

Diamond Transmission Partners
Walney Extension Limited
Regulatory Financial Statements
2021/22

Contents

For the year ended 31 March 2022

Page

2	A description of these regulatory financial statements
3	Strategic Report
18	Directors' Report
20	Corporate governance statement
25	Statement of Directors' responsibilities in respect of the regulatory financial statements
27	Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the directors of Diamond Transmission Partners Walney Extension Limited
32	Accounting policies
43	Income statement
44	Statement of comprehensive income
45	Balance sheet
47	Statement of changes in equity
48	Cash flow statement
49	Notes to the regulatory financial statements
71	Glossary

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A description of these regulatory financial statements

For the year ended 31 March 2022

Diamond Transmission Walney Extension Limited ("the **Company**" and "the **Licensee**") is a holder of an Offshore Electricity Transmission Licence ("the **Licence**") granted under the Electricity Act 1989. The Licence was awarded to the Company on 02 June 2020 by The Gas and Electricity Markets Authority ("the **Authority**"). Under standard condition E2 of this Licence, the Company is required to prepare and publish annual regulatory financial statements setting out the financial position and performance of the regulatory business covered by the Licence.

Scope of the regulatory financial statements

These regulatory financial statements are prepared in respect of the licensee's regulatory transmission business. The Company only has one activity – that being the operation of its regulated transmission business; consequently, the regulatory financial statements contained herein reflect the same scope as that reported in the Company's statutory financial statements for the year ended 31 March 2022 as prepared in accordance with Section 396 of the Companies Act 2006. In addition, the Directors' Report, Strategic Report and Corporate governance statement included within these regulatory financial statements also reflect the same activities as reported in the Company's annual report and financial statements 2021/2022.

Content of the regulatory financial statements

In accordance with the Licence these regulatory financial statements comprise:

- a Strategic Report commencing on page 3;
- a Directors' Report commencing on page 18;
- a Corporate governance statement commencing on page 20;
- a Statement of Directors' responsibilities for preparing regulatory financial statements on page 25;
- the Independent auditors' report on the regulatory financial statements commencing on page 27;
- regulatory financial statements commencing on page 32; and
- a statement showing transactions between the Company and its ultimate controller and other related disclosures. The information required by this statement is shown in note 18 to the regulatory financial statements in note 18 "related party transactions" on page 60.

Relationship of regulatory financial statements with statutory financial statements

The financial information contained in these regulatory financial statements does not constitute statutory financial statements within the meaning of Section 396 of the Companies Act 2006. Statutory financial statements for the Company for the year ended 31 March 2022, to which the financial information relates, will be delivered to the registrar of Companies.

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

The regulatory financial statements of the Company can be obtained from the website of the Company at <https://www.diamondtransmissionpartners.com>.

Strategic Report

For the year ended 31 March 2022

Introduction

This Strategic Report explains the operations of Diamond Transmission Partners Walney Extension Limited ("**the Company**", "**DTPWE**") and the performance of the Company during the year ended 31 March 2022, as well as those matters which are likely to affect its future performance.

The Company is a private company limited by shares whose principal activity is to provide an electricity transmission service to National Grid Electricity System Operator Limited ("**NGESO**"), being the electricity transmission system operator for Great Britain. The Company owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore electricity transmission system owned by National Grid Electricity Transmission plc ("**NGET**").

The ultimate parent company of the Company is Diamond Transmission Partners Walney Extension (Holdings) Limited ("**DTPWEH**"), a Company incorporated and registered in England and Wales, Company Number 10725211.

Background

The Office of Gas and Electricity Markets ("**Ofgem**") 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 transmission assets are owned and operated by an Offshore Transmission Owner ("**OFTO**"). The OFTO is subject to the conditions of a transmission licence.

The Company was awarded a transmission licence by Ofgem, which came into force on 02 June 2020. This licence, permits and requires the Company to maintain and operate the Walney Extension offshore transmission assets for a 20-year revenue period.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators to be certified as complying with the unbundling requirements concerning common rules for the internal market in electricity ("**the Third Package**"). The Company has been issued a certificate pursuant to Section 10D of the Electricity Act 1989 by Ofgem confirming its compliance with the Third Package requirements. The Company has on-going obligations and is required to make certain periodic declarations to Ofgem pursuant to the licence to ensure compliance with the terms of the certificate, which it has met through to the date of this report.

The Company's offshore electricity transmission system

The Company transmits the electrical power of the Walney Extension wind farm from the offshore connection point of the Company's transmission assets to the onshore connection point of the Company's assets. The roles and responsibilities of parties at connection points are governed through interface agreements and industry codes.

The Walney Extension offshore wind farm comprises 87 turbines, with a combined capacity of 659 megawatts ("**MW**") and is located in the Irish Sea off the Cumbrian coast approximately 19 km west-southwest of Walney Island and 26 km southwest of the Millom coast, 35 km northwest of the Fleetwood and Blackpool coast and 31 km southeast of the Isle of Man.

At the offshore electricity substation, 34kV array cables connect the wind farm turbines to the Company's transmission system at the two offshore substations. The voltage is "stepped up" to 220kV by electrical transformers and the electrical power transported to land by two high voltage submarine cables with a route lengths of approximately 72km and 58km. At landfall the submarine cables are joined to land cables that run for approximately 4.2km and 4.9 km respectively to the Company's onshore substation at Middleton. At the onshore substation, the power factor of the electricity is corrected using

Strategic Report - continued

For the year ended 31 March 2022

reactive compensation equipment and voltage is “stepped up” to 400kV by electrical transformers. The onshore substation is located adjacent to the National Grid Middleton 400kV substation and then connects into NGET’s electricity transmission system.

The Company’s long-term business objectives

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

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

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

Future Developments

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

The Company’s operating model

Operation and Maintenance (“O&M”) activities and management and financial services are outsourced. As part of its asset management responsibilities Diamond Transmission UK Limited (“DTUK”) ensures that the outsourced services are of the required quality to ensure that the Company meets its licence obligations and complies with good industry practice.

The Company’s approach to managing the business

The Company’s 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 in order to optimise the cost of its services. In doing so the Company:

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

Principal regulatory, industry contracts and industry code matters

The Company is subject to regulatory and contractual obligations arising from and including: the licence; the Offshore Transmission System Development User Works (“OTSDUW”) Completion Report; and the System Operator – Transmission Owner Code (“STC”). The Company’s operations are also subject to a range of industry-specific legal requirements.

Strategic Report - continued

For the year ended 31 March 2022

Licence obligations

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

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

Regulated revenue and incentives

The licence determines how much the Company may charge for the OFTO services that it provides to NGESO. In any relevant charging year which runs from 01 April through to the following 31 March all such charges are determined in accordance with the requirements of the licence. The licence also provides the Company with an incentive to ensure that the transmission assets are available to transmit electricity by reference to the actual availability of the Company's transmission system in any given calendar year versus the regulatory target, being 98% of the total megawatt hour capacity of the Company's electricity transmission system in any given calendar year.

Transmission charges increase on 01 April by reference to the rate of increase in the UK retail price index ("**RPI**") in the 12-month period through to the previous September. The revenue derived from charges represents the Company's "base revenue". For the avoidance of doubt, the Company's transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

As previously noted, if the transmission system availability in any given calendar year is in excess of 98%, credits are "earned" and if availability is less than 98% penalties accrue, measured in megawatt hours ("**MWhrs**"). The Company is then required under the licence, to change its prices to convert the availability credits earned or penalties accrued into a financial adjustment to "base revenue". The maximum availability credits the Company can "earn" in any one charging year is 5% of base revenue for the immediately preceding charging year. The maximum availability penalty in charges for anyone charging year is 10% of base revenue for the immediately preceding charging year. Any net availability penalties not converted as adjustment to base revenue i.e. penalties over 10% up to a maximum of 50% of base revenue are carried forward 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.

The licence also contains mechanisms to incentivise the Company to maximise availability on a monthly basis with higher targets and higher potential penalties in the winter months compared to the summer months. These incentive mechanisms are designed to encourage the Company to proactively manage transmission system availability across the year by focusing maintenance activities, which lower transmission system availability, into those months with the lowest related penalties.

There are a number of risks that face the Company affecting the level of transmission system availability.

The factors governing transmission system availability include:

Strategic Report - continued

For the year ended 31 March 2022

- the inherent design of the transmission system e.g. system redundancy;
- the management of maintenance so that the assets are maintained to good industry practice, thereby avoiding unnecessary equipment failure; and
- the management of necessary planned outages of the transmission system having regard to the activities of other interested parties and to bias outages towards periods with the lowest system availability targets.

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

The Company is permitted under its licence to pass costs such as non-domestic rates and costs charged by Ofgem associated with running the OFTO tender regime to its customer.

Transmission system capability (capacity)

The Company has reported 99.97% transmission availability based on the maximum capacity of the system for the performance year ended 31 December 2021 (31 December 2020: 100%) – see “Transmission System Availability” below, reflecting two small outages caused by the mal-operation of the GT2 protection following faults on NGET’s transmission system.

The Company 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.

Transmission system quality of supply

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

The Company 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.

Strategic Report - continued

For the year ended 31 March 2022

Key Performance Indicators ("KPIs")

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

	Definition	Objective
Financial KPIs		
Cash available for debt service	Net cash inflows from operating activities plus cash inflows from investing activities: £22,665k (2021: £24,831k)	To exceed debt service lock up ratios.
Non-Financial KPIs		
Maximise transmission availability	Making the transmission system available to transmit electricity over the performance year to 31 December 2021: 99.97% (31 December 2020: 100%)	To exceed the licence target availability 98%.
Ensure that the quality of electricity at the export connection point is compliant with Security and Quality of Supply Standard ("SQSS") and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	To be compliant. This has been achieved for both 2022 and 2021.
HS&E	1) Zero lost time accidents ("LTIs"); 2) Zero reportable environmental incidents; 3) Zero enforcement actions by Marine Management Organisation ("MMO") in relation to Marine Licences; 4) Zero unauthorised access incidents in accordance with Electricity Safety, Quality and Continuity Regulations ("ESQR").	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence; 4) Zero unauthorised access incidents in accordance with ESQR. All HS&E KPIs as they applied to 2022 and 2021 have been met.

The Company's operational performance

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

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

During the year, the Company has successfully carried out its asset management activities in accordance with its asset operating plan and maintenance plan. The Company also submitted and had its network outage plan accepted by, NGESO.

Strategic Report - continued

For the year ended 31 March 2022

Transmission system availability

The performance of the Company's transmission system is reported to Ofgem on a calendar year basis between 01 January and 31 December. The performance for the calendar year ended 31 December 2021 and 31 December 2020 is tabulated below:

MWhrs	Note	Performance	Performance
		Year ended 31 December 2021	Year ended 31 December 2020
Maximum system availability(capability – MWhrs)	a	5,302,966	5,321,134
Reported system availability (MWhrs)	b	5,301,339	5,321,134
Reported system availability (%)	b	99.97%	100%
Regulatory target system availability (%)		98%	98%

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

b) After taking into account any relief permitted by the licence or otherwise approved by Ofgem.

