Company Registration No. 02366949

ELECTRICITY NORTH WEST LIMITED

Half Year Condensed Consolidated Financial Statements

for the period ended 30 September 2016

CONTENTS

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 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. Electricity North West Limited (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:

Executive Directors
Peter Emery (appointed 27 May 2016)
Steve Johnson (resigned 27 May 2016)
David Brocksom

Non-executive Directors
Dr John Roberts
Niall Mills
Mike Nagle
Mark Walters
Chris Dowling
Hamish Lea-Wilson
Rob Holden

Niall Mills, Hamish Lea-Wilson and Mark Walters have all appointed alternate Directors. Tomas Pedraza was alternate for both Niall Mills and Hamish Lea-Wilson, and Andrew Truscott was alternate for Mark Walters, in all cases, throughout the period.

Operations

The Group's principal activity is the operation of electricity distribution assets owned by Electricity North West Limited ("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.

Results

	6 months ended 30 Sept 2016	6 months ended 30 Sept 2015	Year ended 31 March 2016
Revenue	**£227m**	£212m	£451m
Operating profit	**£110m**	£98m	£215m
Profit before tax and fair value movements, after accretion	**£73m**	£81m	£164m
Profit/(loss) before tax	**£(67m)**	£86m	£122m

Revenue

Revenue is £15m higher in the six months to 30 September 2016 compared to the same period in the prior year. This is due to a higher unit price, in line with the allowed Distribution Use of System ("DUoS") revenue.

As experienced in the year to 31 March 2016, the revenue for the six months to 31 March 2017 is expected to be higher than that in the six months to 30 September 2016, due to the higher volumes of electricity units distributed over the winter period.

Operating profit

Operating profit is £12m higher mainly as a result of the higher revenue and an ongoing focus on operating cost control.

Profit before tax and fair value movements

Profit before tax and fair value movements is £8m lower. This is due to the £19m increase in finance expense (before fair value movements). This is primarily due to the £16m scheduled accretion payment on the index-linked swaps. These payments are not annual, but fall under either a five, seven or ten yearly profile dependant on the swap. The last payment (£10m) was in July 2012 and the next payment (estimated at £9m) is due in July 2017.

Profit before tax

Profit/ (loss) before tax has deteriorated significantly, by £153m. In addition to the £8m lower profit before tax and fair value movements, the further £145m deterioration is due largely to net fair value losses on financial instruments at FVTPL of £140m. This compares to a £6m gain in the comparative period. These fair value losses are a result of the combined effect of the decrease in market expectations of future interest rates, and the increase in market expectations of future inflation rates following the Brexit decision in June 2016.

INTERIM MANAGEMENT REPORT *(continued)*

Dividends

Final dividends for the year ended 31 March 2016 of £18m have been paid in the period. More details on dividends are given in Note 7.

Retirement benefit obligation

The retirement benefit obligation has increased significantly over the six month period to 30 September 2016, from £16.2m to £179.3m. The main reason for the deterioration is the significant fall in the discount rate used to value the liabilities, following on from the Brexit result in June 2016.

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 2016, which are available on our website, www.enwl.co.uk.

The principal risks that may affect the Group's performance and results have been identified and disclosed in the Strategic Report of the Annual Report and Consolidated Financial Statements.

Financial statements

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

Going concern

After making enquiries as discussed in the accounting policies on pages 10 to 11, 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:

304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

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

D Brocksom

Chief Financial Officer

7 December 2016

CONDENSED CONSOLIDATED INCOME STATEMENT
For the period ended 30 September 2016

	Note	**Unaudited Period ended 30 September 2016 £m**	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Revenue		**226.8**	211.6	450.8
Employee costs		**(22.4)**	(23.8)	(47.2)
Depreciation and amortisation expense (net)		**(49.6)**	(42.4)	(94.4)
Retail property provision (charge)/release	**14**	**(0.1)**	0.7	1.0
Other operating costs		**(44.9)**	(47.8)	(95.6)
Total operating expenses		**(117.0)**	(113.3)	(236.2)
Operating profit		**109.8**	98.3	214.6
Investment income	**4**	**0.4**	0.4	0.9
Finance expense (net)	**5**	**(176.7)**	(12.5)	(94.0)
(Loss)/ profit before taxation		**(66.5)**	86.2	121.5
Taxation	**6**	**19.7**	(17.4)	(4.5)
(Loss)/ profit for the period/year attributable to equity shareholders		**(46.8)**	68.8	117.0

