financial statements commencing on page 38.

The total costs of acquiring and the fair values attributed to the transmission owner assets include an estimate of the costs of decommissioning the transmission owner assets at the end of their 20-year useful economic lives and also includes amounts equivalent to the amounts recognised as infrastructure liabilities. At 31 March 2023, the carrying value of the transmission owner assets was £691,531k (2022: £729,760k) and the decommissioning provisions amounted to £16,412k (2022: £14,388k).

Non-current deferred taxation

The Group has recognised net deferred taxation liabilities of £14,358k (2022: £9,759k) which reflects the recognition, in full of the deferred taxation impact of all temporary differences arising in the year, including the fair valuing of all derivative financial instruments. Deferred taxation assets at 31 March 2023 amounted to £1,914k (2022: £3,689k) and deferred taxation liabilities at 31 March 2023 amounted to £16,272k (2022: £13,448k).

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 £686,032k (2022: £735,283k) and included £97,105k (2022: £98,800k) of liabilities relating to the carrying value of financial derivatives that were marked to market at that date and a further £3,024k (2022: £3,170k) relating to infrastructure financial liabilities.

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

Current funding structure

Each individual OFTO 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 UK Utilities Act 2000. All forms of senior debt within each individual OFTO rank pari-passu with all other forms of senior debt within the same OFTO, such debt being secured and rank above all other borrowings and unsecured creditors within that OFTO.

For each OFTO, 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 over a 19-year period as compared with the expected useful economic life of 20 years for each of the OFTO projects. The total principal carrying value of EIB and commercial lenders loans outstanding at 31 March 2023 net of unamortised issue costs amounted to £516,185k (2022: £559,713k) and are reflected in the consolidated balance sheet.

The EIB loans carry 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.

Each OFTO in the Group has also entered into a series of interest rate swaps with banks of good standing. The commercial lenders loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. Further details of the interest rate swaps are shown later.

The Group's commercial loans, which are subject to variable rates of interest, were linked to the 3-month London Inter-Bank Offered Rate (LIBOR) through to 31 March 2022 in respect of c89% of the Group's commercial loans with the remainder being linked to LIBOR through to 30 June 2022. However, following agreement with the commercial lenders and related interest rate swap providers to the Group, the interest rate on these loans and related interest rate swap arrangements are now linked to a new interest rate benchmark – the Sterling Overnight Index Average (SONIA). Agreement was reached with the lenders and related interest rate swap providers representing c89% of the Group's variable interest rate loans and swap agreements on 22 March 2022 and in respect of the remainder of the Group's variable interest rate loans and interest rate swap agreements – agreement was reached with these lenders and related interest rate swap providers on 17 May 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.

The other borrowings included in the Company and consolidated balance sheet at 31 March 2023 are unsecured and have been issued to the Company's shareholders. The other borrowings were issued by the Company on a commercially priced basis and carry either a fixed rate coupon or a fixed coupon plus an interest rate component linked to the movement in the UK retail price index as published by the Office for National Statistics. At 31 March 2023, the total principal carrying value of the other borrowings outstanding amounted to £125,437k (2022: £125,030k).

Infrastructure financial liabilities amounted to £3,024k (2022: £3,170k) at 31 March 2023 have been recognised.

Ordinary equity share capital amounted to £1,432k at 31 March 2023 (2022: £1,432k).

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 and its subsidiary undertakings are going concerns, and all have adequate resources now and in the foreseeable future to meet their 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 financial statements of the Group and the Company.

The Directors note that total shareholders' equity at 31 March 2023 as reported for the Group 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 Group. Further information regarding the Group's "Hedging arrangements" is discussed later in this Group 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 financial statements. The other evidence considered to arrive at these conclusions is based on a number of factors which are summarised on the following pages.

The expected cash inflows that are likely to accrue to the Group 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 Group in respect of its electricity transmission services were derived from NGESO in its capacity as the Great Britain electricity system operator and it has continued to settle all invoices to the date of this report in accordance with its obligations under the STC. Similar to each OFTO in the Group, NGESO is also regulated by the Authority.

The Group enjoys certain protections afforded under the Licences granted to the OFTOs. In particular, provided that the OFTOs can demonstrate that they have applied good industry practice in the management of their assets, then in the event that an unforeseen incident results suffering an individual loss in excess of £1,000k (in so far as it relates to its activities under the Licence) they can apply to the Authority for an income adjusting event. In these circumstances the Group may be able to recover any loss suffered by any individual OFTO. The Group has also put in place prudent insurance arrangements primarily in relation to property damage, third-party liabilities and business interruption of its operating subsidiaries, such that it can make claims in the event that an insurable event takes place and thereby continue in business.

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 Group 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 projects.

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 Group can forecast with a high degree of certainty the net impact of these cash outflows over the life of each project; and 2) the RPI swaps have the impact of effectively converting a high proportion of the variable cash flows arising from the Group'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 have the effect of reducing the uncertainty as to the quantum and frequency of cash flows 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 Group in relation to its transmission services that are not subject to the RPI swaps arrangements.

Each OFTO also has access to liquidity facilities which it can access in the event that it has an insurable or income adjusting event. As at 31 March 2023 and 31 March 2022: BTW1's liquidity facility was £3,000k; BTW2's liquidity facility was £5,000k; BTSS's liquidity facility was £6,000k; and BTLA's liquidity facility was £9,000k. The terms of each OFTO Licence strictly prohibit the sharing of financial resources that together with the various lending arrangements in place for each OFTO means that no liquidity facility of any one OFTO would be available for another OFTO to use. Of the liquidity facilities available to each OFTO, all such facilities were undrawn at 31 March 2023 and 31 March 2022.

Finally, under the terms of the other borrowing agreements, absent certain matters of default, the loan notes are redeemable in tranches – the earliest of which is not due until 2031. Therefore, there is no requirement for the Company to service these debts early, although it is expected that it will do so.

Credit rating

It is a condition of the regulatory ring-fence around all four OFTOs that they use their reasonable endeavours to maintain an investment grade credit rating in respect of their senior debt (which is also the senior debt of the Group). The rating agency carries out regular and periodic reviews of the rating. All OFTOs have maintained an investment grade credit rating in respect of their senior debt consistent with their obligations under the licence.

During the rating agency's assessment of each OFTO'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 Group operates; the nature of the principal contractual arrangements in place; the insurance arrangements; 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 unusual and/or material maintenance expenditure and other matters that are discussed in this Group Strategic Report, that there are reasonable grounds to believe that each rating agency will continue to confirm that the senior debt investment grade status for each OFTO in the Group based on the information available to the Directors at the date of this annual report.

On-going funding requirements

The Group does not expect to have any significant funding requirements over the expected life of the OFTO projects that will require additional external funding. Loan servicing and other obligations of the Group are expected to be met by the cash inflows generated by the Group. Consequently, based on the current capacity of the Group's transmission systems, 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 Licences that would allow each OFTO in the Group 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 Group 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. At 31 March 2023, the Group had £58,387k (2022: £54,085k) on deposit of which £46,715k (2022: £45,724k) 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, £11,169k (2022: £7,866k) requires the consent of the Group's lenders prior to use but are held for general corporate purposes and the remaining £503k (2022: £495k) is unencumbered. A description of the restrictions applied to certain deposits and other matters are referred to later under "Lending covenants and other restrictions".

The Group 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 Group these amounts are insignificant.

Hedging arrangements

General

It is the policy of the Board that the Company and its subsidiaries 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. The Company does not hold any derivative financial instruments.

RPI swaps

Each OFTO has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 70% in the cases of BTW1 and BTW2, approximately 80% in the case of BTSS, and approximately 90% in the case of BTLA) of variable cash inflows arising from the electricity transmission service it provides to NGESO in exchange for a pre-determined stream of cash inflows. These arrangements meet the definition of a derivative financial instrument. The remaining periods covered by these arrangements closely match the remaining periods over which the Group enjoys exclusive rights to operate the four OFTO offshore transmission systems under the Licences, and closely reflect the periods over which the vast majority of cash flows from the projects are expected to be generated.

As previously described (see "Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives"), under the terms of the Licences, regulatory and other contractual agreements, each OFTO in the Group is permitted to charge its principal customer, NGESO, 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 percentage change in the relevant RPI benchmark applicable to each OFTO. These derivative arrangements ("RPI swaps") have the effect of exchanging the vast majority of variable cash inflows derived from the Group'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 Group's risk management objective and strategy for undertaking the hedge. The vast majority of the Group's cash outflows relate to borrowings that substantially carry a fixed coupon (after interest rate swaps – see later) 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 Group can meet its obligations under the terms of the Group'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 swaps liabilities at 31 March 2023 was £104,970k (2022: £81,317k). Further information relating to these derivative financial instruments is contained within notes 13 and 19 to the financial statements.

<u>Interest rate swaps</u>

Each OFTO 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 Group's risk management objective and strategy for undertaking the hedge. The net commercial effect of these arrangements is to convert the vast majority of the nominal amount of commercial lenders' variable rate borrowings into fixed rate borrowings.