Quality of supply

The quality of supply constraints agreed with NGESO (see "Transmission system quality of supply" above) require the Company to transmit electricity within certain parameters in relation to: voltage control; reactive power; and harmonic distortion. A failure to meet the quality of supply constraints could result in NGESO requiring the Company's transmission system to be disconnected from its electricity transmission system, resulting in loss of transmission availability and reduced incentive credits or performance penalties. The Company closely monitors compliance with the quality of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Company to meet the quality of supply obligations.

During the year ended 31 March 2022 the Company has met its obligations to transmit electricity compliant with these operational obligations. The Company has continued to comply with these obligations through to the date of this report.

Covid-19

We continue to operate our offshore transmission system at a time of unprecedented disruption and change as a result of the Covid-19 pandemic. The health and safety of contractors and other third parties who manage our operations are our top priority.

The Board has continued to proactively execute a plan to identify the potential key impact areas and put in place measures to address and manage those risks as necessary, while following all governmental requirements and guidelines. We continue to work closely with the O&M service provider the Department for Business Energy and Industrial Strategy, Ofgem and other parties, that are critical to the management and successful operation of our operations - focussing on the actions we need to take to protect the health and wellbeing of those people working on our assets with a view to minimising the impact on our operations.

Through to the date of this report, there have been no adverse incidents or disruption to the availability of the offshore transmission system, our operations or finances as a result of the Covid-19 pandemic.

Health, safety and environmental performance

The Board recognises that the nature of its business requires a focus on health, safety and the environment. Safety is critical both to business performance and to the culture of the

Strategic Report - continued

For the year ended 31 March 2022

Company. The operation of the Company's assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm and to safeguard members of the general public.

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

The Board is pleased to report that, during the year under review there were no health, safety or environmental incidents that required reporting under applicable legislation and that contractor "lost days" arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 were zero. The Company has also continued to comply with the Marine licence obligations that were transferred to it since the transmission assets were acquired.

Commitment to ethical business practices

The Company is committed to ethical business practices in the way that the Company carries out its business and is committed to complying with all laws and regulations that apply to the Company at all times. The Company is subject to its own policies, which include:

- a code of conduct that governs the activities of those persons directly involved in the business, which applies in particular to the Directors and contractors in the provision of services to the Company;
- a Modern Slavery policy;
- a consideration of the implications of the Criminal Finances Act 2017; and
- an Anti-bribery and Anti-corruption policy.

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

The Company has identified no instances of non-compliance with any of the above policies for the year ended 31 March 2022 and through to the date of this report.

Stakeholder relationships

The potentially hazardous nature of Company's operations and the environmentally sensitive nature of the locations where its assets are located require the Company to engage and communicate with a wide audience of stakeholders and to establish good relationships with them. As well as industry participants and local and national government bodies this audience includes: Port Authorities; the emergency services; the maritime community; environmental agencies and organisations; landowners and the general public. Accordingly, the Company has 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.

Strategic Report - continued

For the year ended 31 March 2022

Principal and emergent risks and uncertainties

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

The Company's financial performance

Summary

The financial performance of the Company for the year ended 31 March 2022, was satisfactory and is summarised below.

	2022	2021
	£'000	£'000
Operating profit	9,635	8,619
Net Finance costs	(9,460)	(8,400)
Profit before taxation	175	219
Taxation	(425)	(268)
Loss after taxation	(250)	(49)
Net cash inflow from operating activities and interest income	22,665	18,973
Net cash flows used in servicing debt	(22,777)	(17,661)

Operating profit

Operating profit comprises operating income, finance income and operating costs.

Finance income represents the finance income that would have been generated from an efficient standalone "transmission owner".

Operating income primarily represents the operating income that would be generated by an efficient provider of operating services to NGESO. Finance and operating income have been recorded in accordance with the principal accounting policies adopted by the Company – see "Accounting policies - F. Operating and finance income" – and the respective amounts are disclosed to the note 2 of the regulatory financial statements in detail.

Operating costs cover operations and maintenance fees, insurance fees, management service fees and non-domestic rates associated with the transmission network, as detailed in the note 3 of the regulatory financial statements.

Net finance costs

Net finance costs, comprise other finance income and finance costs. Further details are discussed in the note 4 of the regulatory financial statements.

Taxation

There was no current taxation arising in the year as the Company has no taxable profit.

The Finance Act 2021 was enacted on 10 June 2021 to increase the UK main corporation tax rate from 19% to 25% with effect from the financial year commencing 01 April 2023. The carrying value of the deferred taxation balances included in these regulatory financial statements at 31 March 2022 and 2021 has been calculated at 25% and 19% respectively.

Strategic Report - continued

For the year ended 31 March 2022

A net taxation income of £4,807k (2021: charge of £692k) has been recognised in the Statement of comprehensive income relating to pre-taxation losses arising on marking the Company's cash flow hedges to market at the balance sheet date. The net taxation income included within the Statement of comprehensive income relates solely to deferred taxation.

Cash flows

Net cash flows from operations reflect the amounts invoiced and received from NGESO up to 31 March 2022 in relation to the provision of transmission services in the year net of cash outflows relating to operating activities incurred during the year.

Net cash flows used in investing activities amounted to £6k (2021: used in £452,864k), reflecting the transaction costs associated with the acquisition of the transmission owner asset and receipt of interest income.

Cash available for debt servicing is defined as net cash inflows from operations plus net cash used in investing activities excluding acquisition costs.

No income taxes were paid in the year (2021: £nil).

Balance sheet and consideration of financial management

Balance sheet

The Company's balance sheet at 31 March 2022 is summarised below:

	Assets	Liabilities	Net Assets/ (Liabilities)
	£'000	£'000	£'000
Non-current transmission owner asset	433,446	-	433,446
Non-current deferred taxation	3,422	-	3,422
Current assets and liabilities ⁺	14,930	(1,156)	13,774
Non-current decommissioning provision	-	(6,229)	(6,229)
Total before net debt	451,798	(7,385)	444,413
Net debt	-	(457,059)	(457,059)
Totals at 31 March 2022	451,798	(464,444)	(12,646)
Totals at 31 March 2021	461,124	(458,225)	2,899

⁺ Including current transmission owner asset and excluding those current assets and liabilities included within net debt.

Transmission owner asset and decommissioning provision

The transmission owner asset is a financial asset and is carried at the cost directly attributable to the acquisition of the Walney Extension offshore transmission system at the date 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 that asset. The net result being that the carrying value of the transmission owner asset reflects the application of the effective interest rate method and is determined in accordance with the principal accounting policies adopted by the Company as discussed in the accounting policies section of the regulatory financial statements commencing on page 30.

Strategic Report - continued

For the year ended 31 March 2022

The transmission owner asset at the date of acquisition included an estimate of the costs of decommissioning the transmission owner asset at the end of its useful economic life in 2040. At 31 March 2022, the carrying value of the transmission owner asset was £446,967k (2021: £459,923k) including amortisation of £12,966k (2021: £9,913k) and the decommissioning provision amounted to £6,229k (2021: £6,023k) including discount unwound of £206k (2021: £165k).

Non-current deferred taxation

A net deferred taxation asset reflects the recognition, in full, of the deferred taxation impact of all temporary differences existing at the balance sheet date, including the fair valuing of all derivative financial instruments.

Net debt

Net debt is defined as all borrowings plus any interest accruals, the carrying value of all financial derivative contracts that are marked to market (interest rate swaps and UK Retail Price Index ("RPI") related swaps) as detailed in note 13; and Infrastructure lease liabilities, less cash and deposits which is discussed further in note 11 of the regulatory financial statements.

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

Current funding structure

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

The commercial loans and related interest rate swaps are at variable rates linked to the 3 months LIBOR rate and in each case, require servicing on a quarterly basis. Due to the discontinuation of LIBOR, it has been agreed with commercial lenders and interest rate swap providers that after 31 December 2021, the variable rates paid on the commercial loans and interest rate swaps will be linked to SONIA in place of LIBOR. Its initial calculation will start from 31 March 2022.

The other borrowing is in the form of unsecured loan notes issued to two related parties at a fixed rate coupon.

No change was made to ordinary equity share capital in the year.

Further details of the carrying value of the commercial loans and the related swaps are discussed in note 10 and note 13, respectively. The details of funding structure are also disclosed in note 19 of the regulatory financial statements. Swaps are explained in more detail below under "*Hedging arrangements*" in this Strategic Report.

Going concern, liquidity and treasury management

The Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Company is a going concern and has adequate resources in the foreseeable future to meet its on-going obligations, including the compliance with all debt covenants and servicing of debt holders, as those obligations fall due.

The Directors note that total shareholders' equity at 31 March 2022 is a deficit of £12,646k (2021: surplus of £2,899k), which includes 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 cash flow reserve deficit of £12,348k (2021: surplus of £2,947k). The existence of a cash flow reserve deficit implies

Strategic Report - continued

For the year ended 31 March 2022

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 Company and is factored into the financial plans of the Company. Further information regarding the Company's "Hedging arrangements" is discussed later in this Strategic Report. Consequently, they have formed the opinion that it is reasonable to adopt the going concern basis in preparing the regulatory financial statements. The other evidence considered to arrive at these conclusions is summarised below.

The expected cash inflows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable and would not be expected to fall below a certain level as explained above under "Principal regulatory, industry contracts and industry code matters - Regulated revenue and incentives". Similar to the Company, NGESO is also regulated by Ofgem.

The Board has continued proactively to execute a plan to identify the potential key impact areas and put in place measures to address and manage those risks as necessary, while following all governmental requirements and guidelines.

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

The Company has also put in place prudent insurance arrangements in relation to property damage and third-party liabilities, 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 Company has also entered into certain hedging and other contractual arrangements that have been put in place to achieve a high degree of certainty as to the likely cash outflows that are expected to occur over the life of the project.

The hedging arrangements are explained in more detail below under "Hedging arrangements".

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

The Company also has access to a liquidity facility of £10,000k (2021: £10,000k) that it can access in the event that it has an insurable, income adjusting event or unforeseen costs. This covers the possible liquidity requirements of the Company while the insurance claim, income adjusting event, or unforeseen costs is settled. At the year-end it was undrawn.

Finally, under the terms of the other borrowing agreement, absent certain matters of default, the loan notes do not have to be redeemed until 2040.

Strategic Report - continued

For the year ended 31 March 2022

Credit rating

The Company has complied with standard licence condition E11: Credit Rating of Licensee, for the year ended 31 March 2022 and through to the date of this report.

On-going funding requirements

The Company does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding. Loan servicing and other obligations of the Company are expected to be met by the cash inflows generated by the Company.

