

Company Registration No. 06428375

NORTH WEST ELECTRICITY NETWORKS PLC

**Half Year Condensed Consolidated
Financial Statements**

for the period ended 30 September 2017

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Interim Management Report

Cautionary statement

This interim management report contains certain forward-looking statements with respect to the consolidated financial condition and business of North West Electricity Networks Plc 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. North West Electricity Networks Plc (the "Company") undertakes 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.

Directors

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

Peter Emery
David Brocksom
Chris Dowling
John Lynch
Niall Mills
Rob Holden

Operations

North West Electricity Networks Plc acts as an intermediary holding company within the North West Electricity Networks (Jersey) Limited group of companies and does not conduct any other trading activities.

The Group's principal activity is the operation of electricity distribution assets owned by Electricity North West Limited ("ENWL"), a subsidiary of the Company. 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.

The Company operates solely as an investment financing company and therefore it has no non-financial key performance indicators.

Consolidated Results

	6 months ended 30 Sept 2017	6 months ended 30 Sept 2016	Year ended 31 March 2017
Revenue	£197m	£227m	£486m
Profit before tax and fair value movements	£10m	£43m	£130m
Profit/(loss) before tax	£52m	£(96)m	£27m
Net Debt	£2,126m	£2,129m	£2,108m

Revenue

Revenue is £30m lower in the six months to 30 September 2017 compared to the same period in the prior year. This is due to lower unit prices which are set to recover an allowed Distribution Use of System ("DUoS") revenue for each year. The principal reason for the lower unit price is a lower correction factor adjustment for over-recovered revenue in prior years.

As experienced in the year to 31 March 2017, the revenue for the six months to 31 March 2018 is expected to be higher than that in the six months to 30 September 2017, due to the 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 £33m lower than the six months to September 2016. This is primarily due to the lower revenue.

Profit before tax

Profit/(loss) before tax is £148m higher than the same period in the prior year. This is primarily due to the £181m favourable shift in fair values, being the difference between the £42m favourable fair value movement in the period, compared to the significant adverse movement of £139m in the same period in the prior year, net of the reduction in revenue. 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 10).

Net Debt

Net debt has increased by £18m in the six month period to 30 September 2017; this is largely due to the reduction in the money market deposits, offset by the favourable movement in the fair value of the £250m 8.875% 2026 bond at fair value through profit and loss.

Interim Management Report

(continued)

Dividends

No final dividends for the year ended 31 March 2017 were declared or paid in the period. More details on dividends are given in Note 7.

Retirement benefit obligation

The retirement benefit obligation has decreased over the six month period to 30 September 2017, from £58.0m to £35.8m. The main reason for the improvement is the small increase in the discount rate used to value the liabilities (see Note 12).

Principal risks and uncertainties

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

The principal trade and activities of the Group are carried out by 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 discussed in the ENWL Annual Report and Consolidated Financial Statements for the year ended 31 March 2017, which are available on our website, www.enwl.co.uk.

The Board considers the following risks to be the principal ones that may affect the Company specifically, extracted from those identified in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements.

Failure to comply with investor and banking covenants

The Group has a comprehensive set of covenants contained within the legal agreements governing the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who are responsible for ensuring compliance.

A compliance reporting regime is well established and the compliance status is reviewed and approved by the CFO and CEO on a monthly basis, and is reported to the Board. There have been no covenant breaches in the current period. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan covering the period to 31 March 2018. In addition the forecasts for the 2015-23 RIIO-ED1 price review period demonstrate sufficient liquidity and headroom against the key ratios.

Refinancing

The Company is a subsidiary within a group of companies established specifically for the purpose of purchasing ENWL on 19 December 2007. The purchase was financed by a combination of equity and bank finance. The Group and Company are financed largely by long-term external funding, and this, together with the present cash position and committed undrawn facilities, provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future.

In the period, a total of £124m bank facilities were due to expire, in August 2017. These were £nil drawn so there was no refinancing risk as such. Replacement facilities, however, have been negotiated; the £100m capex facility was reduced to £25m, due to expire in March 2020 and the £24m facility rolled over for another year, due to expire in August 2018.

