

Company Registration No. 02366949

ELECTRICITY NORTH WEST LIMITED

**Half Year Condensed Consolidated Financial Statements
for the period ended 30 September 2018**

Contents

Interim Management Report.....	1
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows.....	7
Notes to the Condensed Consolidated Financial Statements	8

Interim Management Report

Cautionary statement

This interim management report contains certain forward-looking statements with respect to the consolidated financial condition and business of Electricity North West Limited ("ENWL" or "the Company") and its subsidiaries (together referred to as "the Group"). Statements or forecasts relating to events in the future necessarily involve risk and uncertainty and are made by the Directors in good faith based on the information available at the date of signature of this report, with no obligation to update these forward-looking statements. Nothing in this unaudited interim management report should be construed as a profit forecast nor should past performance be relied upon as a guide to future performance.

Financial statements

The Annual Report and Consolidated Financial Statements of the Company can be found at www.enwl.co.uk.

Operations

The Group's principal activity is the operation of electricity distribution assets owned by ENWL. The distribution of electricity is regulated by the terms of ENWL's Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

Consolidated results

	6 months ended 30 Sept 2018	6 months ended 30 Sept 2017	Year ended 31 Mar 2018
Revenue	£208m	£197m	£430m
Profit before tax and fair value movements	£59m	£42m	£111m
Profit before tax	£71m	£82m	£141m
Net cash flow before financing activities	£3m	£5m	£12m
Net debt	£1,162m	£1,108m	£1,150m

Revenue

Revenue is £11m higher in the six months to 30 September 2018 compared to the same period in the prior year. This is due to higher unit prices which are set to recover an allowed Distribution Use of System ("DUoS") revenue for each year. The principal reasons for the higher unit price are higher allowed base revenue, higher incentive revenue and a favourable movement in the correction factor due to lower over-recovery of revenue in the relevant prior year.

The revenue for the six months to 31 March 2019 is expected to be higher than that in the six months to 30 September 2018, due to the seasonally higher volumes of electricity units distributed over the winter period.

Profit before tax and fair value movements

Profit before tax and fair value movements is £17m higher than the six months to September 2017. This is primarily due to the higher revenue.

Profit before tax

Profit before tax is £11m lower than the same period in the prior year. This is primarily due to the higher revenue, net of £28m lower gains on the financial instruments at fair value through profit and loss. The fair value movements are a result of the combined effect of the changes in market expectations of future interest rates and of inflation rates (see Note 11).

Net cash flow before financing

The net cash flow before financing is only £2m higher than the same period in the prior year, despite revenue being £11m higher. Cash generated from operations was actually £23m higher but this is offset by £18m higher capital expenditure and £6m higher tax paid.

Interim Management Report (continued)

Net Debt

Net debt has increased by £12m in the six month period to 30 September 2018; this is due to the £18m reduction in cash, offset by the £7m reduction in borrowing primarily due to the movement in the fair value of the £250m 8.875% 2026 bond at fair value through profit and loss.

Dividends

Final dividends for the year ended 31 March 2018 of £16m have been paid in the period. More details on dividends are given in Note 8.

Retirement benefit obligation

The retirement benefit obligation has become an asset in IAS terms over the six month period to 30 September 2018, from £18.2m to an asset of £4.2m. The main reason for the improvement is the increase in the discount rate used to value the liabilities (see Note 12).

Principal risks and uncertainties

The principal trade and activities of the Group are carried out in Electricity North West Limited ("ENWL") and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are outlined in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements for the year ended 31 March 2018, which are available on the website, www.enwl.co.uk.

The Board considers that the principal risks and uncertainties have not changed from the last annual report.

Going concern

When considering whether to continue to adopt the going concern basis in preparing these condensed financial statements, the Directors have taken into account a number of factors, including the following:

- The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- Management has prepared, and the Directors have reviewed, the approved Group budgets for the year ending 31 March 2019 and forecasts covering the period to the end of the current price review, in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and forecasts have been sensitised for possible changes in the key assumptions, including RPI and over/under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that sufficient resources are available to the Group within the forecast period;
- Short-term liquidity requirements are forecast to be met from the Group's operating cash flow and short-term deposit balances. A further £25m of committed undrawn bank facilities are available from lenders; these have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2019 and 2023 indicate there is significant headroom on these covenants.