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 capacity, there is a mechanism in the Company's transmission licence to allow the Company to increase its charges in respect of such expenditure. The Directors expect that additional funding would be made available based on the increased cash inflows that would be expected to arise from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

Surplus funds

At 31 March 2022, the Company held £2,317k (2021: £2,477k) cash and cash equivalents of which £897k (2021: £450k) 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, £1,420k (2021: £2,027k) requires the consent of the Company's lenders prior to use but are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

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

Hedging arrangements

General

It is the policy of the Directors that the Company will only enter into derivative financial instruments for the purpose of hedging an economic risk. No speculative positions are entered into.

RPI swaps

The Company has RPI swaps with third parties. The use of these RPI swaps has the effect of exchanging the vast majority of variable cash inflows derived from the Company's transmission services it provides to NGESO (impacted by changes in actual RPI) in exchange for a known and predetermined stream of cash inflows over the period which the Company has exclusive rights to operate the offshore transmission system under the licence and the period over which the vast majority of future cash flows from the project are expected to be generated.

Under the terms of the licence, regulatory and other contractual agreements, the Company is permitted to charge NGESO, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 01 April by a sum equivalent to the percentage change in RPI over the previous 12-month period measured from September to September.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge. The vast majority of the Company's cash outflows relate to borrowings that substantially carry a fixed coupon

Strategic Report - continued

For the year ended 31 March 2022

(after interest rate swaps – see below) so that both the resultant principal repayments and coupon payments are largely predetermined. The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the Company can meet its obligations under the terms of the Company's borrowing arrangements and therefore reduce the risk of default. The Directors believe that the RPI swaps continue to have a highly effective hedging relationship with the forecast cash inflows that are considered to be highly probable and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such. The carrying value of the RPI swap liabilities at 31 March 2022 was £61,275k (2021: £17,217k).

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

Interest rate swaps

The Company also has interest rate swaps with third parties. The Directors believe that the use of these interest rate swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge. The net commercial effect of these arrangements is to convert 100% of the nominal amount of commercial lenders' variable rate borrowings into fixed rate borrowings.

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

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

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

The carrying value of the interest rate swap assets at 31 March 2022 was £44,812k (2021: £20,856k).

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

Lending covenants and other restrictions

The Company entered into the lending agreements to allow it to fund the acquisition of the transmission owner asset. Under these lending agreements, a global agent has been appointed to represent the senior debt holders and swap providers to monitor compliance by the Company with the conditions of the lending agreements. In addition, a technical adviser and an insurance adviser have also been appointed under the terms of the lending agreements to support the global agent. The covenants and conditions of the lending agreements include (but are not limited to) the following:

- 1) The Company is required to operate on the basis of a financial plan while the lending agreements are in place (20 years) which the global agent has approved and subject to certain allowances; any deviation from that plan requires the approval of the global agent. The financial plan is refreshed on a quarterly basis and revised on an annual basis;

Strategic Report - continued

For the year ended 31 March 2022

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

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

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

Accounting policies

The regulatory financial statements present the results of the Company using the accounting policies outlined in the regulatory financial statements and are in accordance with UK-adopted International Accounting Standards (“**IAS**”, International Financial Reporting Standards (“**IFRS**”) prior to 01 January 2021) and the applicable legal requirements of the Companies Act 2006. There was no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework by the transition from IFRS to UK-adopted IAS. UK IAS permits certain choices and the following material choices have been made as follows:

Presentation of regulatory financial statements

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

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

Financial Instruments

The Company has hedge accounting in place to its standalone derivative financial instruments.

Strategic Report - continued

For the year ended 31 March 2022

Critical accounting policies

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

A discussion of critical accounting policies is contained within the accounting policies section of the regulatory financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the regulatory financial statements commences on page 32.

Section 172 Statement

The Board of Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term. Key decisions and matters that are of strategic importance to the Company are appropriately informed by s172 factors.

Through an open and transparent dialogue with our key stakeholders, we have been able to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition and culture. As part of the Board's decision-making process, the Board and its Committees consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

Illustrations of how s172 factors have been applied by the Board can be found throughout the 2021/22 Annual Report and regulatory Financial Statements. For example;

- information on how the Company managing its business and compliance with regulatory requirement can be found on pages 4-5;
- details on how the Company has considered the impact of its operations on the community and environment see page 9;
- non-Financial KPIs information on pages 6-7 and Commitment to Ethical Business Practice on page 9 details how the Company maintains high standards of business conduct; and
- information on pages 8-9 sets out how the Company engaged with key stakeholder groups, throughout the year and the effectiveness of the engagement.

Approved on behalf of the Board



Gary Thornton

Director

22 July 2022

Directors' Report

For the year ended 31 March 2022

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

Directors

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

Gary Thornton

Elizabeth Jo Beswetherick

David Alexander John Foot (resigned 06 May 2022)

James Heath (appointed 06 May 2022)

Matthew Pitts

Michiharu Ueki (appointed 2 July 2021 and resigned 29 March 2022)

Jun Nishikawa (resigned 2 July 2021)

Akihito Ito (appointed 29 March 2022)

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Principal activities and business review

The Company is incorporated and registered in England and Wales, Company Number 10726538. A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Strategic Report on pages 3 to 17, which is incorporated by reference into this report.

Material interests in shares

The Company is a wholly owned subsidiary undertaking of the ultimate parent company, DTPWEH.

Returns to related party undertakings

During the year ended 31 March 2022 the Company repaid £543k (2021: £254k) of principal and £2,625k (2021: £1,525k) of interest in relation to the unsecured loan notes to its related party undertakings. The principal outstanding on these loans amounted to £38,234k at 31 March 2022 (2021: £38,777k).

No dividends were paid during the year (2021: £nil).

Donations and research and development

No charitable or political donations were made during the year and expenditure on research and development activities was £nil (2021: £nil).

Financial instruments

Details on the use of financial instruments and financial risk management ("**Hedging Arrangements**") are included on pages 14 to 15 in the Strategic Report.

Going concern

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

Directors' Report - continued

For the year ended 31 March 2022

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

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

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement and Directors' emoluments

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

The Directors receive no emoluments from the Company, consequently there is no linkage between service standards and Directors' emoluments, fees or benefits.

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 July 2022

Corporate governance statement

For the year ended 31 March 2022

Introduction

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

The Company is a wholly owned subsidiary undertaking of DTPWEH ("the **Group**"), and consequently operates within the corporate governance framework. An understanding of the governance framework is required to understand the Company's position within that framework.

None of the members of the Group have a premium listing of equity shares and therefore they are not subject to the UK Corporate Governance code. The Company is a private company limited by shares and is incorporated and registered in England and Wales.

Appointments to the board of directors of the Group are governed by a shareholders' agreement ("the **Agreement**") between the three shareholders of DTPWEH, DTUK (a subsidiary of DTC), IIO1L (a subsidiary of IILP) and CEPCON (a subsidiary of Chubu Electric Power Co., Inc. ("**Chubu**")) that jointly control that company through a common class of ordinary shares and indirectly DTPWE. The Agreement requires that all boards within the Group comprise five directors, with two directors appointed by DTUK and IIO1L and one director appointed by Chubu. Consequent upon these arrangements between the shareholders, no Group company has a nomination committee and the performance of the boards is not evaluated.

The Agreement ensures that all boards within the Group are balanced, with no one shareholder having majority representation. 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 respective objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the risk management and internal control framework and are satisfied that they are effective.

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

Appointments to the board are made in accordance with the shareholders' agreement and do not include a policy on the diversity of board members.

The Company

Board and management meetings

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

Board activity

The Board is responsible for leadership and the setting of objectives and targets to ensure that its business objectives are met and monitors performance against those targets, which it has continued to do so during the year under review. Amongst other matters, the Directors have monitored the operational and financial performance of the Company during Board meetings. In doing so, the Directors have due regard to the objectives of the Company and the business plan that is being executed. In addition, the Directors have attended regular operational review meetings during the financial year where the operations and financial

Corporate governance statement - continued

For the year ended 31 March 2022

performance of the Company have been scrutinised in detail and the performance of third-party suppliers in managing the assets of the Company were assessed accordingly.

The Board is satisfied with operational and financial performance of the Company during the year ended 31 March 2022 and a discussion of the operational and financial performance of the business is included in the Strategic Report that commences on page 3.

The Board has satisfied itself that there has been compliance with all of its policies during the year ended 31 March 2022 and a discussion is included in the Strategic Report that commences on page 3.

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

Directors and their attendance at Company board meetings

Board meetings were held on 9 occasions during the year under review. Attendance by the Directors at Board meetings, expressed as a number of meetings attended out of a number eligible to attend are shown below:

Elizabeth Jo Beswetherick	9 of 9
David Alexander John Foot	1 of 9 (resigned on 06 May 2022)
James Heath	0 of 0 (appointed 06 May 2022)
Jun Nishikawa	2 of 2 (resigned on 02 July 2021)
Michiharu Ueki	7 of 7 (appointed on 02 July 2021 and resigned on 29 March 2022)
Matthew Pitts	9 of 9
Gary Thornton	9 of 9
Akihito Ito	0 of 0 (appointed on 29 March 2022)

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

Compliance Committee

The Company has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role, without executive functions, with powers of information, assessment and presentations to the Board. Dr Graeme Hutchinson is the Company's Compliance Officer. Dr Graeme Hutchinson is not engaged in the management nor operation of the Company's licensed transmission business system, nor the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Board of the Directors at least once annually.

The principal role of the Compliance Officer is to provide relevant advice and information to Directors of the Company, the compliance committee and consultants and other third parties providing services to the Company. The Compliance Officer is required to facilitate compliance with the licence as regards the prohibition of cross subsidies; restriction of activities and

Corporate governance statement - continued

For the year ended 31 March 2022

financial ring fencing; the conduct of the transmission business; and restriction on the use of certain information. In addition, the Compliance Officer is required to monitor the effectiveness of the practices, procedures and systems adopted by the Company in accordance with the compliance statement required by licence condition E12 - C2 of the licence (Separation and Independence of the Transmission Business).

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

Elizabeth Jo Beswetherick	1 of 1
David Alexander John Foot	0 of 1 (resigned 06 May 2022)
James Heath	0 of 1 (appointed 06 May 2022)
Michiharu Ueki	1 of 1 (appointed on 02 July 2021)
Matthew Pitts	1 of 1
Gary Thornton	1 of 1
Jun Nishikawa	0 of 0 (resigned on 02 July 2021)

Compliance statement and annual compliance report

The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from www.diamondtransmissionpartners.com) that addresses how the Company has addressed its licence obligations.

The Company's last annual compliance report dated 08 November 2021 concluded that the Company, as licensee, had been compliant with the relevant duties of the licensee through to 26 October 2021. The committee is not aware of any instance of non-compliance with the relevant duties of the Licensee since 08 November 2021 through to the date of this report.