As explained earlier in this section of the Group 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.

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

The vast majority of the Group's cash inflows (after RPI swaps) can be predicted with a high degree of certainty (thereby reducing uncertainty) for the reasons explained earlier in this section under RPI swaps. Consequently, the Group 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 Group substantially eliminates the interest rate risk that the Group 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 swaps assets at 31 March 2023 was £7,865k (2022: liabilities of £17,483k). Further information relating to these derivative financial instruments is contained within notes 13 and 19 to the financial statements.

Lending covenants and other restrictions

The Group is subject to certain covenants and conditions under lending agreements with the senior debt holders for each individual OFTO. Each OFTO in the Group entered into these lending agreements to allow it to fund the acquisition of their respective transmission owner asset. Under these lending agreements, Global Agents have been appointed to represent the senior debt holders and to monitor compliance by each OFTO with the conditions of the lending agreements they have 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 Agents in the discharge of the Agent's duties. The covenants and conditions of the lending agreements include (but are not limited to) to those described below:

1) each OFTO is required to operate on the basis of their financial plans while the lending agreements are in place (19 years) which the Global Agents have approved and subject to certain allowances; any deviation from that plan requires the approval of the respective Global Agent. The financial plans are refreshed on a quarterly basis and revised on an annual basis as required;

2) each OFTO is required to deliver financial and other information at specified intervals (typically quarterly) to the respective Global Agent;

3) each OFTO is required to maintain adequate insurances at all times;

4) the lending agreements specify the bank accounts that each OFTO 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 respective Global Agent;

5) each OFTO is required to maintain, on an individual basis, certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments, they cannot exceed a specified gearing ratio;

6) each OFTO is restricted under the lending agreements as to their ability to invest their 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 each OFTO investing in term deposits with maturities not exceeding three months; and

7) each OFTO is required to meet all the conditions contained within their lending agreements before any servicing of the other borrowings can take place or any distributions can be made to its shareholder.

If any OFTO materially fails to comply with the terms of the lending agreements or has failed to apply one of the specified remedies, then that OFTO would be in default of the relevant OFTO lending agreement. 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, all OFTO's have materially complied with all of the lending covenants and conditions and have continued to do so through to the date of this report.

Accounting policies

The financial statements present the results of the Group using the accounting policies outlined in the financial statements and are prepared in accordance with International Accounting Standards (IAS) as adopted in the UK ("UK-adopted IAS") and in accordance with Jersey Law. This is explained in more detail in the accounting policies section of the financial statements under "Basis of consolidation and preparation of consolidated financial statements under UK-adopted IAS" on page 38.

UK-adopted IAS permits certain choices and the following material choices have been made as follows:

Presentation of financial statements

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

In the income statement the Group 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 Group's transmission owner assets and is included within operating profit to reflect the fact that this is one of the principal revenue generating activities of the Group and relates to the Group's principal operating activity as a provider of electricity transmission availability services.

Financial Instruments

The Group 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 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 financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the 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

In accordance with the requirements of the Companies (Jersey) Law 1991 the following sections describe the matters that are required 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 noted in this report.

Directors

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

Matthew Edwards
David Holmes[1]
Matthew Pitts
Gary Thornton
Graham Farley[2]
[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 Group's principal activities, business and principal risks and uncertainties is contained in the Group Strategic Report on pages 2 to 26, which are incorporated by reference into this report.

Material interests in shares

The Company holds the entire issued share capital of Blue Transmission Walney 1 (Holdings) Limited, Blue Transmission Walney 2 Investments Limited, Blue Transmission Sheringham Shoal Investments Limited, and Blue Transmission London Array (Holdings) Limited which in turn hold directly or indirectly the entire issued share capital of Blue Transmission Walney 1 Limited, Blue Transmission Walney 2 Limited, Blue Transmission Sheringham Shoal Limited, and Blue Transmission London Array Limited respectively.

No shares were issued during the year.

Returns from Subsidiary undertakings

During the year ended 31 March 2023 £21,240k (2022: £18,829k) was received from subsidiary undertakings comprising: £10,465k (2022: £8,103k) of interim ordinary dividends and £10,775k (2022: £10,726k) of interest. The aggregate principal amount outstanding on these loan notes due from subsidiaries amounted to £125,437k at 31 March 2023 (2022: £125,030k).

Dividends

Interim ordinary dividends of £10,465k (2022: £8,103k) were paid during the year.

On 31 May 2023, the Board approved the payment of an interim dividend of 451.22p per ordinary share amounting to £6,463k. This interim ordinary dividend is not recognised in the financial statements for the year ended 31 March 2023 in accordance with UK-adopted IAS.

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).

Financial instruments

Details on the use of financial instruments and financial risk management ("Hedging Arrangements") are included on pages 23 to 24 in the Group Strategic Report.

Greenhouse gas emissions

The operation of the Group's facilities requires the consumption of electricity and may also result in the emission of greenhouse gases. The Directors have calculated that approximately 62 tonnes of CO_2 (equivalent) have been emitted during the year (2022: approximately 63 tonnes), this calculation being based upon an appropriate factor converting units of electricity consumed or greenhouse gas emitted into tonnes of CO_2 (equivalent).

Going concern

Having made enquiries, the Directors consider that the Company and all of its subsidiaries have 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 financial statements comprising the consolidated financial statements of the Group and the individual financial statements of the Company. More details of the Group's funding and liquidity position are provided in the Group Strategic Report under the headings "Current funding structure" and "Going concern, liquidity and treasury management".

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

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

Future developments

Details of future developments are contained in the Group Strategic Report.

Employees

At 31 March 2023, the Company and the Group had no employees (2022: none).

Directors' Report continued

For the year ended 31 March 2023

Directors' fees

The Directors receive no direct emoluments from the Company or the Group. The Company had an agreement with a related party for the supply of Graham Farley's consultancy services to the Company and the Group. Graham Farley was a related party as he was a Director of the Company through to the 27 March 2023, being the date of Graham Farley's resignation, and the company supplying the services of Graham Farley was also a related party of the Company and the Group to this date. The value of services supplied to the Company and the Group in respect of Graham Farley's consultancy services for the year ended 31 March 2023 amounted to £35k (2022: £35k).

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 Investments Limited
47 Esplanade
St Helier
Jersey
JE1 0BD

Corporate governance statement

The Company operates within the corporate governance framework of the Group. Consequently, this statement reflects how that governance framework impacts on the Company and that of its principal operating subsidiaries ("OFTOs") BTW1, BTW2, BTSS and BTLA.

Appointments to the board of directors of the Company and its subsidiary undertakings are governed by a shareholders' agreement ("the Agreement") between the two shareholders of the Company that jointly control the Company and the Group.

At 31 March 2022 and 31 March 2023, Diamond Transmission UK Limited (DTUK - 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 the 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 Company in the Group has a nomination committee, and the performance of the boards is not evaluated.

The Agreement ensures that boards 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 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 so as to meet its objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the Group's risk management and internal control framework and are satisfied that they are effective.

Meetings of the Board of the Company

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

Directors

The Directors of the Company are as shown in the Directors' Report.

Audit committee

The Group does not have an internal audit function. The Directors have concluded that the cost of such a function would be disproportionate to the benefits. The Company has an audit committee which meets at least twice a year. The purpose of the audit committee is to assist the board of the Company and that of the other Group entities in the effective discharge of its responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency.

Corporate governance statement continued

Board and management meetings

The OFTOs are governed by boards comprising four directors, none of whom are independent. The boards do 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 OFTO boards are responsible for monitoring the effectiveness of the day-to-day operation and management of the OFTOs' regulated transmission businesses.

The OFTO operating model is to outsource all O&M and management activities to third parties. FPL provides the asset management capability, and other services, through an MSA with each OFTO and the Company and additional technical support and other resources are provided to the OFTOs by FPL via the Company by way of a shared resources agreement. FPL holds regular management meetings which review the operational and financial performance of the OFTOs and risk issues. FPL submits a monthly management report to the directors of the OFTOs and the Company.

Compliance committee

Each OFTO 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 each OFTO board. David Pagan was the compliance officer for all four OFTOs for the financial year ended 31 March 2023 and has remained in those positions through to the date of this report. David Pagan is not and has never been engaged in the management or operation of any of the Group's licensed transmission businesses, or the activities of any associated business. The compliance officer is required to report to each of the OFTO's compliance committee and board at least once annually. Where appropriate, a report would be made to the audit committee and the Board.

The principal role of the compliance officer is to provide relevant advice and information to the directors of all of the OFTO's, the compliance committees and consultants and other third parties providing services to the Group. The compliance officer is required to facilitate compliance by the OFTOs with their Licences 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 each OFTO in the Group in accordance with the compliance statement required by amended standard condition E12 - C2 of the Licences (Separation and Independence of the Transmission Business).

Compliance statements

Each OFTO in the Group has published a compliance statement and a code of conduct, "Separation and Independence of the Transmission Business Compliance Statement" (copies available from www.bluetransmission.com) that explains and describes how each OFTO in the Group has addressed certain Licence obligations.