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 2016

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
(Loss)/ profit for the period/year	**(46.8)**	68.8	117.0
Items that will not be classified subsequently to profit or loss:			
Remeasurement of defined benefit pension scheme	**(168.2)**	44.7	9.1
Deferred tax on remeasurement of defined benefit pension scheme taken directly to equity	**28.6**	(8.9)	(1.6)
Adjustment due to change in future tax rates of brought forward deferred tax taken directly to equity	**(1.0)**	-	(2.2)
Other comprehensive income for the period/year	**(140.6)**	35.8	5.3
Total comprehensive income for the period/year and attributable to equity shareholders	**(187.4)**	104.6	122.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2016

	Note	Unaudited 30 Sept 2016 £m	Unaudited 30 Sept 2015 £m	Audited 31 March 2016 £m
ASSETS				
Non-current assets				
Intangible assets and goodwill		**41.7**	35.8	39.5
Property, plant and equipment	**8**	**2,982.9**	2,890.2	2,942.7
Retirement benefit surplus	**12**	**-**	15.2	-
		3,024.6	2,941.2	2,982.2
Current assets				
Inventories		**9.4**	7.6	8.5
Trade and other receivables		**54.3**	54.7	67.9
Cash and cash equivalents		**134.3**	139.4	119.3
Money market deposits (maturity over 3 months)		**10.0**	10.0	23.5
Current tax asset		**7.0**	-	-
		215.0	211.7	219.2
Total assets		**3,239.6**	3,152.9	3,201.4
LIABILITIES				
Current liabilities				
Trade and other payables		**(126.9)**	(123.5)	(137.1)
Current tax liabilities		**-**	(11.3)	(7.1)
Provisions	**14**	**(0.4)**	(1.6)	(0.6)
Borrowings	**9**	**(6.2)**	-	(4.6)
		(133.5)	(136.4)	(149.4)
Net current assets		**81.5**	75.3	69.8
Non-current liabilities				
Borrowings	**9**	**(1,256.8)**	(1,225.5)	(1,228.4)
Derivative financial instruments	**10**	**(379.7)**	(223.3)	(267.7)
Deferred tax liabilities		**(101.1)**	(183.5)	(158.0)
Customer contributions		**(573.8)**	(548.1)	(561.0)
Refundable customer deposits		**-**	(2.5)	-
Provisions	**14**	**(2.0)**	(2.5)	(1.9)
Retirement benefit obligation	**12**	**(179.3)**	-	(16.2)
		(2,492.7)	(2,185.4)	(2,233.2)
Total liabilities		**(2,626.2)**	(2,321.8)	(2,382.6)
Net assets		**613.4**	831.1	818.8
EQUITY				
Called up share capital		**(238.4)**	(238.4)	(238.4)
Share premium account		**(4.4)**	(4.4)	(4.4)
Revaluation reserve		**(93.5)**	(94.1)	(93.5)
Capital redemption reserve		**(8.6)**	(8.6)	(8.6)
Retained earnings		**(268.5)**	(485.6)	(473.9)
Total equity		**(613.4)**	(831.1)	(818.8)

Approved by the Board of Directors on 7 December 2016 and signed on its behalf by:

D Brocksom
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 30 September 2016

	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 2015 (audited)	238.4	4.4	99.2	8.6	375.9	726.5
Profit for the period	-	-	-	-	68.8	68.8
Transfer from revaluation reserve	-	-	(5.1)	-	5.1	-
Other comprehensive income	-	-	-	-	44.7	44.7
Tax on other comprehensive income	-	-	-	-	(8.9)	(8.9)
Total comprehensive (expense)/ income for the period	-	-	(5.1)	-	109.7	104.6
Transactions with owners recorded directly in equity:						
Equity dividends	-	-	-	-	-	-
At 30 September 2015 (unaudited)	238.4	4.4	94.1	8.6	485.6	831.1
At 31 March 2015 (audited)	238.4	4.4	99.2	8.6	375.9	726.5
Profit for the year	-	-	-	-	117.0	117.0
Transfer from revaluation reserve	-	-	(5.7)	-	5.7	-
Other comprehensive income	-	-	-	-	5.3	5.3
Total comprehensive (expense)/ income for the year	-	-	(5.7)	-	128.0	122.3
Transactions with owners recorded directly in equity:						
Equity dividends	-	-	-	-	(30.0)	(30.0)
At 31 March 2016 (audited)	238.4	4.4	93.5	8.6	473.9	818.8
Profit/ (loss) for the period	-	-	-	-	(46.8)	(46.8)
Transfer from revaluation reserve	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(168.2)	(168.2)
Tax on other comprehensive income	-	-	-	-	27.6	27.6
Total comprehensive (expense)/ income for the period	**-**	**-**	**-**	**-**	**(187.4)**	**(187.4)**
Transactions with owners recorded directly in equity:						
Equity dividends	-	-	-	-	(18.0)	(18.0)
At 30 September 2016 (unaudited)	**238.4**	**4.4**	**93.5**	**8.6**	**268.5**	**613.4**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended 30 September 2016