Audit committee

The Company does not have an internal audit function. The Directors have concluded that the cost of such a function would be disproportionate to the benefits. DTPWEH has an Audit Committee. The purpose of the Audit Committee is to assist the board of DTPWEH in the effective discharge of their responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency. In so doing, the Audit Committee acts independently of the management of the Company and seeks to safeguard the interests of its shareholders by:

- monitoring the integrity of financial and financial regulatory reports issued by the board of Directors on behalf of the Company with the objective of ensuring that these reports present a fair, clear and balanced assessment of the position and prospects of the Company;
- reviewing the economy, efficiency and effectiveness of the Company's operations and internal controls, the reliability and integrity of information and accounting systems and the implementation of established policies and procedures;
- considering any significant issues and the extent to which they have been disclosed in the relevant annual report and regulatory financial statements of the Company, including a consideration of the critical accounting policies adopted by the Company (a discussion of which is included on pages 32 to 42);
- reviewing and approving the internal control and risk management policies applicable to the Group;

Corporate governance statement - continued

For the year ended 31 March 2022

- maintaining an appropriate relationship with the external auditors; and
- assessing the objectivity and independence of the external auditors by considering: the nature and extent of non-audit services; a consideration of the effectiveness of the audit process including a recommendation to the Board of DTPWEH as to the reappointment of the auditors to the Company.

In carrying out the above activities, the audit committee have noted in particular the following:

- the impact and related disclosures within the regulatory financial statements relating to the implementation of new accounting standards during the year, interpretations and other pronouncements that apply for the first time to these regulatory financial statements has had a minimal impact on the measurement of assets and liabilities and related disclosures. The audit committee also notes that the Company continues to apply phase 1 of the International Accounting Standards Board's ("**IASB's**") Interest Rate Benchmark Reform project - "Interest Rate Benchmark Reform: Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures", and concluded that all of these disclosures are appropriate; and
- the audit committee has considered carefully the disclosures contained within the Company's annual report and regulatory financial statements generally and in particular disclosures relating to "going concern" and climate change and have concluded that the information provided is proportionate and appropriate to the activities and experiences of the Company.

A representative of the auditors is normally invited to attend meetings of the Committee; the auditors also have unrestricted access to the Audit Committee.

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

Health, safety and environment advisory committee

The Board of DTPWEH and the Company recognises that the nature of the Company's business requires a focus on health, safety and the environment. Accordingly, the Board of Company has set up a Health, Safety and Environmental Advisory Committee, which considers health, safety and environment matters relating to the Company. The committee is responsible for:

- ensuring that the Company's health and safety policy statement and environmental policy statement, are being adhered to;
- setting of health, safety and environmental targets for the Company;
- setting the health, safety and environmental plan for the year, including the carrying out health and safety audits of O&M providers and monitoring the performance against planned targets;
- encouraging greater awareness throughout the Company of the importance of health, safety and the environment and higher achievement in health, safety and environmental performance; and
- providing a link between the Board, the management services company, DTUK and the Company's O&M providers and all other sub-contractors to the Company that have the day to day responsibility for the management of health, safety and environment.

Corporate governance statement - continued

For the year ended 31 March 2022

Members of the Health, Safety and Environment Supervisory Committee and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the year under review were as follows:

Elizabeth Jo Beswetherick	2 of 2
David Alexander John Foot	0 of 1 (resigned 06 May 2022)
James Heath	0 of 0 (appointed 06 May 2022)
Jun Nishikawa	1 of 1 (resigned 26 October 2021)
Michihura Ueki	1 of 1 (appointed 26 October 2021, resigned on 29 March 2022)
Akihide Ito	0 of 0 (appointed on 29 March 2022)
Gary Thornton	2 of 2
Matthew Pitts	2 of 2

Climate Change and greenhouse gas emissions

The Board acknowledges that the impact of climate change is apparent, through climate and weather extremes and environmental events that are increasing in frequency and intensity. The Board is proud to be managing a business that is fundamental to the UK's efforts to achieve net zero emissions by 2050 in line with the Paris Agreement and the UK Government's target.

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

The operation of the Company's facilities, which are necessary to allow for the transmission of clean energy, also requires the consumption of electricity, which maybe a source of greenhouse gas emissions.

The operation of the Company's facilities requires the consumption of electricity. The Directors have estimated that 2,494.71 kg of CO₂ (equivalent) has been emitted during the year ending 31 March 2022 (2021: 5,431.76 kg).

Approved on behalf of the Board



Gary Thornton

Director

22 July 2022

Statement of directors' responsibilities in respect of the regulatory financial statements

For the year ended 31 March 2022

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

The Directors consider that, in preparing the regulatory financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting and financial reporting standards have been followed.

The Directors have responsibility for preparing the regulatory financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business. Therefore, these regulatory financial statements have been prepared on the going concern basis.

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

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

The Directors have responsibility to ensure that, so far as reasonably practicable, the regulatory financial statements have the same form and content as the equivalent statutory accounts of the Company and that they comply in all material respects with international accounting standards in conformity with the requirements of the Companies Act 2006, and the applicable legal requirements of the Companies Act 2006, subject to any material departures being disclosed and explained in the regulatory financial statements.

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

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

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

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

Statement of directors' responsibilities in respect of the regulatory financial statements - continued

For the year ended 31 March 2022

Approved on behalf of the Board



Gary Thornton
Director 22 July 2022

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the directors of Diamond Transmission Partners Walney Extension Limited

For the year ended 31 March 2022

Report on the audit of the regulatory financial statements

In our opinion, Diamond Transmission Partners Walney Extension Limited's regulatory financial statements for the year ended 31 March 2022 have been properly prepared, in all material respects, in accordance with standard condition E2 of the company's Regulatory Licence and the Accounting Policies.

We have audited the regulatory financial statements, included within the regulatory accounts which comprise: the balance sheet as at 31 March 2022; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the regulatory financial statements.

Basis for opinion

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

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of 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.

Emphasis of matter - Basis of preparation

Without modifying our opinion, we draw attention to the accounting policies, which describes the basis of preparation of the regulatory financial statements. The regulatory financial statements are separate from the statutory financial statements of the Company and are prepared in accordance with standard condition E2 of the regulatory licence. Where consistent with standard condition E2 of the regulatory licence, the regulatory financial statements have been prepared in accordance with international accounting standards adopted by the Secretary of State for the Department of Business, Energy and Industrial Strategy (BEIS) between 1 January 2021 and 21 May 2021; and international accounting standards adopted by the UK Endorsement Board after delegation of adoption powers with effect from 22 May 2021 and with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS (IFRSs). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company. As a result, the regulatory financial statements may not be suitable for another purpose.

The nature, form and content of the regulatory financial statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the directors of Diamond Transmission Partners Walney Extension Limited - continued

For the year ended 31 March 2022

reported upon is suitable for the Regulator's purposes. Accordingly, we make no such assessment.

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2022 on which we reported on 22 July 2022, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come, save where terms are expressly agreed in writing.

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

In connection with our audit of the regulatory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the regulatory financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the regulatory financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the directors of Diamond Transmission Partners Walney Extension Limited - continued

For the year ended 31 March 2022

that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

The directors' report, strategic report and corporate governance statement

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

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

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

Responsibilities for the regulatory financial statements and the audit

Responsibilities of the Directors for the regulatory financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 25 the directors are responsible for the preparation of the regulatory financial statements in accordance with standard condition E2 of the company's Regulatory Licence, and the Accounting Policies and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of regulatory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the regulatory financial statements

Our objectives are to obtain reasonable assurance about whether the Accounting 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 Accounting Statements.

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the directors of Diamond Transmission Partners Walney Extension Limited - continued

For the year ended 31 March 2022

Responsibilities for the financial statements and the audit (continued)

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

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

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

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

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

Independent auditors' report to the Gas and Electricity Markets Authority (the "Regulator") and the directors of Diamond Transmission Partners Walney Extension Limited - continued

For the year ended 31 March 2022

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors as a body for the company to meet its obligation included in standard condition E2 of the company's Regulatory Licence dated 01 June 2020 and to facilitate the carrying out by the Regulator of its regulatory functions in accordance with our engagement letter dated 06 July 2022. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. In giving this opinion, we only accept or assume responsibility to the directors of the Company as a body, and not for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual and regulatory obligations of the Company, or for any other purpose, save where expressly agreed by our prior consent in writing.



Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
22 July 2022

Accounting policies

For the year ended 31 March 2022

A. Basis of preparation of regulatory financial statements

These regulatory financial statements have been prepared on a going concern basis in accordance with standard condition E2 of the Licence. In addition, these regulatory financial statements, where consistent with standard condition E2 of the Licence, have been prepared in accordance with UK-adopted International Accounting Standards (“**IAS**”), International Financial Reporting Standards (“**IFRS**”) prior to 01 January 2021) and the applicable legal requirements of the Companies Act 2006. There was no impact on recognition measurement or disclosure in the period reported as a result of the change in framework by the transition from IFRS to UK adopted IAS.

The regulatory financial statements have been prepared using consistent accounting policies updated, where necessary, to ensure that the accounting policies adopted reflect all IAS accounting standards and any related interpretations issued that are mandatory for the year ended 31 March 2022.

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

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

B. Transmission availability arrangements

The Company owns and operates an electricity transmission network which electrically connects an offshore wind farm generator to the onshore electricity transmission network. The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge NGESO for making its transmission network available (“**transmission availability charges**”) to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges are consistent with the principles contained within IFRIC 12 an interpretation issued by the IFRS Interpretations Committee.

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

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

A transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15. The transmission owner asset includes: the cost of acquiring the transmission network asset from the constructor of the network; those costs incurred that are directly attributable to the acquisition of the transmission network; the estimated cost of decommissioning the transmission network at the end of its estimated useful life, and other contract assets which are fundamental to the operation of transmission owner asset. The transmission owner asset has been classified as a contract asset under IFRS 15 and is accounted for as described below – see C – Financial Instruments.

Accounting policies - continued

For the year ended 31 March 2022

In accordance with IFRIC 12, transmission availability charges are recognised in the regulatory financial statements in three ways:

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

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 relating to the expected availability of the transmission system during that year, together with the recovery of certain costs. Where the level of availability of the transmission system or the costs that are permitted to be recovered is different to that expected this might result in an adjustment to charges in a subsequent accounting period. Such potential adjustments to future charges are not recognised in the regulatory financial statements as assets or liabilities, until such time as the value and basis of the adjustment are agreed with Ofgem, consequently these adjustments are reflected in these regulatory Financial Statements.

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 lifetime expected credit losses, where material, 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 lifetime expected credit losses, where material.

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

Lifetime expected credit losses are considered at each reporting date. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

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

Derivative financial instruments are measured at fair value through profit and loss and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative,

Accounting policies – continued

For the year ended 31 March 2022

as a derivative liability. Gains and losses arising from the changes in fair value are included in the income statement in the period they arise unless there is a hedge relationship in place – see D - Hedge accounting below.