Interim Management Report (continued)

Going concern (continued)

The Board has given detailed consideration to the principal risks and uncertainties affecting the Group and Company, as referred to above, and all other factors which could impact on the Group and the Company's ability to remain a going concern.

Consequently, after making appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the Half Year Condensed Consolidated Financial Statements.

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

Directors

The names of the Directors who held office during the period and subsequently are given below:

Executive Directors

- Peter Emery
- David Brocksom

Non-executive Directors

- Dr John Roberts
- Chris Dowling
- Rob Holden
- Niall Mills
- Hamish Lea-Wilson
- John Lynch
- Mike Nagle – resigned 26 Sept 2018
- Susan Cooklin – appointed 25 Jul 2018
- Alistair Buchanan – appointed 25 Jul 2018
- Anne Baldock – appointed 26 Sept 2018

Niall Mills, Hamish Lea-Wilson, John Lynch and Anne Baldock are shareholder appointed directors and have appointed alternate Directors. Tomas Pedraza was alternate for both Niall Mills and Hamish Lea-Wilson. Mark Scarsella was alternate for John Lynch, Anne Baldock and Mike Nagle, in all cases throughout the period, except where stated above.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- the interim management report includes a fair review of the information required by DTR 4.2.7R; and
- the condensed set of consolidated financial statements has been prepared in accordance with IAS34 *'Interim Financial Reporting'*.

Registered address

Electricity North West Limited
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

Approved by the Board of Directors and signed on its behalf:



D Brocksom

Chief Financial Officer
26 November 2018

Condensed Consolidated Statement of Comprehensive Income

For the period ended 30 September 2018

		Unaudited Period ended 30 Sept 2018	Unaudited Period ended 30 Sept 2017	Audited Year ended 31 Mar 2018
	Note	£m	£m	£m
Revenue		207.7	197.1	430.2
Employee costs		(28.8)	(26.0)	(51.5)
Depreciation and amortisation expense (net)		(52.7)	(50.6)	(103.3)
Other operating costs		(43.7)	(46.0)	(92.1)
Total operating expenses		(125.2)	(122.6)	(246.9)
Operating profit		82.5	74.5	183.3
Investment income	5	0.2	0.7	1.0
Finance expense (net)	6	(11.6)	6.8	(43.0)
Profit before taxation		71.1	82.0	141.3
Taxation	7	(13.6)	(15.0)	(25.0)
Profit for the period attributable to shareholders		57.5	67.0	116.3
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of net defined benefit liability		15.2	15.9	27.1
Deferred tax on remeasurement of defined benefit liability		(2.6)	(2.7)	(4.6)
Adjustment due to change in future tax rates of brought forward deferred tax		-	-	-
Other comprehensive income for the period		12.6	13.2	22.5
Total comprehensive income for the period attributable to shareholders		70.1	80.2	138.8

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

Condensed Consolidated Statement of Financial Position

As at 30 September 2018

		Unaudited Period ended 30 Sept 2018	Unaudited Period ended 30 Sept 2017	Audited Year ended 31 Mar 2018
	Note	£m	£m	£m
ASSETS				
Non-current assets				
Intangible assets and goodwill		50.9	48.1	49.6
Property, plant and equipment	9	3,196.0	3,079.5	3,137.9
Retirement benefit surplus	12	4.2	-	-
		3,251.1	3,127.6	3,187.5
Current assets				
Inventories		11.9	11.0	10.5
Trade and other receivables		54.0	50.8	63.4
Cash and cash equivalents		68.8	133.8	87.0
Money market deposits (maturity over 3 months)		-	-	-
Current tax asset		-	-	-
		134.7	195.6	160.9
Total assets		3,385.8	3,323.2	3,348.4
LIABILITIES				
Current liabilities				
Trade and other payables		(136.8)	(128.1)	(142.6)
Current tax liabilities		(12.0)	(11.6)	(13.5)
Borrowings	10	(6.8)	(6.4)	(6.6)
Provisions	13	(0.6)	(1.0)	(0.8)
		(156.2)	(147.1)	(163.5)
Net current assets/ (liabilities)		(21.5)	48.5	(2.6)
Non-current liabilities				
Borrowings	10	(1,223.6)	(1,235.2)	(1,230.7)
Derivative financial instruments	11	(354.8)	(334.8)	(357.3)
Retirement benefit obligation	12	-	(35.8)	(18.2)
Deferred tax liabilities		(141.4)	(135.3)	(136.0)
Provisions	13	(2.3)	(2.7)	(2.3)
Customer contributions		(625.6)	(599.5)	(612.6)
		(2,347.7)	(2,343.3)	(2,357.1)
Total liabilities		(2,503.9)	(2,490.4)	(2,520.6)
Net assets		881.9	832.8	827.8
EQUITY				
Called up share capital		238.4	238.4	238.4
Share premium account		4.4	4.4	4.4
Revaluation reserve		89.3	91.4	90.3
Capital redemption reserve		8.6	8.6	8.6
Retained earnings		541.2	490.0	486.1
Total equity		881.9	832.8	827.8