Health, safety and environment advisory committee

The Board recognises that the nature of the Group's business requires an exceptional focus on health, safety and the environment. Accordingly, the 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;
- 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 of the importance of health, safety and the environment and higher achievement in health, safety and environmental performance;
- providing guidance to FPL, the management services company, and all O&M providers and all other sub-contractors to the Group that have the day-to-day responsibility for the management of health, safety and environment; and
- reporting to all boards in the Group as to the activities of the committee throughout the year;

The members of the Health, Safety and Environment Supervisory Committee and the Board are pleased to note the Health, Safety and Environmental performance for the year – see "Group Strategic Report - The Group's operational performance - Health, safety and environmental performance" on page 13 for details.

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 are responsible for preparing the Annual Report and Group Financial Statements for each financial year in accordance with UK-adopted international accounting standards and applicable Jersey law. The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with The Companies (Jersey) Law, 1991.

Directors' confirmations

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

Each of the Directors, whose names are listed in the Directors Report and are in office as at the date of this report confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with UK-adopted international accounting standards and applicable Jersey law, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group; and
- the Group Strategic Report includes a fair review of the development and performance of the business and the position of the and Company and Group, together with a description of the principal risks and uncertainties that they face.

Approved on behalf of the Board

Gary Thornton
Director
22 June 2023

Independent auditors' report to the members of Blue Transmission Investments Limited

For the year ended 31 March 2023

Report on the audit of the financial statements

Opinion

In our opinion, Blue Transmission Investments Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report and Group Financial Statements (the "Annual Report"), which comprise: the Company and Consolidated Balance Sheets as at 31 March 2023; the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statements, the Company and Consolidated Statements of Changes in Equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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.

Independent auditors' report to the members of Blue Transmission Investments Limited continued

For the year ended 31 March 2023

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Health and Safety and a range of industry specific legal requirements pertaining to 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 financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies (Jersey) Law 1991 and the UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to 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 designed controls to prevent and deter irregularities;
- challenging management on assumptions and judgements made in their significant accounting estimates;
- identifying and testing journal entries, in particular for any unusual account combinations.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Paul Cheshire
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
26 June 2023

A. Basis of consolidation and preparation of consolidated financial statements under UK-adopted IAS

These consolidated financial statements include the financial statements of the Company (together "the financial statements") and its subsidiary undertakings made up to 31 March 2023 and have been prepared on a going concern basis (see "Group Strategic Report - Going concern, liquidity and treasury management" on page 20 which sets out the basis for applying the going concern basis to the preparation of the financial statements) and in accordance with UK-adopted International Accounting Standards (IAS) and with Jersey Law.

The financial statements have been prepared using UK-adopted IAS for the first time including the application, as necessary, of all accounting standards as required by UK-adopted IAS for the year ended 31 March 2023. There has been no material impact on the measurement of assets and liabilities or significant changes in any disclosures as compared with financial statements which would have been prepared in accordance with IFRS as endorsed by the EU.

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

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill, where applicable.

The preparation of financial statements 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 Group owns and operates electricity transmission networks that are principally offshore based. These networks ultimately electrically connect wind farm generators to the onshore electricity transmission operator (NGET). The ownership of the transmission networks is subject to regulatory and contractual arrangements that permit the OFTOs to charge for making their transmission network available ("transmission availability charges") to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

B. Transmission availability arrangements continued

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 Group 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 each OFTO in the Group for transmission availability services; and
- the regulator has granted a licence to each OFTO in the Group to operate an offshore electricity transmission system, the licence allows each OFTO 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.

A transmission owner asset is recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15. A transmission owner asset includes: the cost of acquiring a transmission network asset from the constructor of the network or the fair value attributed to those assets at the date the Group company was acquired; those costs incurred, or fair values attributed are those that relate 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. Each 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 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 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.

Transmission owner assets are classified as contract assets and financial instruments and are carried at amortised cost based on the initial cost incurred or fair value of acquisition 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 assets is recognised in the income statement as a separate line item – "Finance income", see F. Operating and finance income later.

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 and UK Retail Prices Index (RPI) linked loan notes, 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 later.

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. In particular, interest payments on the 7.88% RPI Linked Loan Notes 2031 are linked to movements in UK RPI. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument, based on the view that there is a strong relationship between interest rates and inflation in the UK economy. Consequently, these embedded derivatives are not accounted for separately from the debt instrument.

C. Financial instruments continued

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 Group continues to apply the hedge accounting requirements of International Accounting Standard 39.

The Group has entered into arrangements with third parties that are designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Group has designated that these arrangements are a hedge of other (non-derivative) financial instruments, to mitigate the impact of potential volatility on the Group's net cash flows.

The Group has also entered arrangements with third parties that are 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 streams 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.

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 Group 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 Group. These reliefs allowed the Group 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 Group continued to apply the reliefs available under the IBOR reforms until its final transition to the SONIA interest rate benchmark was completed during the year. Consequently, the Group continued to apply hedge accounting applying the reliefs available under the IBOR reforms following the temporary adoption of the synthetic LIBOR benchmark to some of its lending and interest rate swap arrangements and continued to apply hedge accounting through to the ultimate transition of applying the SONIA interest rate benchmark to all of its lending and interest rate swap arrangements which came into effect for all quarterly periods ending after 30 June 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 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 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.

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 in these accounting policies, 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. Finance and operating income reflect the principal revenue generating activity of the Group, 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.

F. Operating and finance income continued

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 Group'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 networks associated with the safe decommissioning of those 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 Group 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 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 Group 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 transmission owner assets

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 Group 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. Transmission owner assets have 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 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 Group has also determined that the transmission owner assets are expected to be recovered over a period of 20 years from the date of the respective Licence grant – being the principal period over which each OFTO in the Group is permitted to levy charges for transmission availability and therefore the expected useful life of each individual transmission owner asset. This judgement has the effect of determining the amount of finance income and carrying value of the transmission owner assets that is recognised in any one year over the lives of the projects.

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 transmission owner assets".

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

ii) Operating and finance income continued

Operating income – including identification of key estimates continued

Such operating services include those activities that result in the efficient and safe operation of those assets and the value attributable to such 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 each OFTO Licence came into force 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 Group for transmission network availability in each financial year over the expected useful lives of the transmission owner assets. To the extent that an alternative estimate could have been made at the date that each OFTO 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 transmission owner assets" – 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 a 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 at the date each OFTO Licence came into force and applies over the expected useful life of the transmission owner asset concerned accordingly. The return that is generated on each transmission owner 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 an OFTO 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 Group 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 Group 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 Group's derivative financial instruments may be accounted for using hedge accounting where the requirements of hedge accounting are met under IFRS as adopted by the EU including the creation of compliant documentation and meeting the effectiveness testing requirements. In principle, while the application of the requirements of IFRS 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 Group's derivative financial instruments, these changes in fair value are recognised in other comprehensive income.

As referred to earlier, the Group 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 based on counterparty information that is independent of the Group but 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 transmission owner assets, 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 Group is domiciled in the UK for tax purposes and is required to estimate the current tax liability based on its understanding of taxation law and the anticipated decisions of HM Revenue and Customs.

Actual tax liabilities could differ from any recorded current taxation liability and in such event the Group 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.

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

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 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.

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 Group's balance sheet at amortised cost, including transmission owner assets 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 Group performs an assessment as to whether the credit risk on a financial instrument has increased. Depending on the outcome of that assessment, which requires the application of judgement, the Group 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.

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

v) Expected credit losses continued

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 Group 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.

vi) Decommissioning provisions

General

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

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

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

- the estimated useful economic life of the Group's transmission systems is assumed to be 20 years being the period each individual OFTO within the Group has exclusive rights to charge for the provision of transmission services under their respective Licences and the period which is expected to generate the vast majority of cash flows relating to the ownership of those systems. 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 any of the decommissioning plans 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.

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

vi) Decommissioning provisions

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

The carrying value of the decommissioning provisions 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 systems 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 Group 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 each offshore electricity transmission system is included within the initial carrying value of each transmission owner asset at the date that these assets, to which these liabilities relate, were acquired or recognised as part of the fair value of the transmission owner asset at the date the Group company was acquired. All subsequent changes to estimates in relation to estimated gross cost of decommissioning or the appropriate discount rate are reflected in the income statement.

vii) Infrastructure financial liabilities

General

Infrastructure financial liabilities are initially recognised in the consolidated balance sheet at the present value of the future lease payments to which these liabilities relate. Corresponding amounts were recognised as additions to the cost of each transmission owner asset acquired or as part of the fair value of the transmission owner asset at the date the Group company was acquired.

Application of estimates to determine infrastructure financial liabilities

Management were required to estimate the incremental borrowing cost to the using an estimate of the incremental borrowing cost to the Group company at the date that Group company entered into those lease arrangements as a proxy for the interest rate implicit in those lease arrangements or the fair value of those liabilities at the date the Group company was acquired. These interest rates were then used to discount the expected future cash flows to derive the present value of the future lease payments.