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

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

D. Hedge accounting

The Company has entered into a number of transactions, which the Company has determined as qualifying for Hedge accounting as permitted by IFRS 9. This position has been accomplished by preparing documentation to specifying the hedging strategy, the component transactions, the methodology used for measuring the effectiveness of the instrument and the creditworthiness of the parties involved.

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

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

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

As permitted by the 'Interest Rate Benchmark Reform - Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures, (Phase 1 and 2), the Company has applied reliefs which address the financial reporting effects when an Interbank Offered Rate ("**IBOR**") is replaced with an alternative nearly Risk-Free Interest Rate ("**RFR**").

The amendments include the following practical expedients:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Company has completed an amendment to both the loan and swap agreements to provide for the replacement of LIBOR, with SONIA (Sterling Overnight Index Average) plus a credit adjustment spread resulting in the net cash flow of the Company being materially the same as if LIBOR had continued and that the current hedge effectiveness continues.

Further details are available below - see "K - Accounting developments i) Accounting standards, amendments to accounting standards and interpretations as applied to these regulatory financial statements" and note 13 to the regulatory financial statements.

Accounting policies – continued

For the year ended 31 March 2022

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("**cash flow hedges**"), including any change in the fair value of those hedges that result from a change in the credit risk of these hedges, are recognised directly in a hedging reserve in equity and the Statement of other comprehensive income. 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.

i. 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.

ii. Deferred taxation

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

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

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

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

i. General

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

ii. Operating income

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.

Accounting policies – continued

For the year ended 31 March 2022

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

iii. Finance income

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

G. Cash and cash equivalents

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

H. Decommissioning costs

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

I. Infrastructure financial liabilities

The Company recognises a financial liability under IFRS 9 for its obligation to pay the lease rentals to the lessor. It is initially measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease, if readily determinable. If the implicit interest rate cannot be readily determined, an estimate of the Company's incremental borrowing rate has been used. Thereafter, these liabilities are remeasured at each balance sheet date to reflect the finance costs on these liabilities and reduced by any payments made in respect of these liabilities. Finance charges relating to these liabilities are recognised in the income statement over the period of the lease using the effective interest rate method.

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

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

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

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

Accounting policies – continued

For the year ended 31 March 2022

The Directors after due enquiry have identified that 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.

As a consequence of this decision:

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

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

The Company has also determined that the transmission owner asset is expected to be recovered over a period of 20 years from the date the licence came into force on 02 June 2020, being the principal period over which the Company is permitted to levy charges for transmission availability and therefore the expected useful life of the transmission owner asset. This judgement has the effect of determining the amount of finance income and carrying value of the transmission owner asset that is recognised in any one year over the life of the project.

ii. Operating and finance income

Operating income, as described in F - Operating and finance income – including identification of key estimates

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

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

Estimates were made by management with effect from the date that the Licence came into force on 02 June 2020, to determine the appropriate amount of revenue that would be attributable to this income classification as if this service were provided by an independent standalone operator with responsibility for operations, maintenance and insurance. The principles attributable to these estimates determined with effect from the date that the Licence came into force continue to apply to the charges made by the Company for transmission network availability in each financial year over the expected useful life of the transmission owner asset. To the extent that an alternative estimate could have been made at the date that the Licence came into force as to a reasonable level of revenue attributable to this income classification then the estimate of income attributable to finance income (see below) may have been amended.

Finance income, as described in F - Operating and finance income – including identification of key estimates

Following the application of the judgements referenced earlier – see “i) Transmission availability arrangements –the identification of the judgements applied to recognise income and a transmission owner asset.” - finance income arising from the provision of transmission

Accounting policies – continued

For the year ended 31 March 2022

availability services represents an estimate of the return that an efficient standalone and independent “transmission owner” would expect to generate from the holding of the transmission owner asset. An estimate of an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements was carried out by the Company from the date the Licence came into force on 02 June 2020 and applies over the expected useful life of the transmission owner asset accordingly. The return that is generated on this asset is allocated to each period using the effective interest rate method. To the extent that an alternative estimate could have been made as to a reasonable level of return attributable to such a transmission asset owner from the date the Licence came into force, then the estimate of income attributed to operating income (see above) would have been amended accordingly.

iii. Hedge accounting and consideration of the fair value of derivative financial instruments

General

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

Application of judgements to hedge accounting

Movements in the fair values of the Company’s derivative financial instruments may be accounted for using hedge accounting where the requirements of hedge accounting are met under IFRS 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 Company’s derivative financial instruments, these changes in fair value are recognised in other comprehensive income.

The Company’s derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not been met these movements would have been recognised in the income statement.

Application of estimates to hedge accounting

As referred to above, the Company carries its derivative financial instruments in its balance sheet at fair value. IFRS 13 requires a company to account for both counterparty and own credit risk when determining the fair value of derivative instruments. The credit risk is calculated using the simplified calculation method based on market-observable data in respect of RPI and interest rates as an input to valuing those derivative financial instruments. Where counterparty-specific market data is not observable, as in the case of valuing the transmission owner asset, unobservable market data is used.

Accounting policies – continued

For the year ended 31 March 2022

iv. Income taxation

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

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

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

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

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

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.

The main rate of corporation tax in the UK in the prior and current year is 19%. On 10 June 2021, the Finance Act 2021 was enacted, and the rate of corporation tax will be increased to 25% with effect from the financial year commencing 01 April 2023. As a result, the carrying value of the deferred taxation balances included in these regulatory financial statements at 31 March 2022 and 2021 has been calculated at 25% and 19% respectively.

v. (Lifetime) Expected credit losses

General

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

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

Application of judgements to the recognition of expected credit losses

Accounting policies – continued

For the year ended 31 March 2022

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

Application of estimates to the recognition of expected credit losses

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

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

vi. Decommissioning Provision, as per H – Decommissioning Costs

General

These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The plan for decommissioning these assets was approved by the Department for Business, Energy and Industrial Strategy and published on the Company's web site (<https://www.diamondtransmissionpartners.com>).

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

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

- the estimated useful economic life of the transmission system is assumed to be 20 years being the period the Company has exclusive rights to charge for the provision of transmission services under the licence. 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 programme. These assumptions reflect the application of judgements and if those judgements change over time or the execution of the decommissioning programme in accordance with those judgements is not possible – then this could change the carrying value of the decommissioning provision with a corresponding impact on the income statement.

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

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

- the estimate of costs relating to the appropriate and safe removal, disposal, recycling and making safe of the transmission system having regard to market prices and access to the appropriate level of technology; and
- discount rate appropriate to the 20-year life of the assets being decommissioned. The Company has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to the decommissioning provision every

Accounting policies – continued

For the year ended 31 March 2022

five years, reflective of the long-term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

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

vii. Infrastructure financial liabilities

General

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

Application of estimates to determine infrastructure financial liabilities

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

Application of judgements to determine infrastructure financial liabilities

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

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

Lease expenses for leases with duration of one year or less and of low-value assets are not recognised in the balance sheet and are charged to the income statement when incurred. Low-value assets are determined based on quantitative criteria.

K. Accounting developments

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

In preparing these regulatory financial statements the Company has complied with all relevant IFRS and/or International Accounting Standards ("**IAS**") and Interpretations applicable either for accounting periods starting by 01 April 2021 or ending by 31 March 2022.

There are no new accounting standards, amendments to standards, interpretations or other pronouncements that have been issued and are effective in respect of these regulatory financial statements, including "Definition of Material (Amendments to IAS 1 and IAS 8)" and the revised "Conceptual Framework for Financial Reporting" that have had any significant impact on the measurement of assets and/or liabilities or any of the disclosures included herein.

The Company continues to apply phase 1 of the International Accounting Standards Board's ("**IASB's**") interest rate benchmark reform project - 'Interest Rate Benchmark Reform: Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures' as described below.

Accounting policies – continued

For the year ended 31 March 2022

Interest Rate Benchmark Reform: Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosures

The Company uses interest rate derivatives to swap the vast majority of its variable interest rate commercial loans to fixed interest rates. The interest rate derivatives are designated as cash flow hedges and the variable interest rate on the commercial loans held by the Company are linked to LIBOR.

The Company has completed an amendment to both the loan and swap agreements to provide for the replacement of LIBOR, with SONIA plus a credit adjustment spread resulting in the net cash flow of the Company being materially the same as if LIBOR had continued and that the current hedge effectiveness continues.

See note 13 for more information regarding the use of interest rate swaps.

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

On 27 August 2020, the IASB published "Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16", representing the finalisation of Phase 2 of the IASB project in accounting for interest rate benchmark reform.

The purpose of these amendments is to enable entities to reflect the effects of transitioning from benchmark interest rates, such as LIBOR, to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of regulatory financial statements. These amendments are effective from 01 April 2021 but early adoption is permitted.

The amendments include the following practical expedients:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Company has completed an amendment to both the loan and swap agreements to provide for the replacement of LIBOR, with SONIA plus a credit adjustment spread resulting in the net cash flow of the Company being materially the same as if LIBOR had continued and that the current hedge effectiveness continues.

No other new accounting standards, amendments to standards, interpretations or other pronouncements that have been issued, including amendments to IAS 1 "Classification of Liabilities as Current or Non-current" or the "Annual Improvements to IFRSs 2018-2020" which are not effective in these regulatory financial statements are likely to have any significant impact on the measurement of assets and/or liabilities or any of the disclosures included herein.

Income Statement

For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Operating income	2	5,653	7,189
Finance income	2	8,501	7,568
Total income		14,154	14,757
Operating costs	3	(4,519)	(6,138)
Operating Profit		9,635	8,619
Other finance income	4	408	2
Finance costs	4	(9,868)	(8,402)
Net Finance expense		(9,460)	(8,400)
Profit before taxation		175	219
Income taxation charge	5	(425)	(268)
Loss attributable to equity shareholders		(250)	(49)

The notes on pages 49 to 70 form part of these regulatory financial statements.

The results reported above relate to continuing operations.