Approved by the Board of Directors on 26 November 2018 and signed on its behalf by:

D Brocksom

Director

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 September 2018

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 31 March 2017 (audited)	238.4	4.4	92.5	8.6	420.7	764.6
Profit for the period	-	-	-	-	67.0	67.0
Other comprehensive income for the period	-	-	-	-	13.2	13.2
Transfer from revaluation reserve	-	-	(1.1)	-	1.1	-
Total comprehensive income for the period	-	-	(1.1)	-	81.3	80.2
Equity dividends (Note 8)		-	-	-	(12.0)	(12.0)
At 30 September 2017 (unaudited)	238.4	4.4	91.4	8.6	490.0	832.8
At 31 March 2017 (audited)	238.4	4.4	92.5	8.6	420.7	764.6
Profit for the period	-	-	-	-	116.3	116.3
Other comprehensive income for the period	-	-	-	-	22.5	22.5
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Total comprehensive income for the period	-	-	(2.2)	-	141.0	138.8
Equity dividends (Note 8)	-	-	-	-	(75.6)	(75.6)
At 31 March 2018 (audited)	238.4	4.4	90.3	8.6	486.1	827.8
Profit for the period	-	-	-	-	57.5	57.5
Other comprehensive income for the period	-	-	-	-	12.6	12.6
Transfer from revaluation reserve	-	-	(1.0)	-	1.0	-
Total comprehensive income for the period	-	-	(1.0)	-	71.1	70.1
Equity dividends (Note 8)		-	-	-	(16.0)	(16.0)
At 30 September 2018 (unaudited)	238.4	4.4	89.3	8.6	541.2	881.9

Condensed Consolidated Statement of Cash Flows

For the period ended 30 September 2018

		Unaudited Period ended 30 Sept 2018	Unaudited Period ended 30 Sept 2017	Audited Year ended 31 Mar 2018
	Note	£m	£m	£m
Operating activities				
Cash generated from operations	15	117.1	94.2	239.0
Interest paid		(8.7)	(7.8)	(47.2)
Tax paid		(12.3)	(5.9)	(15.1)
Net cash generated from operating activities		96.1	80.5	176.7
Investing activities				
Interest received and similar income		0.2	0.7	1.0
Purchase of property, plant and equipment		(109.1)	(91.0)	(200.3)
Purchase of intangible assets		(4.2)	(5.0)	(9.5)
Proceeds from sale of property, plant and equipment		0.1	0.1	0.2
Customer contributions received		19.6	19.8	44.0
Net cash used in investing activities		(93.4)	(75.4)	(164.6)
Net cash flow before financing activities		2.7	5.1	12.1
Financing activities				
Dividends paid	8	(16.0)	(12.0)	(75.6)
Repayment of external borrowings		(3.4)	(3.2)	(6.5)
Proceeds from borrowings		-	-	2.5
Accretion on index-linked swaps		-	(8.8)	(8.8)
Movement in cash collateral held		(1.5)	-	10.6
Transfer from money market deposits		-	10.0	10.0
Net cash used in financing activities		(20.9)	(14.0)	(67.8)
Net increase/ (decrease) in cash and cash equivalents		(18.2)	(8.9)	55.7
Cash and cash equivalents at beginning of period		87.0	142.7	142.7
Cash and cash equivalents at end of period		68.8	133.8	87.0

Notes to the Condensed Consolidated Financial Statements

1. General Information

Electricity North West Ltd is a company incorporated in the United Kingdom under the Companies Act 2006.