Within the next twelve months, £6.4m scheduled loan repayments will fall due. These are planned to be met from surplus cash.

There is no forecast need for any refinancing, or new debt, in the next twelve months.

Financial risks

The principal financial risks which the Group is exposed to and which arise in the normal course of business are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation and equity price risks.

Credit (counterparty) risk management

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

Exposure limits with counterparties are reviewed regularly. The Group's exposure and the credit ratings of its counterparties are monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Interim Management Report (continued)

Liquidity risk management

The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

Market risk management

The Group manages market risk exposure by seeking to match financing costs as closely as possible with the revenues generated by its assets.

The regulated revenue generated by ENWL is linked to inflation and the Group, therefore, matches a proportion of the financing costs using a combination of index-linked debt and index-linked derivatives. By matching the cost of funding and revenue in this way, the exposure to movements in inflation is somewhat mitigated. Inevitably, there is not a perfect match and some exposure remains.

Financial statements

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

Going concern

After making enquiries as discussed in the accounting policies on pages 9 to 10, the Directors have 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.

Responsibility statement

We confirm that to the best of our knowledge:

- a. 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;
- b. the interim management report includes a fair review of the information required by DTR 4.2.7R; and
- c. the condensed set of consolidated financial statements has been prepared in accordance with IAS34 'Interim Financial Reporting'.

Registered address

NWEN Plc
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

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



D Brocksom

Chief Financial Officer
22 November 2017

Condensed Consolidated Income Statement
For the period ended 30 September 2017

	Note	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Revenue		197.1	226.8	485.5
Employee costs		(26.0)	(22.4)	(46.9)
Depreciation and amortisation expense (net)		(55.1)	(54.1)	(108.4)
Other operating costs		(46.0)	(45.0)	(79.6)
Total operating expenses		(127.1)	(121.5)	(234.9)
Operating profit		70.0	105.3	250.6
Investment income	4	0.7	0.4	0.7
Finance expense (net)	5	(18.8)	(201.3)	(224.2)
Profit/(loss) before taxation		51.9	(95.6)	27.1
Taxation	6	(11.3)	30.4	4.8
Profit/(loss) for the period/year attributable to equity shareholders		40.6	(65.2)	31.9

All the results shown in the Condensed Consolidated Income Statement derive from continuing operations.

Condensed Consolidated Statement of Comprehensive Income

For the period ended 30 September 2017

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Profit/(loss) for the period/year	40.6	(65.2)	31.9
Items that will not be classified subsequently to profit or loss:			
Remeasurement of defined benefit pension scheme	15.9	(168.2)	(52.1)
Deferred tax on remeasurement of defined benefit pension scheme taken directly to equity	(2.7)	28.6	8.9
Adjustment due to change in future tax rates of brought forward deferred tax taken directly to equity	-	(1.0)	(1.0)
Other comprehensive income/(expense) for the period/year	13.2	(140.6)	(44.2)
Total comprehensive income/(expense) for the period/year attributable to equity shareholders	53.8	(205.8)	(12.3)