Statement of comprehensive income

For the year ended 31 March 2022

	2022 £'000	2021 £'000
Loss attributable to equity shareholders	(250)	(49)
Other comprehensive (loss)/ income		
<u>Items that may be subsequently reclassified to</u>		
<u>Income statement:</u>		
Net (losses)/gains taken to equity in respect of cash flow hedges	16 (20,102)	3,639
Deferred taxation on cash flow hedges	7 4,807	(692)
Total other comprehensive (loss)/income	(15,295)	2,947
Total comprehensive (loss)/income for the year attributable to equity shareholders	(15,545)	2,898

Balance sheet

As at 31 March 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Transmission owner asset	6	433,446	446,803
Derivative financial assets	13	44,812	20,856
Deferred taxation asset	7	3,422	-
Total non-current assets		481,680	467,659
Current assets			
Transmission owner asset	6	13,521	13,120
Trade and other receivables	8	1,408	1,201
Cash and cash equivalents	9	2,317	2,477
Total current assets		17,246	16,798
		498,926	484,457
Total assets			
Current liabilities			
Borrowings	10	(14,437)	(12,845)
Infrastructure financial liabilities	11	(332)	(325)
Trade and other payables	12	(1,797)	(2,131)
Total current liabilities		(16,566)	(15,301)
Non-current liabilities			
Borrowings	10	(417,351)	(431,550)
Infrastructure financial liabilities	11	(10,151)	(10,507)
Derivative financial liabilities	13	(61,275)	(17,217)
Deferred tax liabilities	7	-	(960)
Decommissioning provision	14	(6,229)	(6,023)
Total non-current liabilities		(495,006)	(466,257)
Total liabilities		(511,572)	(481,558)
Net (liabilities)/assets		(12,646)	2,899
Equity			
Called up share capital	15	1	1
Accumulated losses	16	(299)	(49)
Cash flow hedge reserve	16	(12,348)	2,947
Total shareholders' equity		(12,646)	2,899

Balance sheet

As at 31 March 2022

The regulatory financial statements set out on pages 32 to 70 were approved by the Board of Directors on 22 July 2022 and were signed on its behalf by:



Gary Thornton

Director

Company number: 10726538

Statement of changes in equity

For the year ended 31 March 2022

	Called up share capital	Cash flow hedge reserve	Accumulate d losses	Total equity
	£'000	£'000	£'000	£'000
Balance brought forward 01 April 2020	1	-	-	1
Total comprehensive income for the year	-	2,947	(49)	2,898
Balance carried forward 31 March 2021	1	2,947	(49)	2,899
Total comprehensive loss for the year	-	(15,295)	(250)	(15,545)
Balance carried forward 31 March 2022	1	(12,348)	(299)	(12,646)

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

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

Cash flow statement

For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
<u>Cash flows generated from operating activities</u>			
Loss attributable to equity shareholders		(250)	(49)
Adjustments for:			
Net finance expense	4	9,864	8,400
Taxation charge	5	425	268
Amortisation of transmission owner asset	6	12,966	9,913
Non-cash movement of provisions	14	206	165
Net changes in working capital		(550)	274
		22,911	19,020
Net cash generated from operating activities		22,661	18,971
<u>Cash flows used in investing activities</u>			
Acquisition of transmission owner asset and additions	6	(10)	(458,724)
Decommissioning provision	14	-	5,858
Interest received	4	4	2
Cash flow used in investing activities		(6)	(452,864)
<u>Cash flows (used in)/generated from financing activities</u>			
Proceeds from senior loans	17	-	414,999
Proceeds from unsecured loans	17	-	39,031
Repayment of infrastructure financial liabilities	17	(543)	(449)
Repayment of senior loans	17	(12,372)	(9,896)
Repayment of other borrowings		(543)	(143)
Interest paid	17	(9,319)	(7,173)
Other finance charges	17	(38)	-
Net cash flow (used in)/generated from financing activities		(22,815)	436,369
Net (decrease)/increase in cash and cash equivalents		(160)	2,476
Cash and cash equivalents at the start of the year	9	2,477	1
Cash and cash equivalents at the end of the year	9	2,317	2,477

Notes to the regulatory financial statements

For the year ended 31 March 2022

1. Operating segment

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 less net cash flow used in investing activities). The Company and segmental results, balance sheet and relevant cash flows can be seen in the income statement, the balance sheet and cash flow statement on pages 40, 42 and 45 respectively. Additional notes relating to the Company and segment are shown in the notes to the regulatory financial statements on pages 49 to 70.

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

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

2. Operating and finance income

Operating income of £5,653k (2021: £7,189k) and finance income of £8,501k (2021: £7,568k) primarily relates to the Company's activity as a provider of electricity transmission services to the Company's principal customer – NGESO. Finance income is calculated using the effective interest rate method – consistent with the Company's accounting policy – see "Accounting policies - F. Operating and finance income".

3. Operating costs

a. Operating costs are analysed below:

	2022 £'000	2021 £'000
Operations, maintenance and management ¹	4,281	5,883
Auditors' remuneration	31	90
Decommissioning - unwind of discount	207	165
Total	4,519	6,138

Auditors' remuneration comprises:

Audit services ³	19	48
Tax services	-	30
Other services supplied pursuant to legislation ²	12	12
Total	31	90

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 financial statements.

³ The Audit services represent the statutory audit of regulatory financial statements of the Group for the year ending 31 March 2022 with the amount of £15k for DTPWE and £4k DTPWEH (2021: £22k for DTPWE and £4k for DTPWEH, plus amounts paid to the previous auditors (Deloitte LLP) for the prior year audit of £11k for DTPWE and £11k for DTPWEH).

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

b. Directors remuneration

The Directors receive no emoluments directly from the Company or Group and their remuneration is paid directly by their employers. During the year ended 31 March 2022, the Company incurred Directors' fees paid or payable to DTUK, CEPCON and IILP for services provided to the Company amounting to £105k (2021: £68k).

4. Net finance expense

Net finance expense is as tabulated below:

	2022 £'000	2021 £'000
Interest income and other financial income		
Interest on bank deposits	4	-
Interest on customer late payments	-	2
Other financial income	404	-
	<u>408</u>	<u>2</u>
Interest expense and other financial costs		
Interest on bank loans	(6,694)	(5,646)
Interest on other borrowings	(2,617)	(2,175)
Other financial costs	(557)	(581)
	<u>(9,868)</u>	<u>(8,402)</u>
Net finance expense	<u>(9,460)</u>	<u>(8,400)</u>

5. Income taxation charge

i. Taxation on items included in the income statement

The net taxation charge for the year is £425k (2021: £268k) and the composition of that charge is described below.

The taxation charge on current year loss arising in the year represents deferred taxation and has been computed at 25% (2021: 19%). There is no current taxation included in the income statement (2021: £nil).

The taxation charge for the year differs (2021: differs) from the main rate of corporation tax in the UK of 19% (2021: 19%) for the reasons outlined below:

	2022 £'000	2021 £'000
Profit before taxation	<u>175</u>	<u>219</u>
Taxation at 19% (2021: 19%) on profit before taxation	33	42
Effects of:		
- expenses not deductible for tax purposes	256	226
- changes in tax rates on deferred tax	166	-
- prior year tax adjustment	(30)	-
Taxation charge for the year	<u>425</u>	<u>268</u>

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

ii. *Taxation on items included in other comprehensive (loss)/gain*

The net taxation income on items included in other comprehensive (loss)/gain for the year is £4,807k (2021: charge of £692k) and comprises a charge on items arising in the current year computed at 19% of £20,102k equal to a charge of £3,819k (2021: income of £3,639k equal to £692k) and a charge of £989k (2021: £nil) arising from a change in corporation taxation rates from 19% to 25% .

The net taxation charge of £425k (2021: £268k) on items arising in the year represents deferred taxation. There is no current taxation included in other comprehensive income (2021: £nil).

Following the enacted Finance Act 2021 on 10 June 2021, the carrying value of the deferred taxation balances included in these regulatory financial statements at 31 March 2022 and 31 March 2021 has been calculated at 25% and 19% respectively.

6. Transmission owner asset

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

	2022 £'000	2021 £'000
At 01 April	459,923	-
Acquisition at 04 June 2020	-	469,836
Additions	10	-
Adjustment to the carrying value ¹	(12,966)	(9,913)
At 31 March	446,967	459,923

	2022 £'000	2021 £'000
Comprising:		
Amounts falling due within one year	13,521	13,120
Amounts falling due after more than one year	433,446	446,803
	446,967	459,923

¹ Arising from the application of the effective interest rate method.

The transmission owner asset is carried at amortised cost. The estimated fair value of the transmission owner asset at 31 March 2022 was £450,824k (2021: £462,775k) see note 19.i. The basis for establishing the fair value of the transmission owner asset is to estimate the net cash flows arising over the estimated economic life of the project and to discount those expected net cash flows at a discount rate of c. 2.24% (2021: 2.24%) per annum.

Included in the transmission owner asset is £10,116k (2021: £10,657k) contract assets that have been recognised under IFRIC12 per Accounting Policy J, page 36.

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 2022 (2021: £nil).

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

7. Deferred taxation (liabilities)/assets

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

	Fair value gains on derivatives	Accelerated capital allowances	Other	Total
	£'000	£'000	£'000	£'000
At 1 April 2020	-	-	-	-
Prior year adjustment	(692)	(1,145)	877	(960)
At 31 March 2021	(692)	(1,145)	877	(960)
At 1 April 2021	(692)	(1,145)	877	(960)
Prior year adjustment	-	194	(164)	30
Movements – current year	4,807	(2,168)	1,713	4,352
At 31 March 2022	4,115	(3,119)	2,426	3,422

No portion of the deferred tax balance is likely to be recovered or settled in the 12 months following the balance sheet date.

The carrying value of all deferred taxation balances have been computed at 25% (2021: 19%) - that is to apply when the temporary differences reverse and reflects the latest enacted legislation in force at the balance sheet date.

8. Trade and Other receivables

Trade and other receivables are as tabulated below.

Amounts receivable in less than 1 year	2022	2021
	£'000	£'000
Trade receivables	30	1
Accrued income	1,149	971
Amounts due from related parties	36	-
Other prepayments	173	189
Other current assets	20	40
	1,408	1,201

9. Cash and cash equivalents

Cash and cash equivalents comprise amounts held in bank accounts amounting to £2,317k (2021: £2,477k).

Cash and cash equivalents include amounts of £897k (2021: £450k) which the Company can only use for specific purposes and with the consent of the Company's lenders. Of the remaining cash and cash equivalents, £1,420k (2021: £2,027k) requires the consent of the Company's lenders prior to use but are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

"Lending covenants and other restrictions". The estimated fair value of cash and cash equivalents approximates to their carrying value.

10. Borrowings

The following table analyses borrowings:

	2022	2021
	£'000	£'000
Current		
Unsecured loan notes from related parties – fixed rate	1,066	781
Bank loans – variable rate	13,371	12,064
	14,437	12,845
Non-current		
Unsecured loan notes from related parties – fixed rate	37,168	37,996
Bank loans – variable rate	380,183	393,554
	417,351	431,550
Total borrowings	431,788	444,395

Total borrowings are repayable as follows:

	2022	2021
	£'000	£'000
In one year or less	14,437	12,845
In more than one year, but not more than two years	15,285	14,199
In more than two years, but not more than three years	15,931	15,285
In more than three years, but not more than four years	16,680	15,930
In more than four years, but not more than five years	18,766	16,680
In more than five years	350,689	369,456
Total borrowings	431,788	444,395

All the variable rate bank loans are with a consortium of banks under a commercial facility agreement and carry an interest rate linked to the three-month LIBOR rate after 31 December 2021 the interest rate will be linked to SONIA. Its initial calculation will start from 31 March 2022. All of these loans amortise over the project life.

The bank loans under the commercial facility taken together comprise the "senior debt" and are secured, by means of a debenture, over all of the assets of the Company via fixed and floating charges, as required under the terms of a debenture document.

