

Company Registration No. 06845434

ENW Finance plc

**Half Year Condensed Financial Statements
for the period ended 30 September 2016**

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INTERIM MANAGEMENT REPORT

Cautionary statement

This interim management report contains certain forward-looking statements with respect to the financial condition and business of ENW Finance plc (the 'Company'). 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. 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:

[Steve](#) Johnson (resigned 27 May 2016)

[Peter](#) Emery (appointed 27 May 2016)

[Niall](#) Mills

[Mark](#) Walters

[Chris](#) Dowling

[David](#) Brocksom

Operations

The principal activity of the Company is that of a financing company within the North West Electricity Networks (Jersey) Limited group (the 'Group') and the Company has debt in issue and listed on the London Stock Exchange.

There have been no significant changes to the activity of the Company in the current period.

Results

The results for the period are included in the Condensed Income Statement on page 5.

There have been no significant events in the 6 months ended 30 September 2016 in respect of the Company.

Principal risks and uncertainties

The principal risks and uncertainties have not changed from the last annual report. As the Company's obligations in respect of the listed debt are met via income receivable from Electricity North West Ltd ('ENWL'), the Board considers the principal risks and uncertainties facing the Company to be those that affect ENWL and the larger Group.

The principal trade and activities of the Group are carried out in 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 Business Review of the ENWL Annual Report and Consolidated Financial Statements for the year ended 31 March 2016.

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, and based on the assumptions, sensitivities and uncertainties outlined in the accounting policies on page 9, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future.

For this reason, they continue to adopt the going concern basis in preparing the Half Year Condensed Financial Statements.

INTERIM MANAGEMENT REPORT *(continued)*

Responsibility statement

We confirm that to the best of our knowledge:

- a. the condensed set of 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 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 financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

Registered address:

304 Bridgewater Place

Birchwood Park

Warrington

WA3 6XG

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

D Brocksom

Chief Financial Officer

27 December 2016

CONDENSED INCOME STATEMENT
For the period ended 30 September 2016

	Note	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Operating profit		-	-	-
Investment income	3	6,419	6,413	12,831
Finance expense	4	(5,436)	(5,346)	(10,799)
Profit before taxation		983	1,067	2,032
Taxation	5	(212)	(300)	(463)
Profit for the period/year attributable to equity shareholders		771	767	1,569

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

There were no other recognised gains and losses in the current or preceding periods; therefore no separate Condensed Statement of Comprehensive Income has been prepared.

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	Note	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
ASSETS				
Non-current assets				
Derivative financial instruments	8	322,469	223,267	257,201
Trade and other receivables	6	219,624	198,945	219,533
		<u>542,093</u>	<u>422,212</u>	<u>476,734</u>
Current assets				
Trade and other receivables	6	5,849	25,943	5,646
Cash and cash equivalents		12	12	12
		<u>5,861</u>	<u>25,955</u>	<u>5,658</u>
Total assets		<u><u>547,954</u></u>	<u><u>448,167</u></u>	<u><u>482,392</u></u>
LIABILITIES				
Current liabilities				
Trade and other payables	7	(2,378)	(2,382)	(5,575)
Current tax liabilities		(3,396)	(2,996)	-
		<u>(5,774)</u>	<u>(5,378)</u>	<u>(5,575)</u>
Net current assets		<u>87</u>	<u>20,577</u>	<u>83</u>
Non-current liabilities				
Borrowings	7	(199,124)	(198,945)	(199,033)
Derivative financial instruments	8	(331,636)	(233,975)	(267,148)
Deferred tax		(1,054)	(1,076)	(1,041)
		<u>(531,814)</u>	<u>(433,996)</u>	<u>(467,222)</u>
Total liabilities		<u>(537,588)</u>	<u>(439,374)</u>	<u>(472,797)</u>
Net assets		<u><u>10,366</u></u>	<u><u>8,793</u></u>	<u><u>9,595</u></u>
EQUITY				
Called up share capital		13	13	13
Retained earnings		10,353	8,780	9,582
Total equity		<u><u>10,366</u></u>	<u><u>8,793</u></u>	<u><u>9,595</u></u>