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

vii) Infrastructure financial liabilities continued

Application of judgements to determine infrastructure financial liabilities

Management applied judgements as to both determine the period over which payments would be made that are the subject of discounting to arrive at a present value or fair value of the liabilities acquired as necessary 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 financial statements

In preparing these financial statements the Group and Company has complied with UK-adopted IAS 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 financial statements that have had any material impact on the measurement, recognition or disclosures included in these financial statements.

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

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

Consolidated income statement

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Operating income	2	**28,444**	26,394
Finance income	2	**38,624**	40,542
Total income		**67,068**	66,936
Operating costs	3	**(15,734)**	(14,374)
Operating profit		**51,334**	52,562
Other finance income	4	**1,246**	49
Finance costs	4	**(32,977)**	(38,892)
Net interest expense	4	**(31,731)**	(38,843)
Profit before taxation		**19,603**	13,719
Income taxation charge	5	**(5,036)**	(10,836)
Profit attributable to equity shareholders		**14,567**	2,883

The results reported above relate to continuing operations.

The notes on pages 58 to 82 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Profit attributable to equity shareholders		**14,567**	2,883
Other comprehensive (loss) / income			
Items that may be subsequently reclassified to Profit and Loss:			
Net losses taken to equity in respect of cash flow hedges	16	**(994)**	(58,069)
Deferred taxation on cash flow hedges	5	**250**	16,630
Total other comprehensive loss		**(744)**	(41,439)
Total comprehensive income / (loss) for the year attributable to equity shareholders		**13,823**	(38,556)

Company balance sheet

As at 31 March 2023

	Notes	2023 £'000	2022 £'000
Non-current assets			
Investments in subsidiary undertakings	20	**126,869**	126,462
Total non-current assets		**126,869**	126,462
Current assets			
Accrued income		**2,785**	2,705
Cash and cash equivalents	9	**503**	495
Total current assets		**3,288**	3,200
Total assets		**130,157**	129,662
Current liabilities			
Trade and other payables	12	**(3,282)**	(3,196)
Total current liabilities		**(3,282)**	(3,196)
Non-current liabilities			
Borrowings	10	**(125,437)**	(125,030)
Total non-current liabilities		**(125,437)**	(125,030)
Total liabilities		**(128,719)**	(128,226)
Net assets		**1,438**	1,436
Equity			
Called up share capital	15	**1,432**	1,432
Retained earnings	16	**6**	4
Total shareholders' equity		**1,438**	1,436

Company number: 106705

The financial statements set out on pages 38 to 82 were approved by the Board of Directors on 22 June 2023 and were signed on its behalf by:

Gary Thornton
Director

Consolidated balance sheet

As at 31 March 2023

	Notes	2023 £'000	2022 £'000
Non-current assets			
Transmission owner assets	7	**648,658**	691,299
Derivative financial assets	13	**7,865**	-
Deferred taxation assets	8	**1,914**	3,689
Total non-current assets		**658,437**	694,988
Current assets			
Prepayments		**1,078**	1,082
Transmission owner assets	7	**42,873**	38,461
Cash and cash equivalents	9	**58,387**	54,085
Total current assets		**102,338**	93,628
Total assets		**760,775**	788,616
Current liabilities			
Borrowings	10	**(44,902)**	(44,033)
Infrastructure financial liabilities	11	**(212)**	(218)
Trade and other payables	12	**(7,658)**	(6,795)
Current income tax liabilities		**(187)**	-
Total current liabilities		**(52,959)**	(51,046)
Non-current liabilities			
Borrowings	10	**(596,720)**	(640,710)
Infrastructure financial liabilities	11	**(2,812)**	(2,952)
Derivative financial liabilities	13	**(104,970)**	(98,800)
Deferred taxation liabilities	8	**(16,272)**	(13,448)
Decommissioning provisions	14	**(16,412)**	(14,388)
Total non-current liabilities		**(737,186)**	(770,298)
Total liabilities		**(790,145)**	(821,344)
Net liabilities		**(29,370)**	(32,728)
Equity			
Called up share capital	15	**1,432**	1,432
Retained earnings	16	**39,886**	35,784
Cash flow hedge reserve	16	**(70,688)**	(69,944)
Total shareholders' deficit		**(29,370)**	(32,728)

Company number: 106705

The financial statements set out on pages 38 to 82 were approved by the Board of Directors on 22 June 2023 and were signed on its behalf by:

Gary Thornton
Director

Company statement of changes in equity

For the year ended 31 March 2023

	Note	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021		1,432	3	1,435
Total comprehensive income for the year		-	8,104	8,104
Interim ordinary dividends	6	-	(8,103)	(8,103)
At 31 March 2022		1,432	4	1,436
Total comprehensive income for the year		-	10,467	10,467
Interim ordinary dividends	6	-	(10,465)	(10,465)
At 31 March 2023		**1,432**	**6**	**1,438**

Consolidated statement of changes in equity

For the year ended 31 March 2023

	Note	Called up share capital £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021		1,432	(28,505)	41,004	13,931
Profit for the year recognised in the income statement		-	-	2,883	2,883
Other comprehensive loss for the year		-	(41,439)	-	(41,439)
Interim ordinary dividends	6	-	-	(8,103)	(8,103)
At 31 March 2022		1,432	(69,944)	35,784	(32,728)
Profit for the year recognised in the income statement		-	-	14,567	14,567
Other comprehensive loss for the year		-	(744)	-	(744)
Interim ordinary dividends	6	-	-	(10,465)	(10,465)
At 31 March 2023		**1,432**	**(70,688)**	**39,886**	**(29,370)**

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

Consolidated cash flow statement

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Cash flows from operating activities			
Profit attributable to equity shareholders for the year		**14,567**	2,883
Adjustments for:			
Net interest charges		**31,731**	38,843
Taxation charge		**5,036**	10,836
Non-cash movement relating to finance income		**38,229**	34,447
Changes in working capital		**2,310**	148
		77,306	84,274
Net cash flows from operating activities		**91,873**	87,157
Cash flows from investing activities			
Interest received		**1,246**	49
Cash flows from investing activities		**1,246**	49
Cash flows used in financing activities			
Partial repayment of senior loans	17	**(44,610)**	(41,082)
Interest paid		**(33,256)**	(34,808)
Interim ordinary dividends paid	6	**(10,465)**	(8,103)
Other finance charges		**(486)**	(461)
Net cash flows used in financing activities		**(88,817)**	(84,454)
Net increase in cash and cash equivalents		**4,302**	2,752
Cash and cash equivalents at the start of the year		**54,085**	51,333
Cash and cash equivalents at the end of the year	17	**58,387**	54,085

Notes to the financial statements

For the year ended 31 March 2023

1. Operating segment

The Board of Directors is the Group'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 Group and segmental results, balance sheet and relevant cash flows can be seen in the consolidated income statement, the consolidated balance sheet and consolidated cash flow statement on pages 51, 54 and 57 respectively. Additional notes relating to the Group and segment are shown in the notes to the financial statements on pages 58 to 82.

The electricity transmission operations of the Group comprise the transmission of electricity by four OFTOs to the UK onshore electricity system operated by NGET.

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

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

2. Operating and finance income

Operating income of £28,444k (2022: £26,394k) and finance income of £38,624k (2022: £40,542k) primarily relates to the Group's activity as a provider of electricity transmission services to the Group's principal customer – National Grid Electricity System Operator Limited (NGESO). The vast majority of the Group's income is derived from NGESO. Finance income is calculated using the effective interest rate method – consistent with the Group's accounting policy – see "Accounting policies - F. Operating and finance income".

3. Operating costs

Operating costs are analysed below:

	2023 £'000	2022 £'000
Operations, maintenance and management[1]	**13,218**	13,357
Auditors' remuneration	**148**	132
Other	**2,368**	885
Total	**15,734**	14,374
Auditors' remuneration comprises:		
Audit services	**72**	66
Tax services	**32**	26
Other services supplied pursuant to legislation[2]	**44**	40
Total	**148**	132

[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.

Other operating costs include fees in respect of consultancy services received from: a) a related party that engaged the services of Graham Farley, a Director of the Company, to provide these services amounting to £35k (2022: £35k); and b) another related party - Diamond Transmission UK Limited (DTUK) amounting to £35k (2022: £35k). No other Director received any remuneration (2022: £nil). See note 18 for further details.

4. Net interest expense

Net interest expense is as tabulated below:

	2023 £'000	2022 £'000
Interest income		
Interest on bank deposits	**1,246**	49
Interest expense and other financial costs		
Interest on bank loans	**(22,469)**	(24,077)
Interest on other borrowings	**(11,207)**	(11,100)
Other financial costs[1]	**699**	(3,715)
	(32,977)	(38,892)
Net interest expense	**(31,731)**	(38,843)

[1]Includes a net credit of £2,689k (2022: net charge of £1,572k) as a result of certain hedge ineffectiveness and a charge of £239k (2022: £166k) relating to infrastructure financial liabilities.