Further details of the unsecured loan notes from related parties are discussed in note 18.

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

As at 31 March 2022, the Company had a committed credit facility of £10,000k (2021: £10,000k) which was undrawn (2021: undrawn).

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

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 2022 (2021: none).

11. Infrastructure financial liabilities

	2022	2021
	£'000	£'000
Initial recognition	10,832	11,111
Repayment	(543)	(449)
Unwinding of discount	200	221
Foreign exchange reassessment	(6)	(51)
	10,483	10,832
Current	332	325
Non-current	10,151	10,507
	10,483	10,832

The total cash outflow for leases in the year amounted to £542k (2021: £449k).

Under IFRIC12, infrastructure leases are accounted as a liability under IFRS 9. At the commencement date of a lease, the lease liability is measured at the present value of the lease payments that are unpaid on that date at a discount rate of c.2% (2021: c.2%) per annum.

The Infrastructure financial liability is a financial instrument under IFRS and the fair value of the obligation equates to its carrying value, as the carrying value represents the net present value of the future expenditure expected to be incurred as described above.

12. Trade and other payables

Trade and other payables are as tabulated below.

Amounts payable in less than 1 year	2022	2021
	£'000	£'000
Trade payables	-	54
Amounts due to related parties (note 18)	691	650
Other taxes	915	1,230
Accrued expenses	191	197
	1,797	2,131

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value.

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

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 Company. All such derivative financial instruments are classified under IFRS 9 at fair value through profit and loss.

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

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

i. RPI swaps

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

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

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

ii. Interest rate swaps

The Company has entered into a series of interest rate swaps with third parties which has the commercial effect of swapping the variable rate interest coupon. Interest rate swaps are linked to LIBOR, after 31 December 2021 the interest rate will be linked to SONIA on 100% of the nominal value of all commercial loans held by the Company for a fixed rate coupon. Its initial calculation will start from 31 March 2022. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements.

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

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

iii. Carrying value of all derivative financial instruments

The net carrying value of all derivative financial instruments at 31 March 2022 amounted to net liabilities of £16,463k (2021: assets of £3,639k) comprising liabilities of £61,275k (2021: £17,217k) for RPI swaps and assets of £44,812k (2021: £20,856k) for interest rate swaps. All of the movements during the year in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a net charge of £20,102k (2021: income of £3,639k).

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

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

14. Decommissioning provision

The movement in the Decommissioning provision is analysed below.

	2022	2021
	£'000	£'000
At 01 April	6,023	-
Addition	-	5,858
Unwinding of discount	206	165
At 31 March	6,229	6,023

The decommissioning provision is all non-current.

The decommissioning provision of £6,229k at 31 March 2022 (2021: £6,023k) represents the net present value of the estimated expenditure expected to be incurred at the end of the economic life of the project to decommission the offshore Walney Extension transmission assets.

The decommissioning expenditure relates to the removal and scrapping of all transmission assets above the level of the seabed and the burial of all cable ends. The gross expenditure expected to be incurred on decommissioning amounts to £11,562k (2021: £11,647k) and is expected to be incurred in 2040.

The discount rate used to discount the gross expenditure expected to be incurred on decommissioning is a Weighted Average Cost of Capital rate. This reflects the directors 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 2040 was 10% higher or lower than that reflected in the decommissioning provision at 31 March 2022, this would have the effect of increasing or decreasing the carrying value of the decommissioning provision at 31 March 2022 by £48k (2021: £2k) and £60k (2021: £3k) respectively.

The decommissioning provision arises from the Company's obligations under S105 of the Energy Act 2004 and the contractual obligations relating to the lease of the Walney Extension sea bed granted by the Crown Estate Commissioners and assigned to the Company on 20 December 2019. The decommissioning programme was submitted for approval under S105 of the Energy Act 2004 and was subsequently approved by the Secretary for State for Energy and Climate Change under S106 of the Energy Act 2004 in December 2019.

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

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

15. Called up share capital

Share capital is as analysed below.

	2022	2021
	£'000	£'000
Allotted, called up and fully paid		
1,000 (2021: 1,000) ordinary shares of £1 each	1	1
At 31 March	1	1

The Company has one class of Ordinary Share with a nominal value of £1 each which carries no right to fixed income.

The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

16. Reserves

The Company's reserves are analysed below.

	Accumulated losses	Cash flow Hedge	Total
	£'000	£'000	£'000
At 1 April 2020	-	-	-
Loss attributable to equity shareholders	(49)	-	(49)
Gain on cash flow hedges taken to equity	-	3,639	3,639
Deferred taxation on cash flow hedges	-	(692)	(692)
At 31 March 2021	(49)	2,947	2,898
Loss attributable to equity shareholders	(250)	-	(250)
Loss on cash flow hedges taken to equity	-	(20,102)	(20,102)
Deferred taxation on cash flow hedges	-	4,807	4,807
At 31 March 2022	(299)	(12,348)	(12,647)

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

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

17. Cash flow statement

i. Reconciliation of net cash flow to movement in net debt

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

	2022	2021
	£'000	£'000
Movement in cash and cash equivalents	(160)	2,476
Net decrease/ (increase) in borrowings	22,776	(443,685)
Change in net debt resulting from cash flows	22,616	(441,209)
Non-cash finance costs included in net debt	(9,818)	(1,132)
Infrastructure financial liabilities	-	(11,111)
Change in fair values of derivatives	(20,096)	3,690
Movement in net debt in the year	(7,298)	(449,762)
Net debt at start of year	(449,761)	1
Net debt at end of year	(457,059)	(449,761)

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

ii. Analysis of changes in net debt

	Cash and Cash Equivalents	Infra- structure Financial Liabilities	Borrowing	Derivatives	Interest Accrual	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 01 April 2020	1	-	-	-	-	1
Infrastructure Financial liabilities	-	(11,111)	-	-	-	(11,111)
Net cashflow	2,476	-	-	-	-	2,476
Advanced Senior debt	-	-	(414,999)	-	-	(414,999)
Advanced Unsecured loans	-	-	(39,031)	-	-	(39,031)
Repaid Senior debt	-	-	9,896	-	-	9,896
Lease repayment	-	449	-	-	-	449
Change in fair values	-	51	-	3,639	-	3,690
Non-cash finance costs	-	(221)	(261)	-	(650)	(1,132)
At 31 March 2021	2,477	(10,832)	(444,395)	3,639	(650)	(449,761)
Net cashflow	(160)	-	-	-	-	(160)
Repaid Senior debt	-	-	19,066	-	-	19,066
Repaid unsecured debt	-	-	3,168	-	-	3,168
Lease repayment	-	543	-	-	-	543
Change in fair values	-	6	-	(20,102)	-	(20,096)
Non-cash finance costs	-	(200)	(9,627)	-	9	(9,818)
At 31 March 2022	2,317	(10,483)	(431,788)	(16,463)	(641)	(457,059)

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

18. Related party transactions

The following information relates to material transactions with related parties during the year to 31 March 2022. These transactions were carried out in the normal course of business and at terms equivalent to those that prevail in arm's length transactions.

	Related party undertakings	
	2022	2021
	£'000	£'000
Interest expense ¹	2,634	2,191
Services received ²	271	241
	2,905	2,432
Liabilities:		
Borrowings payable ¹ (principal)	(38,234)	(38,777)
Interest accrual ¹	(641)	(650)
Net of accounts receivables, accounts payables and accruals ³	(46)	(82)
	(38,921)	(39,509)

¹ Relates to funding-related transactions and balances with related parties DTC, CEPCON and IILP (Interest accrual is due to the new loan note holder, IIPOLL from 09 May 2022); all interest has been directly attributed to the Company.

² Services received from related parties DTC, DTUK, CEPCON and IILP are for administrative, company secretarial and other such services which are provided on an arm's length basis. All costs are directly attributable to the Company and charged as such.

³ Accounts payables & accruals include £4k due to DTC (2021: £26k), £24k to DTUK (2021: £40k), £11k to IILP (2021: £10k) and £7k to CEPCON (2021: £6k).

A summary of funding transactions with the related party undertakings is shown below:

	2022	2021
	£'000	£'000
Borrowings from related undertaking (principal)		
At 01 April	(38,777)	-
Issue of unsecured loan notes	-	(39,031)
Repayments	543	254
At 31 March	(38,234)	(38,777)

Borrowings from related parties DTC, IILP and CEPCON were negotiated on normal commercial terms and are repayable in accordance with the terms of the Unsecured Loan Notes. Repayments of principal of £543k (2021: £254k) were made during the year. Absent any non-compulsory repayment of the loans, the loans are contractually matured on 31 March 2040.

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

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

i. Fair value disclosures

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

- cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- transmission owner asset – based on the net present value of discounted cash flows;
- current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- non-current borrowings – based on the carrying amount in respect of variable rate loans and unsecured loans are 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;
- decommissioning provision – approximates to carrying value; and
- infrastructure financial liabilities – approximates to carrying value.

The table below compares the carrying value of the Company's financial instruments with the fair value of those instruments at 31 March 2022, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

	2022		
	Carrying value	Fair value	Valuation method
	£'000	£'000	(see as follows)
Assets			
<u>Current / Non-current</u>			
Transmission owner asset (note 6)	446,967	450,824	Level 3
Derivative financial assets	44,812	44,812	Level 2
	491,779	495,636	
Liabilities			
<u>Current / Non-current</u>			
Floating rate bank loans	393,554	393,554	Level 2
Unsecured Loans	38,234	37,250	Level 2
Derivative financial liabilities	61,275	61,225	Level 2
Infrastructure financial liabilities	10,483	10,483	Level 3
Decommissioning provision	6,229	6,229	Level 3
	509,775	508,741	

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

	2021		
	Carrying value	Fair value	Valuation method
	£'000	£'000	(see as follows)
Assets			
<u>Current / Non-current</u>			
Transmission owner asset (note 6)	459,923	462,755	Level 3
Derivative financial assets	20,856	20,856	Level 2
	480,779	483,611	
Liabilities			
<u>Current / Non-current</u>			
Floating rate bank loans	405,618	405,618	Level 2
Unsecured Loans	38,777	40,508	Level 2
Derivative financial liabilities	17,217	17,217	Level 2
Decommissioning provision	6,023	6,023	Level 3
	467,635	469,366	

Level 1 - the best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, alternative valuation techniques are used. The Company does not have any financial instruments where it is eligible to apply a level 1 valuation technique.

Level 2 – items in this category have been valued using models where all significant inputs are based indirectly on observable market data.

Level 3 - these have been valued using a valuation technique where significant inputs such as the assumed discount rate are based on unobservable market data.

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the year and there have been no reclassifications or transfers between the various valuation categories during the year (2021: no reclassifications or transfers during the year).

ii. Management of risk

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

The Company's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Company by using financial instruments, including the use of derivative financial instruments – being the RPI swaps and interest rate swaps described in note 13 that are appropriate to the circumstances and economic environment within which the Company operates. The

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

objectives and policies for holding, or issuing, financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the year are explained below.