The financial information for the 6 month period ended 30 September 2018 and similarly the period ended 30 September 2017 has neither been audited nor reviewed by the auditor. The financial information for the year ended 31 March 2018 has been based on information in the audited financial statements for that year.

The financial information for the year ended 31 March 2018 does not constitute the statutory financial statements for that year (as defined in s434 of the Companies Act 2006), but is derived from those financial statements. Statutory financial statements for 31 March 2018 have been delivered to the Registrar of Companies. The auditor reported on those financial statements: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

2. Significant accounting policies

Basis of accounting

The Annual Report and Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). The Half Year Condensed Consolidated Financial Statements of the Group which are unaudited, have been prepared in accordance with International Accounting Standard 34 '*Interim Financial Reporting*' (IAS 34) as adopted by the EU.

The results for the period ended 30 September 2018 have been prepared using the same method of computation and the same accounting policies set out in the Annual Report and Consolidated Financial Statements of ENWL for the year ended 31 March 2018.

Although some of the Group's operations may sometimes be affected by seasonal factors such as general weather conditions, the Directors do not feel that this has a material effect on the performance of the Group, beyond the expected impact on revenue outlined on page 1, when comparing the interim results to those expected to be achieved in the second half of the year.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Half Year Condensed Consolidated Financial Statements. Further detail is contained in the Interim Management Report.

Notes to the Condensed Consolidated Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty

Changes in accounting policy

The Group has adopted the following IFRSs during the period;

IFRS 9: *Financial Instruments*

The Group has elected not to restate comparatives on initial application of IFRS 9. Based on the financial instruments and hedging relationships held during the period, the application of IFRS 9 has not had a material impact on amounts reported in the financial statements.

IFRS 15: *Revenue from Contracts with Customers*

The Group has adopted the modified retrospective approach without restatement of comparatives.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is transferred to the customer.

The main impact of IFRS 15 for the Group is with regards to the customer contributions in respect of connections contracts which were accounted for under IFRIC 18. The impact of adopting IFRS 15 has not been material for the Group.

Financial instruments at fair value through profit or loss (FVTPL)

Financial instruments at FVTPL are stated at fair value, with any gains or losses on re-measurement recognised in the income statement. The net gain or loss is recognised in finance expense and is separately identifiable from the net interest paid or received on these financial instruments, see Note 6. Fair value is determined in the manner described in Note 11.

4. Operating segments

Predominantly all Group operations arise from electricity distribution in the North West of England and associated activities. Only one significant operating segment is therefore regularly reviewed by the Chief Executive Officer and Executive Leadership Team.

The geographical origin and destination of revenue is all within the United Kingdom. In addition, whilst revenue can fluctuate marginally with weather conditions, revenues are not affected significantly by seasonal trends.

5. Investment income

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
On short-term bank deposits	0.2	0.7	1.0

Notes to the Condensed Consolidated Financial Statements (continued)**6. Finance expense (net)**

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Interest expense:			
Interest on Group borrowings	7.1	7.2	14.7
Interest on borrowings held at amortised cost	11.6	11.5	23.0
Interest on borrowings designated at FVTPL	-	-	22.2
Net interest on derivatives	(0.6)	(1.4)	(11.0)
Indexation on index-linked debt	5.6	6.9	15.3
Accretion on index-linked swaps	-	8.8	8.8
Net interest on defined benefit obligations	0.1	0.6	1.1
Capitalisation of borrowing costs under IAS 23	(0.3)	(0.3)	(1.0)
Total interest expense	23.5	33.3	73.1
Fair value movements on financial instruments:			
Fair value movement on borrowings designated at FVTPL	(9.4)	(11.4)	(23.8)
Fair value movement on derivatives	(2.5)	(28.7)	(6.3)
Total fair value movements on financial instruments	(11.9)	(40.1)	(30.1)
Total finance expense (net)	11.6	(6.8)	43.0

Notes to the Condensed Consolidated Financial Statements (continued)**7. Taxation**

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Corporation tax:			
Current period	10.8	9.3	21.1
Prior periods	-	-	(0.8)
	10.8	9.3	20.3
Deferred tax:			
Current period	2.8	5.7	5.6
Prior periods	-	-	(0.9)
	2.8	5.7	4.7
Tax charge for the period	13.6	15.0	25.0

Corporation tax is calculated at 19% (Sept 2017: 19%, Mar 2018: 19%) of the estimated assessable profit for the period. The Government announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020. The legislation has been given effect by the Finance Bill 2016 which was substantively enacted on 6 September 2016. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 17% rate. Deferred tax is calculated using the rate at which it is expected to reverse.