5. Income taxation charge

a) Taxation on items included in the income statement

Taxable profits are subject to UK corporation taxation and the net taxation charge for the year of £5,036k (2022: £10,836k) has been computed using the UK corporation tax rate of 19%. The net taxation charge for the year comprises deferred taxation amounting to £4,849k (2022: £10,836k) and a current taxation charge of £187k (2022: £nil). The deferred taxation charge includes an amount of £3,793k (2022: £2,837k) relating to current year profits arising and a charge amounting to £1,056k (2022: £8,049k) 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	**19,603**	13,719
Taxation at 19% (2022: 19%) on profit before taxation	**3,725**	2,607
Effects of		
- expenses not deductible for tax purposes	**255**	230
- change in tax rates on deferred tax[1]	**1,056**	8,049
- adjustment in respect of prior period	**-**	(50)
Taxation charge for the year	**5,036**	10,836

[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 the vast majority of deferred taxation balances included in the balance sheet at 1 April 2021 from 19% to 25%.

b) Taxation on items included in other comprehensive income

The taxation net credit on items included in other comprehensive loss for the year is £250k (2022: £16,630k) and comprises a credit on items arising in the current year computed at 19% (2022: 19%) of £189k (2022: £11,033k) and a credit of £61k (2022: £5,597k) arising from a change in UK corporation taxation rates. The net taxation credit (2022: net credit) on other comprehensive loss arising in the year represents deferred taxation. There is no current taxation included in other comprehensive loss (2022: £nil).

5. Income taxation charge continued

c) Taxation – future years

Future tax charges, and therefore the Group's future effective tax rate, could be affected by future changes in legislation. Similarly, the interpretation of existing legislation by the Group and or the relevant tax authorities could also impact the Group'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	**10,465**	8,103

Interim ordinary dividends of 730.63p (2022: 565.72p) per ordinary share were paid during the year to the Company's shareholders – each of whom hold 50% of the ordinary shares of the Company and were entitled to 50% of the interim ordinary dividends paid.

For the year ended 31 March 2023 and 31 March 2022 50% of the ordinary shares of the Company were held by DTUK, a wholly owned subsidiary of the Mitsubishi Corporation and 50% were held by BIF Offshore Windkraft Holdings Limited ("BIF" - a company ultimately controlled by 3i Group plc).

On 31 May 2023, the Board approved the payment of an interim ordinary dividend of 451.22p per ordinary share amounting to £6,463k which was payable 50% to DTUK and 50% to BIF. This interim ordinary dividend is not recognised in the financial statements for the year ended 31 March 2023 in accordance with UK-adopted IAS.

7. Transmission owner assets

The movement in the carrying value of the Group's transmission owner assets is shown in the table below:

	2023 £'000	2022 £'000
At 1 April	729,760	764,207
Adjustment to the carrying value[+]	(38,229)	(34,447)
At 31 March	**691,531**	729,760
Comprising:		
Amounts falling due within one year	42,873	38,461
Amounts falling due after more than one year	648,658	691,299
	691,531	729,760

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

The Group transmission owner assets are contract assets and are carried at amortised cost. The estimated fair value of the transmission owner assets at 31 March 2023 was £858,535k (2022: £867,829k). The basis for estimating the fair value of the transmission owner assets was to estimate the net cash flows arising over the estimated economic life of the projects, and to discount those expected net cash flows at a discount rate within the range of 4.99% (2022: 4.99%) to 6.31% (2022: 6.31%) per annum depending on the asset.

The Directors have considered expected credit losses in relation to the carrying value of the transmission owner assets 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).

The Company has no transmission owner assets (2022: none).

8. Deferred taxation assets / (liabilities)

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

	Fair value net losses on derivatives £'000	Accelerated Capital allowances £'000	Other £'000	Total £'000
At 1 April 2021	7,440	(45,111)	22,120	(15,551)
Movements reflected through the Income statement	630	(17,496)	6,028	(10,838)
Movements reflected through Other comprehensive income	16,630	-	-	16,630
At 31 March 2022	24,700	(62,607)	28,148	(9,759)
Current year movements reflected through the Income statement	(673)	(2,916)	(1,260)	(4,849)
Current year movements reflected through Other comprehensive income	250	-	-	250
At 31 March 2023	**24,277**	**(65,523)**	**26,888**	**(14,358)**

Comprising:	Total 2023 £'000	Total 2022 £'000
Deferred tax assets	**1,914**	3,689
Deferred tax liabilities	**(16,272)**	(13,448)
	(14,358)	(9,759)

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

The carrying value of deferred taxation balances have been computed at 25% (2022: rates between 19% and 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.

The Company does not have any deferred taxation assets or liabilities (2022: none).

9. Cash and cash equivalents

Group cash and cash equivalents comprise short term deposits of £58,387k (2022: £54,085k). 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.

Group cash and cash equivalents include amounts of £46,715k (2022: £45,724k) that the Group can only use for specific purposes. Of the remaining cash and cash equivalents £11,169k (2022: £7,866k) require the consent of the Group's lenders prior to use but are held for general corporate purposes and the remaining £503k (2022: £495k) is unencumbered.

The Company holds cash and cash equivalents of £503k (2022: £495k).

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

10. Borrowings

The following table analyses Company and Group borrowings:

	Company		Group	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Current				
Bank loans – fixed rate	-	-	**22,160**	21,665
Bank loans – variable rate	-	-	**22,742**	22,368
	-	-	**44,902**	44,033
Non-current				
Bank loans – fixed rate	-	-	**232,457**	254,365
Bank loans – variable rate	-	-	**238,826**	261,315
Other borrowings	**125,437**	125,030	**125,437**	125,030
	125,437	125,030	**596,720**	640,710
Total borrowings	**125,437**	125,030	**641,622**	684,743

Total borrowings are repayable as follows:

	Company		Group	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
In one year or less	-	-	**44,902**	44,033
In more than one year, but not more than two years	-	-	**45,639**	44,846
In more than two years, but not more than three years	-	-	**48,052**	45,581
In more than three years, but not more than four years	-	-	**51,489**	47,993
In more than four years, but not more than five years	-	-	**55,817**	51,426
In more than five years other than by instalments	**125,437**	125,030	**395,723**	450,864
	125,437	125,030	**641,622**	684,743

There are four fixed rate bank loans all with the European Investment Bank ("EIB"). One EIB loan with a principal outstanding at 31 March 2023 of £27,951k (2022: £31,306k) carries an interest rate of 3.992% per annum and is due to be repaid in full by 30 September 2030. The second EIB loan with a principal outstanding at 31 March 2023 of £30,497k (2022: £33,674k) carries an interest rate of 3.715% per annum and is due to be repaid in full by 30 September 2031. The third EIB loan with a principal outstanding at 31 March 2023 of £59,450k (2022: £65,219k) carries an interest rate of 3.903% per annum and is due to be repaid in full by 30 June 2032. The fourth EIB loan with a principal outstanding at 31 March 2023 of £136,719k (2022: £148,956k) carries an interest rate of 4.14% per annum and is due to be repaid in full by 30 September 2032.

10. Borrowings continued

All the variable rate bank loans are with consortiums of banks under commercial facility agreements with four OFTOs. At 31 March 2023, all of the commercial facilities of the OFTOs carry an interest rate linked to the SONIA rate. At 31 March 2022, the commercial facilities of three of the OFTOs representing c89% of the Group's commercial loans carried an interest rate linked to the SONIA rate and in respect of the remaining OFTO, the commercial facility was linked to the 3-month synthetic LIBOR benchmark rate. The impact of the change in net cash flows from these benchmark interest rate changes has been immaterial. All of the variable rate bank loans all amortise over the same periods as the four fixed rate bank loans.

The fixed rate loans and the bank loans under the commercial facilities taken together comprise the "senior debt" and are secured over all of the assets of the Group as required under the terms of a debenture for each OFTO and where permitted by their respective Licence.

The other borrowings are unsecured and comprise four separate borrowings which are held by the Company's shareholders. The first has a principal amount outstanding at 31 March 2023 of £13,465k (2022: £13,058k), a fixed coupon of 7.88% per annum plus an interest component which is linked to positive movements in RPI and is contractually repayable on 31 October 2031. The second has a principal amount outstanding at 31 March 2023 of £17,458k (2022: £17,458k), a fixed coupon of 9.9% per annum and is contractually repayable on 31 October 2032. The third has a principal amount outstanding at 31 March 2023 of £19,451k (2022: £19,451k), a fixed coupon of 9.5% per annum and is contractually repayable on 30 June 2033. The fourth has a principal amount outstanding at 31 March 2023 of £75,063k (2022: £75,063k), a fixed coupon of 8.21% per annum and is contractually repayable on 30 September 2033.

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

As at 31 March 2023, the Group though its OFTOs had committed credit facilities of £23,000k (2022: £23,000k) all of which was undrawn at 31 March 2023 (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.

11. Infrastructure financial liabilities

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

	Group	
	2023	**2022**
	£'000	**£'000**
At 1 April	3,170	3,364
Payments to lessors	(385)	(360)
Finance costs	239	166
At 31 March	**3,024**	3,170
Comprising:		
Current	212	218
Non-current	2,812	2,952
	3,024	3,170

The Company does not have any Infrastructure financial liabilities.