Condensed Consolidated Statement of Financial Position

as at 30 September 2017

	Note	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
ASSETS				
Non-current assets				
Intangible assets and goodwill		235.0	228.7	232.4
Property, plant and equipment	8	3,090.2	2,993.9	3,048.2
		<u>3,325.2</u>	<u>3,222.6</u>	<u>3,280.6</u>
Current assets				
Inventories		11.0	9.4	9.6
Trade and other receivables		47.9	51.1	57.7
Cash and cash equivalents		134.4	135.8	143.5
Money market deposits (maturity over 3 months)		-	10.0	10.0
Current tax asset		-	12.0	1.0
		<u>193.3</u>	<u>218.3</u>	<u>221.8</u>
Total assets		<u><u>3,518.5</u></u>	<u><u>3,440.9</u></u>	<u><u>3,502.4</u></u>
LIABILITIES				
Current liabilities				
Borrowings	9	(6.4)	(6.2)	(6.4)
Trade and other payables		(143.7)	(142.8)	(158.4)
Current tax liabilities		(8.5)	-	-
Provisions	14	(1.0)	(0.4)	(1.1)
		<u>(159.6)</u>	<u>(149.4)</u>	<u>(165.9)</u>
Net current assets		<u>33.7</u>	<u>68.9</u>	<u>55.9</u>
Non-current liabilities				
Borrowings	9	(2,254.1)	(2,268.3)	(2,255.6)
Derivative financial instruments	10	(357.5)	(406.4)	(387.8)
Deferred tax liabilities		(219.5)	(186.1)	(211.8)
Customer contributions		(313.1)	(278.5)	(298.0)
Provisions	14	(2.7)	(2.0)	(2.9)
Retirement benefit obligation	12	(35.8)	(179.3)	(58.0)
		<u>(3,182.7)</u>	<u>(3,320.6)</u>	<u>(3,214.1)</u>
Total liabilities		<u><u>(3,342.3)</u></u>	<u><u>(3,470.0)</u></u>	<u><u>(3,380.0)</u></u>
Net assets/(liabilities)		<u><u>176.2</u></u>	<u><u>(29.1)</u></u>	<u><u>122.4</u></u>
EQUITY				
Called up share capital		3.0	3.0	3.0
Retained earnings		173.2	(32.1)	119.4
Total equity		<u><u>176.2</u></u>	<u><u>(29.1)</u></u>	<u><u>122.4</u></u>

Approved by the Board of Directors on 22 November 2017 and signed on its behalf by:

D Brocksom

Director



Condensed Consolidated Statement of Changes in Equity
For the period ended 30 September 2017

	Called up share capital £m	Retained earnings £m	Total equity £m
At 31 March 2016 (audited)	3.0	182.7	185.7
Profit for the period	-	(65.2)	(65.2)
Other comprehensive income	-	(140.6)	(140.6)
Total comprehensive income for the period	-	(205.8)	(205.8)
Transactions with owners recorded directly in equity:			
Equity dividends (note 7)	-	(9.0)	(9.0)
At 30 September 2016 (unaudited)	3.0	(32.1)	(29.1)
At 31 March 2016 (audited)	3.0	182.7	185.7
Profit for the year	-	31.9	31.9
Other comprehensive income	-	(44.2)	(44.2)
Total comprehensive income for the year	-	(12.3)	(12.3)
Transactions with owners recorded directly in equity:			
Equity dividends (note 7)	-	(51.0)	(51.0)
At 31 March 2017 (audited)	3.0	119.4	122.4
Profit for the period	-	40.6	40.6
Other comprehensive income	-	13.2	13.2
Total comprehensive income for the period	-	53.8	53.8
Transactions with owners recorded directly in equity:			
Equity dividends (note 7)	-	-	-
At 30 September 2017 (unaudited)	3.0	173.2	176.2

Condensed Consolidated Statement of Cash Flows

For the period ended 30 September 2017

		Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
	Note			
Operating activities				
Cash generated from operations	11	93.8	168.6	348.2
Interest paid		(29.1)	(45.7)	(89.5)
Tax received/(paid)		3.3	(38.5)	(19.5)
Net cash generated from operating activities		68.0	84.4	239.2
Investing activities				
Interest received and similar income		0.7	0.5	0.9
Purchase of property, plant and equipment		(91.0)	(90.2)	(194.3)
Purchase of intangible assets		(5.0)	(4.1)	(10.1)
Customer contributions received		19.8	21.5	45.5
Proceeds from sale of property, plant and equipment		0.1	0.1	0.1
Net cash used in investing activities		(75.4)	(72.2)	(157.9)
Net cash (outflow)/inflow before financing activities		(7.4)	12.2	81.3
Financing activities				
Dividends paid to equity shareholders of the Company	7	-	(9.0)	(51.0)
Transfer from money market deposits		10.0	13.5	13.5
Proceeds from external borrowings		-	-	-
Repayment of external borrowings		(2.9)	(1.6)	(4.8)
Accretion on index-linked swaps		(8.8)	-	(16.2)
Net cash (used in)/generated from financing activities		(1.7)	2.9	(58.5)
Net (decrease)/increase in cash and cash equivalents		(9.1)	15.1	22.8
Cash and cash equivalents at beginning of the period/year		143.5	120.7	120.7
Cash and cash equivalents at end of the period/year		134.4	135.8	143.5

Notes to the Half Year Condensed Consolidated Financial Statements

1 General Information

The financial information for the 6 month period ended 30 September 2017 and similarly the period ended 30 September 2016 has neither been audited nor reviewed by the auditor. The financial information for the year ended 31 March 2017 has been based on information in the audited financial statements for that year.