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

D Brocksom

Director

27 December 2016

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2016

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 April 2015	13	8,013	8,026
Profit for the period	-	767	767
At 30 September 2015 (unaudited)	13	8,780	8,793
At 1 April 2015	13	8,013	8,026
Profit for the year	-	1,569	1,569
At 31 March 2016 (audited)	13	9,582	9,595
Profit for the period	-	771	771
At 30 September 2016 (unaudited)	13	10,353	10,366

CONDENSED STATEMENT OF CASH FLOWS

For the period ended 30 September 2016

	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Unaudited Year ended 31 March 2016 £000
Operating activities			
Operating profit	-	-	-
Interest paid	(6,125)	(6,125)	(12,250)
Net cash used in operating activities	(6,125)	(6,125)	(12,250)
Investing activities			
Interest received and similar income	6,125	6,125	12,250
Net cash generated from investing activities	6,125	6,125	12,250
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents brought forward	12	12	12
Cash and cash equivalents at end of the period	12	12	12

The March 2016 financial statements were prepared under FRS 101, 'Reduced Disclosure Framework' and therefore a Statement of Cash Flows was neither presented nor audited.

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The financial information for the 6 month period ended 30 September 2016 and similarly the period ended 30 September 2015 has neither been audited nor reviewed by the auditor. The financial information for the year ended 31 March 2016 has been based on information in the audited financial statements for that year, with the exception of the cash flow statement which was not presented in the Company's 2016 financial statements as they were prepared under FRS101 'Reduced Disclosure Framework'; accordingly this statement is unaudited.

The financial information for the year ended 31 March 2016 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 2016 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) Companies Act 2006.

The financial information for the year ended 31 March 2016 is not a direct copy of the 31 March 2016 financial statements because these financial statements were prepared under FRS 101. Therefore although the 31 March 2016 financial information, with the exception of the cash flow statement, does come from audited financial statements the actual presentation and format used in these half year financial statements has not been audited.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Annual Report and Financial Statements of the Company are prepared in accordance with FRS 101, 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The Half Year Condensed Financial Statements of the Company 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 2016 have been prepared using the same methods of computation and on the basis of accounting policies consistent with those set out in the Annual Report and Financial Statements of ENW Finance plc for the year ended 31 March 2016.

The Directors do not believe that the Company is affected by seasonal factors which would have a material effect on the performance of the Company 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 Financial Statements for the six months ended 30 September 2016, the Directors have taken into account a number of factors, including the financial position of the Company and the Group in which it operates. The Company's obligations in respect of the listed debt are met via income receivable from Electricity North West Limited. The Directors have updated their going concern consideration at the half year period ended 30 September 2016 in respect of the Group and in particular for the North West Electricity Networks Plc group which produces Half Year Condensed Consolidated Financial Statements. Disclosure of the considerations made by the Directors in terms of the North West Electricity Networks Plc group and Company's cash flows, liquidity position and borrowing facilities and covenant compliance can be found in the North West Electricity Networks Plc Half Year Condensed Consolidated Financial Statements.

Consequently, after making the appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it is appropriate to adopt the going concern basis in preparing the half year Condensed Financial Statements.

Changes in accounting policy

There are no accounting policies and standards adopted for the six month period ended 30 September 2016, or for the remainder of the year to 31 March 2017, that have a significant impact on the Company.

Notes to the condensed set of financial statements *(continued)***2 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***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 4. Fair value is determined in the manner described in Note 8.

3 INVESTMENT INCOME

	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Interest receivable from Group companies	6,419	6,413	12,831

4 FINANCE EXPENSE

	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Interest payable on borrowings held at amortised cost	6,216	6,210	12,424
Fair value movement on derivatives held for trading	(780)	(864)	(1,625)
	5,436	5,346	10,799

5 TAXATION

	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Current tax:			
Current year	198	198	397
Deferred tax:			
Current year	14	102	66
	212	300	463

Corporation tax is calculated at 20% (period ended 30 September 2015: 20%, year ended 31 March 2016: 20%) being the best estimate of the effective tax rate for the full financial year.