12. Trade and other payables

Trade and other payables are as tabulated below.

	Company		Group	
	2023	**2022**	**2023**	**2022**
	£'000	**£'000**	**£'000**	**£'000**
Trade payables	**11**	-	**423**	64
Other taxes	**-**	-	**2,401**	2,296
Accrued expenses	**3,271**	3,196	**4,834**	4,435
	3,282	3,196	**7,658**	6,795

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 shareholders in respect of interest on other borrowings – see note 18.

13. Derivative financial assets / (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 Group. 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 the Group's derivative financial instruments continues to be reflected though other comprehensive income in the cash flow hedge reserve. The Company has no derivative financial instruments and the Group's use of derivative financial instruments is described below.

RPI swaps

Each OFTO has entered into arrangements with third parties for the purpose of exchanging the vast majority (approximately 70% in the cases of BTW1 and BTW2, approximately 80% in the case of BTSS, and approximately 90% in the case of BTLA) of variable cash inflows arising from the operation of the Group'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 Group entered into these derivative arrangements commensurate with the senior debt borrowing arrangements and they end commensurate with those arrangements.

The Group's use and strategy relating to RPI swaps is described in more detail in the "Group 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.

13. Derivative financial assets / (liabilities) continued

Interest rate swaps

The Group's operating subsidiaries (the OFTOs) have 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 in respect of approximately 98% of the nominal value of the Group's commercial loans. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements.

As at 31 March 2023, the interest rate in relation to all of the interest rate swaps is linked to the SONIA interest rate benchmark (2022: linked to SONIA or 3-month LIBOR interest rate benchmarks). However, 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 Group has, at all times, complied with and applied the permitted accounting reliefs of all phases of the IBOR reforms – the hedging consequences of which are explained in the "Accounting policies – D. Hedge Accounting" earlier in these 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 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.

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments are carried at market value. The net carrying value of all derivative financial instruments at 31 March 2023 amounted to liabilities of £97,105k (2022: £98,800k) comprising liabilities of £104,970k for RPI swaps (2022: £81,317k); assets of £7,865k for interest rate swaps (2022: liabilities of £17,483k).

Of the total movements during the year in the fair value of these derivative financial instruments amounting to a net credit of £1,695k (2022: charge of £59,640k), a £2,689k net hedge ineffectiveness credit (2022: net charge of £1,572k) has been recorded in the income statement within "other financial costs" and a net charge of £994k (2022: £58,069k) 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 provisions

The Company does not have any provisions (2022: £nil).

The movement in the Group decommissioning provisions is analysed below.

Group

	2023	2022
	£'000	£'000
At 1 April 2021	14,388	13,655
Reassessment for the year	1,462	202
Unwinding of discount	562	531
At 31 March 2023	**16,412**	14,388

The decommissioning provisions are all non-current.

The decommissioning provisions of £16,412k at 31 March 2023 (2022: £14,388k) represent the net present value of the estimated expenditures expected to be incurred at the end of the economic life of each of the projects to decommission the OFTO transmission assets. The decommissioning expenditure relates to the removal and scrapping of all onshore and offshore 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 £24,073k (2022: £21,919k), and is expected to be incurred in 2031, 2032 and 2033.

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, 2032 or 2032 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 £1,642k (2022: £1,438k) and £1,642k (2022: £1,438k) respectively.

The decommissioning provisions arise from the Group's obligations under S105 of the UK Energy Act 2004 and the contractual obligations relating to the lease of the seabed granted by the UK Crown Estate Commissioners to each OFTO. The decommissioning plans for each OFTO have been submitted for approval under S105 of the UK Energy Act 2004 and were subsequently approved by the Secretary for State for Energy and Climate Change under S106 of the UK Energy Act 2004.

Discussions are currently being undertaken with the UK Department for Energy Security and Net-Zero that may lead to a future revision of the expected decommissioning costs, but those discussions have not yet been completed and the amounts included in the balance sheet represent the current best estimate of the Group's decommissioning liability.

The decommissioning provisions are financial instruments under UK-adopted IAS, and the fair value of the obligations equate to their carrying values as the carrying values represent the net present value of the future expenditure expected to be incurred as described above.

15. Called up share capital

Company and Group Share capital is as analysed below.

Group and Company	No. (thousands)	£'000
Allotted, called up and fully paid:		
At 1 April 2021, 31 March 2022 and 31 March 2023	1,432	1,432

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 movement and analysis of the Company's reserves is shown below.

Company	Retained earnings £'000	Total £'000
At 1 April 2021	3	3
Profit attributable to equity shareholders for the year	8,104	8,104
Interim ordinary dividends	(8,103)	(8,103)
At 31 March 2022	4	4
Profit attributable to equity shareholders for the year	10,467	10,467
Interim ordinary dividends	(10,465)	(10,465)
At 31 March 2023	**6**	**6**

The movement and analysis of the Group's reserves is shown below.

Group	Retained earnings £'000	Cash flow hedge reserve £'000	Total £'000
At 1 April 2021	41,004	(28,505)	12,499
Profit attributable to equity shareholders	2,883	-	2,883
Interim ordinary dividends	(8,103)	-	(8,103)
Losses on cash flow hedges taken to equity	-	(58,069)	(58,069)
Deferred taxation on cash flow hedges	-	16,630	16,630
At 31 March 2022	35,784	(69,944)	(34,160)
Profit attributable to equity shareholders	14,567	-	14,567
Interim ordinary dividends	(10,465)	-	(10,465)
Losses on cash flow hedges taken to equity	-	(994)	(994)
Deferred taxation on cash flow hedges	-	250	250
At 31 March 2023	**39,886**	**(70,688)**	**(30,802)**

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

17. Cash flow statement

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

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

Group	2023 £'000	2022 £'000
Movement in cash and cash equivalents	4,302	2,752
Payments in respect of infrastructure financial liabilities	385	360
Net decrease in borrowings	44,610	41,082
Change in net debt resulting from cash flows	49,297	44,194
Non-cash finance costs included in net debt	(1,741)	(1,699)
Change in fair values of derivatives	1,695	(59,640)
Movement in net debt in the year	49,251	(17,145)
Net debt at start of year	(735,283)	(718,138)
Net debt at end of year	**(686,032)**	(735,283)

At 31 March 2023 the Company had net cash of £503k (2022: £495k).

(b) Analysis of changes in Group net debt

	Cash and cash equivalents £'000	Infrastructure financial liabilities £'000	Borrowings £'000	Derivatives £'000	Interest accruals £'000	Total £'000
At 1 April 2021	51,333	(3,364)	(724,295)	(39,160)	(2,652)	(718,138)
Cash flow	2,752	360	41,082	-	-	44,194
Change in fair values	-	-	-	(59,640)	-	(59,640)
Non-cash finance costs	-	(166)	(1,530)	-	(3)	(1,699)
At 31 March 2022	54,085	(3,170)	(684,743)	(98,800)	(2,655)	(735,283)
Cash flow	4,302	385	44,610	-	-	49,297
Change in fair values	-	-	-	1,695	-	1,695
Non-cash finance costs	-	(239)	(1,489)	-	(13)	(1,741)
At 31 March 2023	**58,387**	**(3,024)**	**(641,622)**	**(97,105)**	**(2,668)**	**(686,032)**

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 shareholders are shown in note 6, other related party transactions are shown below.

	Group	
	2023	**2022**
	£'000	**£'000**
Expenditure:		
Interest[1] (including indexation):		
BIF Offshore Windkraft Holdings Limited (BIF)	5,604	5,550
Diamond Transmission Corporation Limited (DTC)	5,604	5,550
Services received:		
DTUK (consultancy and other services)	42	35
Directors' fees[2]	35	35
Infrastructure Managers Limited	145	133
	11,430	11,303
Outstanding balances at 31 March:		
Borrowings payable[1] (principal)	125,437	125,030
Interest accrual[1]	3,178	3,153
	128,615	128,183

[1] Relates to funding related transactions and balances with BIF and DTC who are paid, accrued and owed equal amounts of principal and interest.

[2] Fees for consultancy services were paid and/or payable to a related party that engaged the services of Graham Farley, a Director of the Company through to 27 March 2023, being the date of his resignation.