The financial information for the year ended 31 March 2017 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 2017 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 preparation

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. 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 European Union.

The results for the period ended 30 September 2017 have been prepared using the same method of computation and on the basis of accounting policies consistent with those set out in the Annual Report and Consolidated Financial Statements of North West Electricity Networks Plc for the year ended 31 March 2017.

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

When considering continuing to adopt the going concern basis in preparing the Half Year Condensed Consolidated Financial Statements for the six months ended 30 September 2017, the Directors have taken into account a number of factors, including the following:

- Electricity North West Limited's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating and this has been maintained through the period under review;
- 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 the 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 2018 and forecasts covering the period to the end of the current price review, in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and 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 normal operating cash flow and short-term deposit balances. A further £74m of committed undrawn bank facilities of £25m within ENWL and £49m in the Company are available from lenders. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2023 indicate there is significant headroom on these covenants.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

2 Significant accounting policies *(continued)*

Going concern *(continued)*

The Board has given detailed consideration to the principal risks and uncertainties affecting the Group and Company, as referred to in the interim management report, 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 Group and Company 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.

Critical accounting judgements and key sources of estimation uncertainty

Changes in accounting policy

There are no accounting policies and standards adopted for the six month period ended 30 September 2017, or for the remainder of the year to 31 March 2018, that have a significant impact on 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 the income statement in finance expense and is separately identifiable from the net interest paid or received on these financial instruments, see Note 5. Fair value is determined in the manner described in Note 10.

3 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 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.

4 Investment income

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Interest receivable on short-term bank deposits held at amortised cost	0.7	0.4	0.7

Notes to the Half Year Condensed Consolidated Financial Statements (continued)

5 Finance expense (net)

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Interest payable			
Interest payable on Group borrowings	15.8	15.8	31.5
Interest payable on borrowings held at amortised cost	23.7	23.9	47.7
Interest payable on borrowings designated at FVTPL	-	-	22.2
Net receipts on derivatives held for trading	(0.7)	(0.9)	(10.6)
Other finance charges related to index-linked debt	12.7	7.5	14.8
Accretion on index-linked swaps	8.8	16.2	16.2
Interest cost on pension plan obligations	0.6	0.2	0.1
Capitalisation of borrowing costs under IAS 23	(0.3)	(0.2)	(0.8)
Total interest expense	60.6	62.5	121.1
Fair value movements on financial instruments			
Fair value movement on borrowings designated at FVTPL	(11.4)	27.4	10.3
Fair value movement on derivatives held for trading	(30.4)	111.4	92.8
Total fair value movements	(41.8)	138.8	103.1
Total finance expense (net)	18.8	201.3	224.2

6 Taxation

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Current tax:			
Current period/year	6.3	4.6	25.3
Prior year	-	-	(1.1)
	6.3	4.6	24.2
Deferred tax:			
Current period/year	5.0	(20.2)	(16.4)
Prior year	-	-	2.2
Impact of change in future tax rates	-	(14.8)	(14.8)
	5.0	(35.0)	(29.0)
Tax charge / (credit) for the period/year	11.3	(30.4)	(4.8)

Corporation tax is calculated at 19% (period ended 30 September 2016: 20%, year ended 31 March 2017: 20%) being the best estimate of the effective tax rate for the full financial year. The tax rate will change to 17% on 1 April 2020.

Deferred tax has been recalculated based on the expected future tax rates, giving rise to the impact of change in future tax rates shown above.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

7 Dividends

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

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Final dividends for the year ended 31 March 2016 of 300.00 pence per share	-	9.0	9.0
Interim dividends for the year ended 31 March 2017 of 1,400.00 pence per share	-	-	42.0
Dividends for the period/year	-	9.0	51.0

8 Property, plant and equipment

During the period, the Group spent £95.7m (period ended 30 September 2016: £93.2m, year ended March 2017: £200.4m) on additions to property, plant and equipment as part of its capital programme for its operating network. Included in these figures is capitalised interest £0.3m (period ended 30 September 2016: £0.2m, year ended March 2017: £0.8m), in accordance with IAS 23.