	Note	**Unaudited Period ended 30 September 2016 £m**	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Operating activities				
Cash generated from operations	**11**	**168.6**	116.7	270.8
Interest paid		**(24.0)**	(7.8)	(46.8)
Tax paid		**(51.3)**	(10.9)	(22.8)
Net cash generated from operating activities		**93.3**	98.0	201.2
Investing activities				
Interest received and similar income		**0.5**	0.3	0.9
Purchase of property, plant and equipment		**(90.2)**	(102.5)	(199.5)
Purchase of intangible assets		**(4.1)**	(8.6)	(14.9)
Customer contributions received		**21.5**	21.7	44.3
Proceeds from sale of property, plant and equipment		**0.1**	0.1	0.2
Net cash used in investing activities		**(72.2)**	(89.0)	(169.0)
Net cash (outflow)/ inflow before financing activities		**21.1**	1 9 .0	32.2
Financing activities				
Dividends paid to equity shareholders of the Company	**7**	**(18.0)**	-	(30.0)
Transfer from/(to) money market deposits		**13.5**	15.0	1.5
Proceeds from borrowings		**-**	-	1.8
Repayment of external borrowings		**(1.6)**	(20.6)	(22.2)
Net cash (used in)/ generated from financing activities		**(6.1)**	(5.6)	(48.9)
Net increase/ (decrease) in cash and cash equivalents		**15.0**	3.4	(16.7)
Cash and cash equivalents at beginning of the period/ year		**119.3**	136.0	136.0
Net cash and cash equivalents at end of the period/ year		**134.3**	139.4	119.3

NOTES TO THE CONDENSED SET OF CONSOLIDATED 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.

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) 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 2016 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 ENWL for the year ended 31 March 2016.

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 3, 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 2016, 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 2017 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. Further liquidity is provided by surplus cash and short-term deposit balances. Furthermore, committed undrawn bank facilities of £50m within ENWL 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; and

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Going concern *(continued)*

- The Group and ENWL 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.

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 2016, or for the remainder of the year to 31 March 2017, 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 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.

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

4 INVESTMENT INCOME

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Interest receivable on short-term bank deposits held at amortised cost	**0.4**	0.4	0.9

5 FINANCE EXPENSE (NET)

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Interest payable			
Interest payable on Group borrowings	**7.2**	7.8	15.0
Interest payable on borrowings held at amortised cost	**11.5**	11.5	23.3
Interest payable on borrowings designated at fair value through profit or loss	**-**	-	22.2
Net receipts on derivatives held for trading	**(1.6)**	(2.4)	(12.9)
Other finance charges related to index-linked debt	**3.9**	1.1	3.9
Interest cost on pension plan obligations	**0.2**	0.3	0.7
Capitalisation of borrowing costs under IAS 23	**(0.2)**	(0.3)	(1.0)
Total interest expense	**21.0**	18.0	51.2
Fair value movements on financial instruments			
Fair value movement on borrowings designated at fair value through profit or loss	**27.4**	(16.6)	(12.7)
Fair value movement on derivatives held for trading	**112.1**	11.1	55.5
Accretion payable on index-linked swaps	**16.2**	-	-
Total fair value movements	**155.7**	(5.5)	42.8
Total finance expense (net)	**176.7**	12.5	94.0

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

6 TAXATION

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Current tax:			
Current period/year	**9.6**	25.7	31.9
Prior year		-	1.6
	9.6	25.7	33.5
Deferred tax:			
Current period/year	**(19.5)**	(8.3)	(6.6)
Prior year	**-**	-	(1.9)
Impact of change in future tax rates	**(9.8)**	-	(20.5)
	(29.3)	(8.3)	(29.0)
Tax charge for the period/year	**(19.7)**	17.4	4.5

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 tax rate will change to 19% on 1 April 2017 and 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.