18. Related party transactions continued

	Company	
	2023	**2022**
	£'000	**£'000**
Income:		
Management and related services provided:		
Blue Transmission Walney 1 Limited	208	188
Blue Transmission Walney 2 Limited	208	188
Blue Transmission Sheringham Shoal Limited	208	188
Blue Transmission London Array Limited	208	188
Interest and dividends[1]:		
Blue Transmission Walney 1 (Holdings) Limited	4,171	3,375
Blue Transmission Walney 2 Investments Limited	3,122	3,743
Blue Transmission Sheringham Shoal Investments Limited	5,292	5,055
Blue Transmission London Array (Holdings) Limited	9,087	7,031
	22,504	19,956
Expenditure:		
Interest[2] (including indexation):		
BIF	5,604	5,550
DTC	5,604	5,550
Services received		
DTUK (consultancy services)	42	35
Infrastructure Managers Limited	145	133
Directors' fees[3]	35	35
	11,430	11,303
Assets		
Borrowings receivable:		
Blue Transmission Walney 1 (Holdings) Limited[1]	13,465	13,058
Blue Transmission Walney 2 Investments Limited[1]	17,458	17,458
Blue Transmission Sheringham Shoal Investments Limited[1]	19,451	19,451
Blue Transmission London Array (Holdings) Limited[1]	75,063	75,063
Interest receivable:		
Blue Transmission Walney 1 (Holdings) Limited[1]	276	251
Blue Transmission Walney 2 Investments Limited[1]	426	426
Blue Transmission Sheringham Shoal Investments Limited[1]	456	456
Blue Transmission London Array (Holdings) Limited[1]	1,520	1,520
Other assets[4]	9	18
	128,124	127,701
Liabilities		
Borrowings payable[2] (principal)	125,437	125,030
Interest accrual[2]	3,178	3,153
	128,615	128,183

[1] Relates to funding related transactions and dividend transactions with subsidiary undertakings.

[2] Relates to funding related transactions and balances with BIF and DTC who are paid, accrued and owed equal amounts of principal and interest.

[3] Fees for consultancy services were paid and/or payable to a related party that engaged the services of Graham Farley, a Director of the Company through to the date of his resignation on 27 March 2023.

[4] Amounts due from subsidiaries of £9k (2022: £18k).

18. Related party transactions continued

As explained in note 6 "Interim ordinary Dividends", at 31 March 2023 and 31 March 2022, BIF and DTUK are entitled to an equal share of any ordinary dividends paid or payable.

BIF and DTC continue to hold the related party borrowings payable by the Company and Group in equal proportions and on identical terms.

Fees amounting to £77k (2022: £70k) for the Group and £77k (2022: £70k) for the Company were expensed in respect of consultancy services provided by a related party who engaged Graham Farley, a Director of the Company through to his resignation on 27 March 2023, to provide such services and DTUK for consultancy and other services for the year. The related party that supplied the services of Graham Farley was paid or payable £35k (2022: £35k); DTUK was paid or payable £42k (2022: £35k) in respect of all services provided for the year.

Infrastructure Managers Limited (IML) is a related party of the Group and Company by virtue of it being controlled by the same ultimate parent entity as BIF. The services provided to the Group and the Company by IML are under normal commercial terms and relate to financial management services.

The Company provides management services to the OFTO's under normal commercial terms which relate to management costs. The total amount charged during the year amounted to £832k (2022: £752k).

The Company has loans due from its subsidiaries, Blue Transmission Walney 1 (Holdings) Limited, Blue Transmission Walney 2 Investments Limited, Blue Transmission Sheringham Shoal Investments Limited and Blue Transmission London Array (Holdings) Limited on terms identical to those which the Company has agreed to with its shareholders, BIF and DTC. The interest charge for the year ended 31 March 2023 including indexation amounted to £11,207k (2022: £11,100k).

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 Group'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 Group's financial instruments have quoted prices, therefore the following techniques have been used to determine fair values:

- cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- transmission owner assets – 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 all EIB fixed rate loans and all fixed rate other unsecured other borrowings, 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.

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 Group's financial instruments with the fair value of those instruments at the balance sheet date of 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 because of its short maturity. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

	2023				
	Group		Company		Valuation method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets					
Non-current					
Transmission owner assets	**648,658**	**815,662**	-	-	Level 3
Derivative financial assets	**7,865**	**7,865**	-	-	Level 2
Investments in subsidiaries	-	-	**126,869**	**244,777**	Level 3
	656,523	**823,527**	**126,869**	**244,777**	
Liabilities					
Non-current					
Fixed rate bank loans	**232,457**	**203,503**	-	-	Level 2
Floating rate bank loans	**238,826**	**238,826**	-	-	Level 2
Other borrowings	**125,437**	**111,024**	**125,437**	**111,024**	Level 2
Derivative financial liabilities	**104,970**	**104,970**	-	-	Level 2
Infrastructure financial liabilities	**2,812**	**2,984**	-	-	Level 2
Decommissioning provisions	**16,412**	**16,412**	-	-	Level 3
	720,914	**677,719**	**125,437**	**111,024**	

	2022				
	Group		Company		Valuation method
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	
Assets					
Non-current					
Transmission owner assets	691,299	829,368	-	-	Level 3
Derivative financial assets	-	-	-	-	Level 2
Investments in subsidiaries	-	-	126,462	246,044	Level 3
	691,299	829,368	126,462	246,044	
Liabilities					
Non-current					
Fixed rate bank loans	254,365	251,848	-	-	Level 2
Floating rate bank loans	261,315	261,315	-	-	Level 2
Other borrowings	125,030	128,962	125,030	128,962	Level 2
Derivative financial liabilities	98,800	98,800	-	-	Level 2
Infrastructure financial liabilities	2,952	2,861	-	-	Level 2
Decommissioning provisions	14,388	14,388	-	-	Level 3
	756,850	758,174	125,030	128,962	

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 Group does not have any financial instruments where it is eligible to apply a level 1 valuation technique.

With the exception of the transmission owner assets, investments in subsidiaries and decommissioning provisions, 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 Group'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 assets, investments in subsidiaries and decommissioning provisions, 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: throughout the year) and there have been no reclassifications or transfers between the various valuation categories during the year (2022: no reclassifications or transfers.

b) Management of risk

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

The Group'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 Group 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 Group 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 later.

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 Group 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 assets; borrowings; and cash and cash equivalents.

The transmission owner assets are classified as contract assets and are 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 assets. The fair value of the transmission owner assets is subject to price risk caused by changes in RPI and/or changes in interest rates.

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

b) Management of risk continued

i) Market risk continued

The Group 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 Group 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 Group 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 Group's borrowings, net of the impact of the Group's interest rate swap arrangements (see note 13), have been issued at fixed rates which exposes the Group 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 Group'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 Group 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 "Group 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 Group's activities.

The cash flows arising from the transmission owner assets fluctuate with positive changes in RPI. The Group 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 "Group Strategic Report – Hedging Arrangements".

For the reasons outlined in the Group 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 Group if a customer or counterparty fails to meet its contractual obligations.

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

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 UK 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 £104,970k (2022: £98,800k) and assets amounting to £7,865k (2022: £nil). The Directors have considered the credit risk associated with the derivative asset positions at 31 March 2023 and have concluded that the risk of non-performance is low and as a consequence there is minimal credit risk to the Group at this date.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. It is the Group's policy and a requirement under the Group'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.

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

b) Management of risk continued

iii) Liquidity risk and Going Concern

Liquidity risk is the risk that the Group 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 Group operates; the credit worthiness of the Group's primary customer (NGESO); and the RPI swaps that have been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, net of the impact of the interest swap arrangements, substantially all of the Group's senior debt carries a fixed coupon and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole remaining period of the projects. During the year ended 31 March 2023, senior debt-service costs amounted to £67,091k (2022: £74,734k). There is no contractual obligation on the Group to service the other borrowings until the contractual redemption date (2031, 2032 or 2033 depending on the particular other borrowing agreement), although it is the Group's intention to service these borrowings when cash flows are sufficient, and it is prudent to do so. Cash outflows during the year ended 31 March 2023 in respect of the other borrowings amounted to £10,775 (2022: £10,726k).

In accordance with the conditions of the various lending agreements, the Group 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 Group 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 Group'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 £46,715k (2022: £45,724k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £11,169k (2022: £7,866k) which requires the consent of the Group's lenders but are available for general corporate purposes. All remaining cash and cash equivalents are unencumbered.

The Group prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Group. 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 Group'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 Group's reputation.

In addition to the existing borrowings of the Group, the Group has secured committed credit facilities with a consortium of banks amounting to £23,000k at 31 March 2023 (2022: £23,000k). Of these facilities £3,000k (2022: £3,000k) expire in 2030, £5,000k (2022: £5,000k) expire in 2031, and £15,000k (2022: £15,000k) expire in 2032. These credit facilities are available to be drawn down by OFTO subsidiaries within the Group under certain conditions and for certain purposes as laid down within the individual lending agreements as they apply to specific OFTOs. No individual OFTO within the Group has access to the credit facility of another OFTO within the Group.

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

b) Management of risk continued

iii) Liquidity risk and Going Concern continued

During the year, the Group has continued to meet its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Group will continue to do so for the foreseeable future. In addition, further liquidity is also available in the form of committed facilities, as referenced earlier. All of these factors have allowed the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Group 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 Group 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 Group selects the shortest available interest calculation periods.

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

Notes to the 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

The numbers in the following tables have been included in the Group'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.