9 Borrowings

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Current liabilities			
Bank and other term borrowings	6.4	6.2	6.4
	6.4	6.2	6.4
Non-current liabilities			
Borrowings designated at FVTPL:			
Bonds	379.6	408.1	391.0
Borrowings measured at amortised cost:			
Bonds	946.0	934.1	938.8
Bank and other term borrowings	252.0	249.6	249.3
Amounts owed to parent undertaking	676.5	676.5	676.5
	2,254.1	2,268.3	2,255.6
Total borrowings	2,260.5	2,274.5	2,262.0

As at 30 September 2017 the Group had £74.0m of unutilised committed bank facilities (30 September 2016: £124.0m, 31 March 2017: £74.0m).

The Group's debt facilities expire between 2018 and 2046.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

10 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 September 2017 is £72.1m (30 September 2016: £81.4m, 31 March 2017: £75.0m), of which £71.4m (30 September 2016: £77.9m, 31 March 2017: £73.7m) 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		Unaudited		Audited	
	Period ended		Period ended		Year ended	
	30 September 2017		30 September 2016		31 March 2017	
	-10bps	+10bps	-10bps	+10bps	-10bps	+10bps
	£m	£m	£m	£m	£m	£m
Inflation-linked swaps	(2.0)	1.9	(5.2)	5.0	(2.1)	2.0

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 £31.7m (30 September 2016: £32.7m, 31 March 2017: £32.2m). The movement in the period all relates to the straight-line release to profit or loss.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

10 Financial instruments *(continued)*

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 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Derivative financial liabilities;			
Level 1	-	-	-
Level 2	(125.0)	(150.0)	(135.3)
Level 3	(232.5)	(256.4)	(252.5)
	(357.5)	(406.4)	(387.8)
Financial liabilities designated at FVTPL;			
Level 1	(379.6)	(408.1)	(391.0)
Level 2	-	-	-
Level 3	-	-	-
	(379.6)	(408.1)	(391.0)

There were no transfers between levels during the current period (period ended 30 September 2016: same). In the year ended 31 March 2017, £8.7m of derivative financial liabilities were 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 Half Year Condensed Consolidated Financial Statements *(continued)*

10 Financial instruments *(continued)*

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

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Opening balance	(252.5)	(177.8)	(177.8)
Transfers into Level 3 from Level 2	-	-	(8.7)
Total gains or losses in profit or loss;			
On transfers into Level 3 from Level 2	-	-	4.4
On new derivatives in the period	-	-	-
On instruments carried forward in Level 3	20.0	(78.6)	(70.4)
Closing balance	(232.5)	(256.4)	(252.5)

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 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Carrying value:			
Non-current liabilities:			
Borrowings measured at amortised cost			
Bonds	(946.0)	(934.1)	(938.8)
Fair value:			
Non-current liabilities:			
Borrowings measured at amortised cost			
Bonds	(1,163.6)	(1,199.7)	(1,175.8)

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

Over the period, market expectations of future interest rates have increased significantly; this has resulted in £41.2m of the total £41.8m fair value movement over the period.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

11 Cash generated from operations

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2016 £m
Operating profit	70.0	105.2	250.6
Adjustments for:			
Depreciation of property, plant and equipment	53.7	53.1	106.0
Amortisation of intangible assets	2.3	1.9	4.1
Amortisation of customer contributions ¹	(4.0)	(3.6)	(7.2)
Profit on disposal of property, plant and equipment	(0.1)	(0.1)	(0.1)
Cash contributions in excess of pension charge to operating profit	(11.6)	(8.1)	(16.5)
Operating cash flows before movement in working capital	110.3	148.4	336.9
Changes in working capital:			
(Increase) in inventories	(1.4)	(0.9)	(1.1)
Decrease in trade and other receivables	9.6	12.8	5.9
(Decrease)/increase in provisions and payables	(24.7)	8.3	6.5
Cash generated from operations	93.8	168.6	348.2

- ¹ In the 6 months ended 30 September 2017 £3.1m (period ended September 2016: £2.6m, year ended March 2017 £5.5m) of amortisation in respect of customer contributions has been amortised through revenue as a result of the adoption of IFRIC 18.