8. Dividends

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Amounts recognised as distributions to equity holders in the period:			
Final dividends for the year ended 31 March 2017 of 2.52 pence per share	-	12.0	12.0
Interim dividends for the year ended 31 March 2018 of 13.34 pence per share	-	-	63.6
Final dividends for the year ended 31 March 2018 of 3.36 pence per share	16.0	-	-
Dividends for the period	16.0	12.0	75.6

At the Board meeting in November 2018 the Directors proposed an interim dividend of £30.3m for the year ending 31 March 2019, subject to approval by equity holders of the Company; that is not a liability in the financial statements at 30 September 2018.

Notes to the Condensed Consolidated Financial Statements (continued)**9. Property, plant and equipment**

During the period, the Group spent £113.2m (Sept 2017: £95.7m, Mar 2018: £208.9m) on additions to property, plant and equipment as part of its capital programme for its operating network. Included in this figure is capitalised interest of £0.3m (Sept 2017: £0.3m, Mar 2018: £1.0m), in accordance with IAS 23.

10. Borrowings

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Current liabilities:			
Bank and other term borrowings	6.8	6.4	6.6
Non-current liabilities:			
Bonds designated at FVTPL	357.8	379.6	367.2
Bonds held at amortised cost (Note 11)	340.1	334.4	338.4
Bank and other term borrowings	253.5	252.0	253.2
Amounts owed to parent undertaking	73.7	71.2	73.7
Amounts owed to affiliated undertaking (Note 11)	198.5	198.0	198.2
	1,223.6	1,235.2	1,230.7
Total borrowings	1,230.4	1,241.6	1,237.3

As at 30 Sept 2018 the Group had £25.0m of unutilised committed bank facilities (Sept 2017: £25.0m, Mar 2018: £25.0m).

The Group's debt facilities expire between 2020 and 2046.

Notes to the Condensed Consolidated Financial Statements (continued)

11. Financial instruments

Fair values

Borrowings designated at fair value through profit or loss and derivative financial instruments are carried in the statement of financial position at fair value. All of the fair value measurements recognised in the statement of financial position for the Group and Company occur on a recurring basis.

Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy overleaf).

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

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

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

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

The adjustment for non-performance risk as at 30 Sept 2018 is £89.5m (Sept 2017: £71.5m, Mar 2018: £93.1m), of which £88.9m (Sept 2017: £71.3m, Mar 2018: £91.6m) is classed as Level 3.

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

	Unaudited Period ended 30 Sept 2018		Unaudited Period ended 30 Sept 2017		Audited Year ended 31 Mar 2018	
	-10bps £m	+10bps £m	-10bps £m	+10bps £m	-10bps £m	+10bps £m
Inflation-linked swaps	(2.1)	2.0	(2.0)	1.9	(2.0)	1.9

On entering certain derivatives, the valuation technique used resulted in a fair value loss. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. This difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised in profit or loss is £57.3m (Sept 2017: £31.7m, Mar 2018: £58.4m). The movement in the period all relates to the straight-line release to profit or loss.

Notes to the Condensed Consolidated Financial Statements (continued)**11. Financial instruments (continued)****Fair values (continued)**

The value of derivatives is disclosed gross of any collateral held. At 30 September 2018, the Group held £9.0m (Sept 2017: £nil, Mar 2018: £10.6m) as collateral in relation to derivative financial instruments, included within current liabilities. The cash collateral does not meet the offsetting criteria in IAS 32: 42, but it can be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Derivative financial liabilities;			
Level 1	-	-	-
Level 2	(26.9)	(109.6)	(34.6)
Level 3	(327.9)	(225.2)	(322.7)
	(354.8)	(334.8)	(357.3)
Financial liabilities designated at FVTPL;			
Level 1	(357.8)	(379.6)	(367.2)
Level 2	-	-	-
Level 3	-	-	-
	(357.8)	(379.6)	(367.2)