7 DIVIDENDS

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

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Interim dividends for the year ended 31 March 2016 of 6.29 pence per share	**-**	**-**	30.0
Final dividends for the year ended 31 March 2016 of 3.77 pence per share	**18.0**	**-**	**-**
Dividends for the period/year	**18.0**	-	30.0

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

8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent £93.2m (period ended 30 September 2015: £100.7m, year ended March 2016: £206.4m) on additions to property, plant and equipment as part of its capital programme for its operating network. Included in these figures are capitalised interest of £0.2m (period ended 30 September 2015: £0.3m, year ended March 2016: £1.0m), in accordance with IAS 23.

9 BORROWINGS

	Unaudited 30 September 2016 £m	Unaudited 30 September 2015 £m	Audited 31 March 2016 £m
Current liabilities			
Bank and other term borrowings	**6.2**	-	4.6
	6.2	-	4.6
Non-current liabilities			
Bonds	**738.8**	705.8	711.3
Bank and other term borrowings	**249.6**	254.2	249.0
Amounts owed to parent undertaking	**70.9**	68.6	70.9
Amounts owed to affiliated undertaking	**197.5**	196.9	197.2
	1,256.8	1,225.5	1,228.4
	1,263.0	1,225.5	1,233.0

As at 30 September 2016 the Group had £50.0m of unutilised committed bank facilities (30 September 2015: £50.0m, 31 March 2016: £50.0m).

The Group's debt facilities expire between 2017 and 2046.

Notes to the condensed set of 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 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 as at 30 September 2016 is £81.3m (30 September 2015: £74.1m, 31 March 2016: £93.2m), of which £77.9m (30 September 2015: £nil, 31 March 2016: £91.3m) 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	**+10bps**	-10bps	+10bps	-10bps	+10bps
	£m	**£m**	£m	£m	£m	£m
Inflation-linked swaps	**(5.2)**	**5.0**	-	-	(3.3)	3.2

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 £32.7m (30 September 2015: £nil, 31 March 2016: £33.2m). The movement in the period all relates to the straight-line release to profit or loss.

Notes to the condensed set of 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 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Derivative financial liabilities;			
Level 1	**-**	-	-
Level 2	**(132.5)**	(223.3)	(99.9)
Level 3	**(247.2)**	-	(167.8)
	(379.7)	(223.3)	(267.7)
Financial liabilities designated at FVTPL;			
Level 1	**(408.1)**	(376.8)	(380.7)
Level 2	**-**	-	-
Level 3	**-**	-	-
	(408.1)	(376.8)	(380.7)

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 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)*

10 FINANCIAL INSTRUMENTS *(continued)*

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

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Opening balance	**(167.8)**	-	-
Transfers into Level 3 from Level 2	**-**	-	(131.4)
Total gains or losses in profit or loss;			
On transfers into Level 3 from Level 2	**-**	-	(26.0)
On new derivatives in the period	**-**	-	(10.4)
On derivatives in Level 3 for the whole period	**(79.4)**	-	-
Closing balance	**(247.2)**	-	(167.8)

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 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Non-current liabilities:			
Borrowings measured at amortised cost			
Carrying value	**(1,256.8)**	(1,225.5)	(1,228.4)
Fair value	**(1,471.9)**	(1,362.2)	(1,371.3)

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

Over the period, market expectations of future interest rates have fallen significantly; this has resulted in £93.3m of the total £139.5m fair value movement over the period. A further £17.1m is a result of the increase in market expectations of future inflation rates, with the remaining £29.1m due to changes in the credit risk profiles used in the DVA and CVA calculations.

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

11 CASH GENERATED FROM OPERATIONS

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Operating profit	**109.8**	98.3	214.6
Adjustments for:			
Depreciation of property, plant and equipment	**53.0**	47.4	100.3
Amortisation of intangible assets	**1.9**	2.1	4.8
Amortisation of customer contributions[1]	**(8.0)**	(7.6)	(15.3)
Profit on disposal of property, plant and equipment	**(0.1)**	(0.1)	(0.2)
Cash contributions in excess of pension charge to operating profit	**(8.1)**	(4.5)	(16.0)
Operating cash flows before movement in working capital	**148.5**	135.6	288.2
Changes in working capital:			
(Increase)/decrease in inventories	**(0.9)**	(0.3)	(1.2)
Decrease/(increase) in trade and other receivables	**12.8**	9.2	(2.0)
Increase/ (decrease) in provisions and payables	**8.2**	(27.8)	(14.2)
Cash generated from operations	**168.6**	116.7	270.8

1 In the 6 months ended 30 September 2016 £2.6m (period ended September 2015: £1.3m, year ended March 2016 £4.6m) 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 2016. 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 2016. 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 increased to £179.3m (30 September 2015: surplus of £15.2m, 31 March 2016: deficit of £16.2m), primarily due to the significant fall in the discount rate, which increased the value placed on the liabilities.