Liquidity risk	2023 Contractual cash flows £'000	2023 0-1 years £'000	2023 1-2 years £'000	2023 2-5 years £'000	2023 >5 years £'000
Non-derivative financial assets					
Transmission owner assets	1,247,366	109,555	111,310	353,133	673,368
Cash and cash equivalents	58,387	58,387	-	-	-
	1,305,753	167,942	111,310	353,133	673,368
Borrowings +	(865,727)	(77,765)	(77,497)	(234,888)	(475,577)
Trade and other non-interest-bearing liabilities	(7,658)	(7,658)	-	-	-
Current income tax liabilities	(187)	(187)	-	-	-
Infrastructure financial liabilities+	(4,372)	(434)	(433)	(1,301)	(2,204)
Decommissioning provisions	(24,073)	-	-	-	(24,073)
	(902,017)	(86,044)	(77,930)	(236,189)	(501,854)
RPI and interest rate swaps	(119,386)	(10,105)	(10,766)	(36,736)	(61,779)
Net total	284,350	71,793	22,614	80,208	109,735

Liquidity risk	2022 Contractual cash flows £'000	2022 0-1 years £'000	2022 1-2 years £'000	2022 2-5 years £'000	2022 >5 years £'000
Non-derivative financial assets					
Transmission owner assets	1,321,019	104,572	106,505	337,795	772,147
Cash and cash equivalents	54,085	54,085	-	-	-
	1,375,104	158,657	106,505	337,795	772,147
Borrowings +	(864,386)	(69,280)	(70,240)	(211,368)	(513,498)
Trade and other non-interest-bearing liabilities	(6,795)	(6,795)	-	-	-
Current income tax liabilities	-	-	-	-	-
Infrastructure financial liabilities+	(4,140)	(372)	(373)	(1,118)	(2,277)
Decommissioning provisions	(21,919)	-	-	-	(21,919)
	(897,240)	(76,447)	(70,613)	(212,486)	(537,694)
RPI and interest rate swaps	(129,129)	(9,454)	(10,071)	(34,352)	(75,252)
Net total	348,735	72,756	25,821	90,957	159,201

+ Including interest payments.

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 assets, 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 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 Group has no substantive economic impact on the Group because of the corresponding economic impact on the underlying cashflows they are hedging.

Any changes in future cash flows in relation to the derivative financial instruments held by the Group, 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 Group is funded by a combination of senior debt, other borrowings, 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 its Licences and the UK Utilities Act 2000.

Senior debt comprises fixed rate loans from the EIB and commercial loan facilities from syndicates of commercial lenders which, as at 31 March 2023, carries a coupon linked to SONIA (31 March 2022: 3-month LIBOR). As referenced in the "Group Strategic Report – Hedging Arrangements", the OFTO subsidiaries of the Group have entered into interest rate swap agreements with banks of good standing which has had the commercial effect of swapping the variable rate interest coupon for a fixed rate coupon in respect of the vast majority of the nominal value of those loans.

All of the senior debt and related interest rate derivatives are serviced on a quarterly basis and are expected to amortise through to 2030, 2031 or 2032 (depending on the facility). At 31 March 2023, the total carrying value of senior debt amounted to £516,185k (2022: £559,713k).

Other debt has been issued by the Company to its shareholders and either carries a fixed rate coupon or a fixed rate coupon plus an interest rate component linked to the movement in the UK retail price index as published by the Office for National Statistics. At 31 March 2023 the total principal value of the other borrowings outstanding amounted to £125,437k (2022: £125,030k).

Infrastructure financial liabilities at 31 March 2023 amounted to £3,024k (2022: £3,170k).

Ordinary equity share capital at 31 March 2023 amounted to £1,432k (2022: £1,432k).

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

b) Management of risk continued

v) Capital management continued

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

20. Investments in subsidiary undertakings

Company	Equity £'000	Loans £'000	Total £'000
At 1 April 2021	1,432	124,665	126,097
Remeasurement	-	365	365
At 31 March 2022	1,432	125,030	126,462
Remeasurement	-	407	407
At 31 March 2023	**1,432**	**125,437**	**126,869**

The Company holds the issued share capital of:

i) Blue Transmission Walney 1 (Holdings) Limited, a company registered in England and Wales, which recorded profit attributable to equity shareholders for the year ended 31 March 2023 of £2,702k (2022: £2,013k) and has capital and reserves of £161k (2022: £161k). The Company has advanced unsecured loan notes to Blue Transmission Walney 1 (Holdings) Limited which carries a fixed coupon of 7.88% per annum, plus an interest component that is linked to positive movements in RPI loans. The loan investment is contractually repayable on 31 October 2031.

ii) Blue Transmission Walney 2 Investments Limited, a company incorporated in Jersey, which recorded profit attributable to equity shareholders for the year ended 31 March 2023 of £1,394k (2022: £2,015k) and has capital and reserves of £175k (2022: £175k). The Company has advanced unsecured loan notes to Blue Transmission Walney 2 Investments Limited which carries a fixed coupon of 9.9% per annum. The loan investment is contractually repayable on 31 October 2032.

iii) Blue Transmission Sheringham Shoal Investments Limited, a company incorporated in Jersey, which recorded profit attributable to equity shareholders for the year ended 31 March 2023 of £3,444k (2022: £3,207k) and has capital and reserves of £262k (2022: £262k). The Company has advanced unsecured loan notes to Blue Transmission Sheringham Shoal Investments Limited that carries a fixed coupon of 9.5% per annum. The loan investment is contractually repayable on 30 June 2033.

iv) Blue Transmission London Array (Holdings) Limited, a company registered in England and Wales, which recorded profit attributable to equity shareholders for the year ended 31 March 2023 of £2,925k (2022: £868k) and has capital and reserves of £835k (2022: £835k). The Company has advanced unsecured loan notes to Blue Transmission London Array (Holdings) Limited which carries a fixed coupon of 8.21% per annum. The loan investment is contractually repayable on 30 September 2033.

20. Investments in subsidiary undertakings continued

Group

The principal subsidiaries in the Group are all OFTOs and comprise: Blue Transmission Walney 1 Limited; Blue Transmission Walney 2 Limited; Blue Transmission Sheringham Shoal Limited; and Blue Transmission London Array Limited. All four of these entities are wholly owned indirect subsidiaries of the Company and are registered in England and Wales; their principal business activity is the transmission of electricity.

21. Ultimate controlling parties

The Company is jointly controlled by Mitsubishi Corporation and 3I Group plc.

22. Company income statement and cash flow statement

No income statement is presented by the Company as permitted by Section 105 of the Companies (Jersey) Law 1991. The profit attributable to equity shareholders for the year ended 31 March 2023 was £10,470k (2022: £8,104k).

No cash flow statement is presented by the Company as permitted by Section 105 of the Companies (Jersey) Law 1991.

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

BIF

BIF Offshore Windkraft Holdings Limited, a company ultimately controlled by 3i Group plc.

BTW1

Blue Transmission Walney 1 Limited

BTW2

Blue Transmission Walney 2 Limited

BTSS

Blue Transmission Sheringham Shoal Limited

BTLA

Blue Transmission London Array 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 Investments, we, our, or us

The terms 'the Company', 'Blue Transmission Investments Limited', 'we', 'our', or 'us' are used to refer to Blue Transmission Investments 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 financial statements is made.

D

Deferred taxation or 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.

Derogation

A temporary delay in the implementation of a licence requirement.

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)

Glossary

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.

Equity

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

EU

The European Union, consisting of 27 member European national states.

F

financial year

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

FPL

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

G

Great Britain

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

The Group, we, our, or us

Blue Transmission Investments Limited and its subsidiary undertakings

the Group, 'we', 'our', or 'us' are used to refer to the activities of Blue Transmission Investments Limited and its subsidiary undertakings, depending on context

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 Group pays fixed interest amounts in exchange for receipt of variable interest amounts linked to: 1) 3-month LIBOR for the years ended 31 March 2022 and 31 March 2023; 2) SONIA or synthetic LIBOR for the 3-month period ending 30 June 2023; 3) SONIA for all periods after 30 June 2023.

K

KPIs

Key performance indicators

kV

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

Glossary

L

LIBOR

London Interbank Offered Rate.

the Licence or Licences

The Offshore Electricity Licence held by the OFTO's.

LTIs

Lost time injury – an incident arising out of the Group's operations which leads to an injury where the employee or contractor 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 the Group's premises, 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

NGET

National Grid Electricity Transmission plc

NGESO

National Grid Electricity System Operator Limited

the Notes (see also other borrowings)

Unsecured 7.88% RPI Linked Loan Notes 2031, unsecured 9.9% Loan Notes 2032, unsecured 9.5% Loan Notes 2033, and unsecured 8.21% Loan Notes 2033.

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)

O&M

Operations and Maintenance

Oher borrowings (see also the Notes)

Amounts borrowed by the Company and Group from its shareholders.

P

Performance year

The year or part thereof (in the case of the commencement and termination years) over which the Group'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 Group pays variable cash flows arising from changes in RPI on a predetermined notional amount in exchange for receipt of fixed amounts.

Glossary

S

Scira

Scira Offshore Energy Limited

Senior Debt

All borrowings except the other borrowings.

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