There were no transfers between levels during the current period (Sept 2017: same). In the year ended 31 March 2018, inflation-linked swaps with fair values of £105.7m were restructured. Prior to restructure, all £105.7m was classified as Level 2; upon restructure £95.5m was transferred from Level 2 to Level 3, principally due to a change in the significance of the unobservable inputs used to derive Electricity North West's credit curve for the DVA, as described in this section above. Any transfers between levels are determined and recognised at the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements (continued)**11. Financial instruments (continued)****Fair values (continued)**

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

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Opening balance	(322.7)	(244.3)	(244.3)
Transfers into Level 3 from Level 2	-	-	(95.5)
Total gains or losses in profit or loss:			
On transfers into Level 3 from Level 2	-	-	1.5
On instruments carried forward in Level 3	(5.2)	19.1	15.6
Closing balance	(327.9)	(225.2)	(322.7)

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

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values. The fair values shown in the table below are derived from market values and, therefore, meet the Level 1 criteria.

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Carrying value:			
Non-current liabilities:			
Bonds held at amortised cost (Note 10)	(340.1)	(334.4)	(338.4)
Amounts owed to affiliated undertaking (Note 10)	(198.5)	(198.0)	(198.2)
Fair value:			
Non-current liabilities:			
Bonds held at amortised cost	(498.4)	(514.6)	(512.9)
Amounts owed to affiliated undertaking	(224.7)	(235.4)	(228.9)

Changes in circumstances significantly affecting the fair value of financial assets and financial liabilities

Over the period there has been a £11.9m gain on financial instruments held at FVTPL. This is primarily due to changes in future interest and inflation expectations used to derive the fair values. £36.7m of the gain is a result of the increase in interest rate expectations, offset by a £22.2m loss as a result of the increase in inflation expectation over the period.

Notes to the Condensed Consolidated Financial Statements (continued)

12. Retirement benefit schemes

Defined benefit schemes

The defined benefit surplus/obligation is calculated using the latest actuarial valuation as at 31 March 2016 and has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 30 September 2018 for the purpose of these financial statements. The present value of the defined benefit surplus/obligation, the related current service cost and the past service cost were measured using the projected unit credit method. The defined benefit plan assets have been updated to reflect their market value as at 30 September 2018. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the statement of comprehensive income in accordance with the Group's accounting policy.

The defined benefit deficit became a surplus of £4.2m (Sept 2017: deficit of £35.8m, Mar 2018: deficit of £18.2m), primarily due to a 0.2% increase in the discount rate, which decreased the value placed on the liabilities.

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies the principles of IFRIC 14, '*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*', whereby a surplus is only recognised to the extent that the Group is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, where the Group does not have access to any funds once they are paid into the scheme, the IFRS financial position recorded reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable.

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

Notes to the Condensed Consolidated Financial Statements (continued)**13. Provisions**

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Opening Balance	3.1	4.0	4.0
Charged/ (credited) to the income statement	-	-	(0.2)
Utilisation of provision	(0.3)	(0.3)	(0.7)
Closing balance	2.9	3.7	3.1
Current	0.6	1.0	0.8
Non current	2.3	2.7	2.3
Closing balance	2.9	3.7	3.1

During the year ended 31 March 2013 a provision was created in connection with a portfolio of retail properties for which the Company was liable under privity of contract. The combined closing provision of £1.3m (Sept 2017: £1.9m, Mar 2018: £1.5m), which now relates to one high street retail property and two out of town retail properties, has been evaluated by management, is supported by relevant external property specialists, and reflects the Company's best estimate as at the Statement of Financial Position date of the amounts that could become payable by the Company, on a discounted basis. The estimate is a result of a detailed risk assessment process, which considers a number of variables including the location and size of the stores, expectations regarding the ability of the Company to both defend its position and also to re-let the properties, conditions in the local property markets, demand for retail warehousing, likely periods of vacant possession and the results of negotiations with individual landlords, letting agents and tenants, and is hence inherently judgemental.

The Company has recognised £1.6m provision on a discounted basis (Sept 2017: £1.8m, Mar 2018: £1.6m) in relation to pension liabilities from the former EA Technology Limited.