The rate will be changed to 19% on 1 April 2017 and 17% on 1 April 2020. Deferred tax is calculated based on the expected future tax rates.

Notes to the condensed set of financial statements *(continued)*

6 TRADE AND OTHER RECEIVABLES

	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Non-current assets			
Amounts due from Group companies	219,624	198,945	219,533
Current assets			
Amounts due from Group companies	5,849	25,943	5,646

On 21 July 2009 the Company lent Electricity North West Limited proceeds of £198.2m in relation to the bond issue of £200.0m at 6.125 per cent fixed rate due 2021, net of discount on issue, on terms aligned to the terms of the external bond (see Note 7) and associated intercompany hedging arrangements. The carrying value of the receivable reflects the amortisation of the discount. The amount due in less than one year is interest relating to that loan.

7 BORROWINGS AND TRADE AND OTHER PAYABLES

	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Non-current liabilities			
Bonds	199,124	198,945	199,033
Current liabilities			
Trade and other payables	2,378	2,382	5,575
	2,378	2,382	5,575

The Company has £200.0m 6.125 per cent fixed rate bonds due 2021, guaranteed by ENWL. The amount due in less than one year is interest relating to that bond.

Notes to the condensed set of financial statements *(continued)*

8 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 rate expectations 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 – on each of the derivative asset and derivative liability – as at 30 September 2016 is £36.8m (30 September 2015: £74.1m, 31 March 2016: £44.9m), of which £33.9m (30 September 2015: £nil, 31 March 2016: £41.9m) 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 September 2016		Unaudited Period ended 30 September 2015		Audited Year ended 31 March 2016	
	-10bps £000	+10bps £000	-10bps £000	-10bps £000	-10bps £000	-10bps £000
Inflation-linked swaps	(2,685)	2,613	-	-	(1,790)	1,745

Profit for the year has been arrived at after (crediting)/charging:

	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Derivative financial assets	(65,268)	3,417	(11,572)
Derivative financial liabilities	64,488	(4,281)	9,947
Net credit to Profit and Loss Account (Note 4)	<u>(780)</u>	<u>(864)</u>	<u>(1,625)</u>

Notes to the condensed set of consolidated financial statements *(continued)*

8 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 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Derivative financial assets;			
Level 1	-	-	-
Level 2	117,161	223,267	94,173
Level 3	205,308	-	163,028
	322,469	223,267	257,201
Derivative financial liabilities;			
Level 1	-	-	-
Level 2	(117,161)	(233,975)	(94,173)
Level 3	(214,475)	-	(172,975)
	(331,636)	(233,975)	(267,148)

There were no transfers between levels during the current period (period ended 30 September 2015: same). In the year ended 31 March 2016, £131.4m of derivative financial assets and £143.0m 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.

Notes to the condensed set of consolidated financial statements *(continued)***8 FINANCIAL INSTRUMENTS** *(continued)*

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

	Unaudited Period ended 30 September 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Derivative financial assets;			
Opening balance	163,028	-	-
Transfers into Level 3 from Level 2	-	-	131,400
Total gains or losses in profit or loss;			
On transfers into Level 3 from Level 2	-	-	31,628
On derivatives in Level 3 for the whole period	42,280	-	-
Closing balance	205,308	-	163,028
Derivative financial liabilities;			
Opening balance	(172,975)	-	-
Transfers into Level 3 from Level 2	-	-	(143,000)
Total gains or losses in profit or loss;			
On transfers into Level 3 from Level 2	-	-	(29,9725)
On derivatives in Level 3 for the whole period	(41,500)	-	-
Closing balance	(214,475)	-	(172,975)

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 2016 £000	Unaudited Period ended 30 September 2015 £000	Audited Year ended 31 March 2016 £000
Non-current liabilities:			
Borrowings measured at amortised cost			
Carrying value	(199,124)	(198,945)	(199,033)
Fair value	(247,972)	(237,326)	(239,586)