Market risk

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

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

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

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

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

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

Cash and cash equivalents all attract interest at variable rates and therefore are subject to cash flow interest rate risk as cash flows arising from these sources will fluctuate with changes in interest rates. However, the interest cash flows arising from these sources are insignificant to the Company's activities. The cash flows arising from the transmission owner asset fluctuate with positive changes in RPI. The Company has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in the "Strategic Report – Hedging Arrangements".

For the reasons outlined in note 13, 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.

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the corresponding transmission owner asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Credit risk

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

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

NGESO within the National Grid group of companies is responsible for settling the Company's transmission services invoices. NGESO operates a low risk monopoly business within the UK and the regulatory regime under which they operate results in a highly predictable and stable, revenue stream. The regulatory regime is managed by Ofgem 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.

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

Having considered the credit risks arising in respect of the exposures 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 subsidiaries of the banks that have provided all of the variable rate borrowings to the Company. At 31 March 2022, the fair values attributable to these positions were liabilities amounting to £16,463k (2021: assets of £3,639k).

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

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

Liquidity risk and Going Concern

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities.

As a result of the regulatory environment under which the Company operates; the credit worthiness of the Company's principal customer (NGESO); and the RPI swaps that have been put in place, the cash inflows generated by the Company are highly predictable and stable. In addition, net of the impact of the interest swap arrangements, substantially all of the Company's senior debt carries a fixed coupon and in the opinion of the Directors, based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is expected to generate over the whole remaining period of the project. During the year ended 31 March 2022, senior debt-service costs amounted to £6,811k (2021: £5,645k). There is no contractual obligation on the Company to service the other borrowing until 04 June 2040 when it is committed to repay the entire balance. It is however the Company's intention to service this borrowing when cash flows are sufficient and it is prudent to do so. Cash outflows in respect of the other borrowing amounted to £nil (2021: £nil).

In accordance with the conditions of the various lending agreements, the Company is required to meet the restrictive conditions. Further details are outlined in the Strategic Report under the headings "Lending covenants and other restrictions".

The Company prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Company. These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use. It is the Company's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

In addition to the existing borrowings of the Company, the Company has committed secured credit facility with a consortium of banks amounting to £10,000k at 31 March 2022 (2021: £10,000k) that expires in 2040. This facility was undrawn at 31 March 2022 (2021: undrawn) and is available to the Company under certain conditions laid down within the Company's lending agreements.

During the year, the Company has continued to meet all of its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Company will continue to do so for the foreseeable future. The Company has met or exceeded its targets in relation to the obligations and lending covenants which it has to senior debt holders and the forecasts continue to support the reasonable view that these will continue to be exceeded.

In addition, further liquidity is also available in the form of a committed facility, as referenced above. All of these factors have allowed the Directors to conclude that the Company has sufficient headroom to continue as a going concern. The statement of going concern is included in the Strategic Report.

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

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

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

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

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

Liquidity risk	2022 Contractual cash flows £'000	0-1 years £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Non-derivative financial assets					
Transmission owner asset	600,538	24,980	25,766	82,272	467,520
Cash and cash equivalents	2,317	2,317	-	-	-
	602,855	27,297	25,766	82,272	467,520
Non-derivative financial liabilities					
Borrowings +	(470,098)	(20,185)	(20,840)	(65,750)	(363,323)
Trade and other non-interest bearing liabilities	1,797	1,797	-	-	-
Decommissioning Provision	(11,562)	-	-	-	(11,562)
Infrastructure Financial Liabilities	(12,203)	(515)	(526)	(1,648)	(9,514)
	(492,066)	(18,903)	(21,366)	(67,398)	(384,399)
Derivative financial instruments					
RPI and interest rate swaps	(34,931)	(906)	(972)	(3,363)	(29,690)
Net total	75,858	7,488	3,428	11,511	53,431

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

Liquidity risk	2021 Contractual cash flows £'000	0-1 years £'000	1-2 years £'000	2-5 years £'000	> 5 years £'000
Non-derivative financial assets					
Transmission owner asset	614,574	23,822	24,573	78,460	487,719
Cash and cash equivalents	2,477	2,477	-	-	-
	617,051	26,299	24,573	78,460	487,719
Non-derivative financial liabilities					
Borrowings ⁺	(489,201)	(19,103)	(20,185)	(63,580)	(386,333)
Trade and other non- interest bearing liabilities	(2,131)	(2,131)	-	-	-
Decommissioning Provision	(11,457)	-	-	-	(11,457)
Infrastructure Financial Liabilities	(13,555)	(546)	(558)	(1,748)	(10,703)
	(516,344)	(21,780)	(20,743)	(65,328)	(408,493)
Derivative financial instruments					
RPI and interest rate swaps	8,069	190	204	706	6,969
Net total	108,776	4,709	4,034	13,838	86,195

⁺ Including interest payments.

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

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 above. As explained in note 13, 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. The vast majority of any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve and would not affect the income statement. Changes in the fair value of interest rate and RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the transmission owner asset and in the case of the interest rate swaps all senior debt variable rate borrowings - are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the regulatory financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Company have no substantive economic impact on the Company because of the corresponding economic impact on the underlying cash flows they are hedging.

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

Capital management

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

Senior debt comprises a syndicate of commercial lenders which carries a coupon linked to 3-month LIBOR, after 31 December 2021 the interest rate will be linked to SONIA. Its initial calculation will start from 31 March 2022. As referenced in the "Strategic Report – Hedging Arrangements", the Company has entered into interest rate swap agreements which has the net commercial effect of swapping the variable rate interest coupon on 100% of the nominal value of these loans for a fixed rate coupon. All of the senior debt and related interest rate derivatives are serviced on a quarterly basis and are expected to amortise over the remaining life of the project. At 31 March 2022, the total principal carrying value of senior debt net of unamortised issue costs excluding any accrued interest amounted to £393,554k (2021: £405,618k).

The Company also has unsecured loan notes from related parties that carry a fixed rate coupon (see note 18). At 31 March 2022, the total value of the other borrowing principal outstanding, excluding accrued interest, amounted to £38,234k (2021: £38,777k).

Ordinary equity share capital at 31 March 2022 amounted to £1k (2021: £1k).

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

Notes to the regulatory financial statements

- continued

For the year ended 31 March 2022

20. Parent companies

The Company is wholly owned by DTPWEH, a company incorporated in the United Kingdom. The Group regulatory Financial Statements are available from DTPWEH, Mid City Place, 71 High Holborn, London, WC1V 6BA.

DTPWEH is jointly owned 51% by DTUK, 29% by IIO1L and 20% by CEPCON since 06 April 2020.

DTUK is a wholly owned subsidiary undertaking of DTC. The ultimate controlling party of DTC is Mitsubishi Corporation ("**MC**") which is incorporated in Japan. The group regulatory financial statements of MC are available from Mitsubishi Corporation, 3-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8086, Japan.

IIO1L is a wholly owned subsidiary of Infrastructure Investments PPP OFTO LLP ("**IIPOLLP**") (previously held by Infrastructure Investments Group Limited (formerly known as Infrastructure Investments Trafalgar Limited until 10 January 2022) prior to 09 May 2022). The ultimate controlling party of IIPOLLP is Sun Life Financial Inc. incorporated in Canada and Charles II Realisation LLP. The regulatory financial statements of Sun Life Financial Inc. and Charles II Realisation LLP are available online.

CEPCON, a company incorporated in the Netherlands, is a wholly owned subsidiary of Chubu. The ultimate controlling party of CEPCON is Chubu, which is incorporated in Japan. The group regulatory financial statements of Chubu are available from Chubu Electric Power Co., Inc., 1, Higashi-shincho, Higashi-ku, Nagoya 461-8680, Japan.

21. Capital commitments

The Company has no capital Commitments at the year-end (2021: £nil).

22. Contingent assets & liabilities

The Company has no outstanding lawsuits at the end of the financial year.

Glossary

A

The Agreement

The Shareholders Agreement

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

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, Diamond Transmission Partners Walney Extension Limited, DTPWE, we, our, or us

The terms 'the Company', 'Diamond Transmission Partners Walney Extension Limited', DTPWE, 'we', 'our', or 'us' are used to refer to Diamond Transmission Partners Walney Extension Limited, depending on context

CEPCON

Chubu Electric Power Company Netherlands B.V. (wholly owned subsidiary of Chubu Electric Power Co., Inc.)

Chubu

Chubu Electric Power Co., Inc.

Contingent liabilities

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

D

Deferred tax

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

Derivative

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

DTC

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

DTUK

Diamond Transmission UK Limited (wholly owned subsidiary of DTC)

DTPWE

Diamond Transmission Partners Walney Extension Limited

DTPWEH

Diamond Transmission Partners RB (Holdings) Limited

E

EU

The European Union, consisting of 28-member European national states.

F

Financial year

For Diamond Transmission Partners Walney Extension Limited this is the accounting year ending on 31 March.

G

Great Britain

Glossary

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

the Group

Diamond Transmission Partners Walney Extension (Holdings) Limited the Company

H

HS&E

Health, Safety and the Environment

I

IILP

Infrastructure Investments LP, the parent Company of Infrastructure Investments Australia LLP ("**IIAL**"), which is the parent company of Infrastructure Investments PPP OFTO Holdings LLP ("**IIPOLL**"), which is the parent company of Infrastructure Investments PPP OFTO MidCo LLP ("**IIPOMLLP**"), which is the parent company of IIPOLLP

IIPOLLP

Infrastructure Investments PPP OFTO LLP, which wholly owns IIO1L from 09 May 2022

IIO1L

Infrastructure Investment OFTO 1 Limited

IAS

An International Accounting Standard, as issued by the International Accounting Standards Board.

IFRS

An Accounting Standard or Standards issued by the IFRS Interpretations Committee.

IFRIC 12

IFRIC 12 Service Concession Arrangements

Interest Rate Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange periodic interest payments on a predetermined principal amount. The Company pays fixed interest amounts in exchange for

receipt of variable interest amounts linked to LIBOR.

K

KPIs

Key performance indicators

kV

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

L

LIBOR

London Interbank Offered Rate.

the Licence

The Offshore Electricity Licence held by Diamond Transmission Partners Walney Extension Limited

LTIs

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

M

MC

Mitsubishi Corporation

MMO

Marine Management Organisation

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

Glossary

NGESO

National Grid Electricity System Operator Limited

National Grid

National Grid plc

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)

OTSDUW Completion Report

A report detailing the agreement between the Company and NGESO.

Other borrowing

Amounts borrowed by the Company from immediate parent undertaking DTPWEH.

O&M

Operations and Maintenance

P

Performance year

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

R

RPI

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

RPI Swaps

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

S

Senior Debt

All borrowings except the other borrowing.

SONIA

Sterling Overnight Index Average

STC

System Operator Transmission Owner Code

SQSS

Security and Quality of Supply Standard

U

UK

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