12 Retirement benefit schemes

Defined benefit schemes

The defined benefit 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 2017. The present value of the defined benefit deficit, 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 2017. 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 decreased to £35.8m (30 September 2016: surplus of £179.3m, 31 March 2017: deficit of £58.0m), primarily due to a 0.1% increase in the discount rate, which decreased the value placed on the liabilities.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

13 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 North West Electricity Networks Plc Group companies entered into the following transactions with related parties who are not members of that Group:

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Transactions with related parties			
Recharges to Electricity North West (Construction and Maintenance) Limited	1.0	0.7	1.0
Recharges from Electricity North West (Construction and Maintenance) Limited	-	-	(0.1)
Recharges to Electricity North West Services Ltd	0.9	-	1.2
Recharges from Electricity North West Services Ltd	(1.8)	-	(0.6)
Directors' remuneration	(0.8)	(0.8)	(1.8)
Directors' services	(0.1)	(0.1)	(0.2)
Interest payable to North West Electricity Networks (Holdings) Ltd	(15.8)	(15.8)	(31.5)
Dividends paid to NWEN Group Limited	-	(9.0)	(51.0)

Fees of £0.1m (September 2016: £0.1m, March 2017: £0.1m) 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 £0.1m (September 2016: £0.1m, March 2017: £0.1m) were payable to IIF Int'l Holding GP Ltd ('IIF'), which is identified as a related party, in respect of the provision of Directors' services.

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

13 Related party transactions *(continued)*

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

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Amounts owed to related parties			
Group tax relief to North West Electricity Networks (UK) Ltd	-	-	(14.3)
Group tax relief to Electricity North West Services Ltd	-	-	(0.1)
Amounts owed to Electricity North West Services Ltd	(0.4)	-	(0.6)
Interest to North West Electricity Networks (Holdings) Ltd	(13.2)	(13.2)	(13.1)
Amounts owed to North West Electricity Networks (Holdings) Ltd	(676.5)	(676.5)	(676.5)
Amounts owed by related parties			
Amounts owed by North West Electricity Networks (Holdings) Ltd	0.7	0.7	0.7
Amounts owed by Electricity North West (Construction and Maintenance) Limited	0.3	0.2	0.4
Amounts owed by Electricity North West Services Ltd	0.3	-	1.4
Amounts owed by North West Electricity Networks (Jersey) Ltd	-	-	0.1

The amounts owed to related parties comprise of the following loans from North West Electricity Networks (Holdings) Limited, and the interest thereon: £200m at fixed 10% repayable in 2027; £327m interest free repayable in 2027; £149.5m interest at fixed 7.367% repayable in 2021 (September 2016: same, March 2017: same).

Notes to the Half Year Condensed Consolidated Financial Statements *(continued)*

14 Provisions

	Unaudited Period ended 30 September 2017 £m	Unaudited Period ended 30 September 2016 £m	Audited Year ended 31 March 2017 £m
Opening Balance	4.0	2.5	2.5
Charge to the income statement on re-estimate of provision	-	0.1	1.9
Utilisation of provision	(0.3)	(0.2)	(0.4)
	3.7	2.4	4.0
Current	1.0	0.4	1.1
Non current	2.7	2.0	2.9
	3.7	2.4	4.0

During the year ended 31 March 2013 a provision was created in connection with a portfolio of retail properties which the company was liable under privity of contract. The combined closing provision of £1.9m, 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 Group's best estimate as at the Statement of Financial Position date of the amounts that could become payable by the Group, 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 Group 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.

ENWL remains a guarantor of the pension liability of the former EA Technology Limited (EATL). A provision of £1.8m was created in the year ended 31 March 2017 for the estimated value of liability of amounts due under this guarantee, on a discounted basis.