Notes to the condensed set of 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 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 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Transactions with related parties			
Recharges to Electricity North West (Construction and Maintenance) Ltd	**0.7**	0.7	1.2
Recharges from Electricity North West (Construction and Maintenance) Ltd	**-**	0.2	0.2
Directors' remuneration	**0.8**	0.6	1.3
Directors' services	**0.1**	0.1	0.2
Interest payable to North West Electricity Networks plc	**1.0**	1.6	2.6
Interest payable to ENW Finance plc	**6.1**	6.1	12.4
Dividends paid to North West Electricity Networks plc	**18.0**	-	30.0

Fees of £0.1m (September 2015: £0.1m, March 2016: £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 2015: £0.1m, March 2016: £0.1m) were payable to IIF Int'l Holding GP Ltd ('IIF') in respect of the provision of Directors' services which is identified as a related party; IIF have refunded £0.1m of fees for previous periods as a result of a true up exercise.

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

13 RELATED PARTIES *(continued)*

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

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Amounts owed to related parties			
Group tax relief to North West Electricity Networks plc	**5.0**	4.9	12.9
Interest payable to North West Electricity Networks plc	**0.5**	0.5	0.5
Interest payable to ENW Finance plc	**2.5**	2.4	2.4
Amounts owed to Electricity North West (Construction and Maintenance) Ltd	**-**	0.2	-
Borrowings from North West Electricity Networks plc	**70.9**	69.1	70.9
Borrowings from ENW Finance plc	**199.1**	198.9	199.0
Amounts owed by related parties			
Amounts owed by North West Electricity Networks plc	**3.7**	3.7	3.7
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	**0.2**	0.4	0.5
Amounts owed by North West Electricity Networks (Jersey) Limited	**0.1**	0.1	0.1
Amounts owed by North West Electricity Networks (Holdings) Ltd	**0.2**	0.2	0.2

The loan from North West Electricity Networks plc accrues weighted average interest at 2.74% per annum (September 2015: 2.75%, March 2016: 2.74%) and is repayable in March 2023.

The loan from ENW Finance plc accrues interest at 6.125% (September 2015: 6.125%, March 2016: 6.125%) and is repayable in July 2021.

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

14 PROVISIONS

	Unaudited Period ended 30 September 2016 £m	Unaudited Period ended 30 September 2015 £m	Audited Year ended 31 March 2016 £m
Opening Balance	**2.5**	6.1	6.1
Charge/(release) to the income statement on re-estimate of provision	**0.1**	(0.7)	(1.0)
Utilisation of provision	**(0.2)**	(1.3)	(2.6)
	2.4	4.1	2.5
Current	**0.4**	1.6	0.6
Non current	**2.0**	2.5	1.9
	2.4	4.1	2.5

During the year ended 31 March 2013 a provision was created in connection with a portfolio of retail properties which the company was liable for under privity of contract.

The carried forward provision at 1 April 2016 was £2.5m and related to former Norweb properties, 1 High Street retail property and 10 out of town retail properties. During the period to 30 September 2016 £0.2m of the provision has been utilised and £0.1m has been charged to the income statement on the re-estimation on the liabilities.

The combined closing provision of £2.4m, which now relates to 1 High Street retail property and 3 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.

15 CONTINGENT LIABILITY

The Company is part of a Covenanter Group ('CG') which is party to a Deed of Covenant with EA Technology Limited (EATL) under which certain guarantees over the benefits of members of the EATL Group of the Electricity Supply Pension Scheme have been given. In the event of EATL being unable to meet the obligations for its part of the ESPS pension scheme deficit following a discontinuance event, the members of the pension scheme can make a claim against the CG.

In December 2015, EATL filed their annual report and financial statements to the year ended 31 March 2015, containing an emphasis of matter on going concern noting a material uncertainty in the company's ability to continue as a going concern.

Under the terms of the Deed of Covenant if there was such a discontinuance event the Company is liable to pay 6.7% of the deficit. This deficit has been calculated using a going concern basis and the actual deficit on an insolvency event could be higher. Management do not consider that this event is probable and no provision has been made in these accounts. The total deficit has been estimated at £75m as at 31 March 2016, of which the Company's share would be £5.0m to £7.0m.