Notes to the Condensed Consolidated Financial Statements (continued)**14. Related party transactions**

Loans are made between companies in the North West Electricity Networks (Jersey) Group on which varying rates of interest are chargeable. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the Electricity North West Ltd Group companies entered into the following transactions with related parties who are not members of that Group:

	Unaudited Period ended 30 Sept 2018	Unaudited Period ended 30 Sept 2017	Audited Year ended 31 Mar 2018
	£m	£m	£m
Recharges to:			
Electricity North West (Construction and Maintenance) Ltd	0.6	1.0	0.6
Electricity North West Services Ltd	1.4	0.9	1.6
Recharges from:			
Electricity North West (Construction and Maintenance) Ltd	-	-	(0.1)
Electricity North West Services Ltd	(2.0)	(1.8)	(4.8)
Interest payable to:			
North West Electricity Networks plc	(1.0)	(1.0)	(2.0)
ENW Finance plc	(6.1)	(6.2)	(12.4)
Dividends paid to North West Electricity Networks plc	(16.0)	(12.0)	(75.6)
Directors' remuneration	(1.4)	(0.8)	(1.9)
Directors' services	(0.1)	(0.1)	(0.2)

Fees of £60,000 (Sept 2017: £60,000, Mar 2018: £120,000) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party.

Fees of £60,000 (Sept 2017: £60,000, Mar 2018: £120,000) were payable to IIF Int'l Holding GP Ltd, in respect of the provision of Directors' services. IIF Int'l Holding GP Ltd is identified as a related party.

Notes to the Condensed Consolidated Financial Statements (continued)

14. Related party transactions (continued)

Amounts outstanding between the Group and other companies within the North West Electricity Networks (Jersey) Limited Group:

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Amounts owed by:			
North West Electricity Networks plc	3.4	3.3	3.3
North West Electricity Networks (Holdings) Ltd	0.2	0.2	0.2
Electricity North West (Construction and Maintenance) Ltd	0.2	0.3	0.2
Electricity North West Services Ltd	0.6	0.3	1.3
Electricity North West Property Ltd	0.1	-	0.1
North West Electricity Networks (Jersey) Ltd	0.1	0.1	0.1
Amounts owed to Electricity North West Services Ltd	(0.3)	(0.4)	(0.3)
Group tax relief to:			
North West Electricity Networks plc	(3.0)	(3.2)	(5.6)
Electricity North West Services Ltd	-	-	(0.1)
Interest payable to:			
North West Electricity Networks plc	(0.6)	(0.5)	(0.5)
ENW Finance plc	(2.4)	(2.5)	(2.5)
Borrowings payable to:			
North West Electricity Networks plc	(73.7)	(71.2)	(73.7)
ENW Finance plc	(198.5)	(199.3)	(198.2)

The loan from North West Electricity Networks plc accrues weighted average interest at 2.70% per annum (Sept 2017: 2.74%, Mar 2018: 2.70%) and is repayable in March 2023.

The loan from ENW Finance plc accrues interest at 6.125% (Sept 2017: 6.125%, Mar 2018: 6.125%) and is repayable in July 2021.

Notes to the Condensed Consolidated Financial Statements (continued)**15. Cash generated from operations**

	Unaudited Period ended 30 Sept 2018 £m	Unaudited Period ended 30 Sept 2017 £m	Audited Year ended 31 Mar 2018 £m
Operating profit	82.5	74.5	183.3
Adjustments for:			
Depreciation of property, plant and equipment	55.1	53.6	108.3
Amortisation of intangible assets	2.8	2.3	5.5
Amortisation of customer contributions ¹	(8.7)	(8.4)	(16.9)
Profit on disposal of property, plant and equipment	(0.1)	(0.1)	(0.2)
Cash contributions in excess of pension charge to operating profit	(11.4)	(11.6)	(22.4)
Operating cash flows before movement in working capital	120.2	110.3	257.6
Changes in working capital:			
(Increase)/ decrease in inventories	(1.5)	(1.4)	(0.9)
(Increase)/ decrease in trade and other receivables	9.1	9.6	(2.9)
Increase/ (decrease) in provisions and payables	(10.7)	(24.3)	(14.8)
Cash generated from operations	117.1	94.2	239.0

¹ In the 6 months ended 30 September 2018 £3.5m (Sept 2017: £3.1m, Mar 2018 £6.4m) of amortisation in respect of customer contributions has been amortised through revenue as a result of the adoption of IFRIC 18.