

**NORTH WEST ELECTRICITY NETWORKS
(HOLDINGS) LIMITED**

**Annual Report and Consolidated
Financial Statements
for the year ended 31 March 2016**

Notice regarding limitations on Director Liability under English Law

The information supplied in the Strategic Report and the Directors' Report has been drawn up and presented in accordance with English company law. The liabilities of the Directors in connection with that Report shall be subject to the limitations and restrictions provided by such law.

Cautionary statement regarding forward-looking statements

The Directors' Report and Strategic Report have been prepared solely to provide additional information to the shareholders to assess the Company and the Group's strategies and the potential for those to succeed. They contain certain forward looking statements that are subject to factors associated with, amongst other matters, the economic and business circumstances occurring within the region and country in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those anticipated at the date of the Annual Report. The Company does not undertake any obligation to update or revise these forward-looking statements, except as may be required by law or regulation.

Website and Investor Relations

Electricity North West Limited's website www.enwl.co.uk gives additional information on the Group. Notwithstanding the references we make in this Annual Report to Electricity North West's website, none of the information made available on the website constitutes part of this Annual Report or shall be deemed to be incorporated by reference herein. Interested institutional debt investors can also gain access to additional financial information by contacting the Electricity North West Limited Head of Strategic Planning and Investor Relations (contact details at our website).

Contents

Strategic Report	2
Directors' Report	8
Directors' Responsibilities Statement	9
Independent Auditor's Report to the members of North West Electricity Networks (Holdings) Limited	10
Consolidated Income Statement	12
Consolidated and Company Statement of Comprehensive Income	13
Consolidated and Company Statement of Financial Position	14
Consolidated Statement of Changes In Equity	15
Company Statement of Changes In Equity	16
Consolidated and Company Statement of Cash Flows	17
Notes to the Financial Statements	18
Glossary	72

Strategic Report

The Directors present their Annual Report and the audited Financial Statements of North West Electricity Networks (Holdings) Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) for the year ended 31 March 2016.

Business model

North West Electricity Networks (Holdings) Limited (“NWENH”) acts as an intermediary holding company within the North West Electricity Networks (Jersey) Limited group and is non-trading.

The Group’s principal activity is the operation and maintenance of the North West’s electricity distribution network. The distribution of electricity is regulated by the terms of Electricity North West Limited’s (“ENWL’s”) Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority. ENWL is an indirectly held subsidiary of the Company. The strategy and objectives of the Group are discussed in the Strategic Report of ENWL.

The Group includes three financing companies which have debt in issue listed on the London Stock Exchange. These companies are ENW Finance plc, NWEN Finance plc and ENW Capital Finance plc, which are entities within the North West Electricity Networks (Jersey) Limited group. The debt in ENW Capital Finance plc was repaid during the year. Debt is also issued in North West Electricity Networks plc, an intermediary holding company, and in ENWL, the operating company. Following the issue of debt the proceeds are lent down the group to finance operations in ENWL.

Future developments

From April 2015 charges have been regulated by Ofgem through the RIIO model, which stands for Revenue = Incentives + Innovation + Outputs. This model determines how much the ENWL is allowed to charge its customers to fund network investment and operating costs in the period from 2015 to 2023 and is designed to drive real benefits for customers.

The RIIO price controls have been developed to ensure that the revenues collected from customers are linked to ENWL’s performance. Income in each year is largely fixed but will increase or decrease depending on performance against the outputs we deliver through a number of incentive mechanisms.

These mechanisms aim to ensure to level of customer service and to minimise both the

number of interruptions that customers suffer and the average length of those interruptions. Performance is assessed each year and any positive or negative adjustments are fed annually into a process which will modify revenues for subsequent years.

The RIIO price control model also incentivises cost reductions. These are shared between customers and shareholders, again after an annual review.

ENWL also charges separately for new connections to and diversions of the network. This activity is also closely regulated by Ofgem.

ENWL is committed to ensuring the sustainability of the network for our customers now and in the future.

We routinely inspect the network and these inspections inform our maintenance and asset replacement programmes taking load and customer numbers into account.

Investment and innovation continues to ensure the development and availability of the appropriate technology to meet the changing demands of electricity supply and meet the challenge of a low carbon future, at a price our customers can afford to pay.

Financial performance and key performance indicators

Key performance indicators

The performance of the Group is monitored by the Board of Directors by reference to key performance indicators. Performance against these measures for the years ended 31 March 2016 and 2015 is set out in the following table:

	2016	2015
	£m	£m
Revenue	£451	£534
Operating profit	£205	£290
Profit before tax and fair value movements	£108	£174
Cash (outflow)/inflow before financing activities	£(6)	£22

Strategic Report *(continued)*

Financial Performance and key performance indicators *(continued)*

Since the Company operates solely as an investment company it has no non-financial key performance indicators. For an understanding of the Group's operational performance, non-financial key performance indicators are presented for ENWL and are disclosed in the Annual Report and Consolidated Financial Statements of that company.

Revenue

Revenue has decreased to £451m (31 March 2015: £534m) during the year, as a result of an reduction in allowed DUoS (Distribution Use of System) revenue under the RIIO price control.

We recover our allowed revenue against an estimated level of electricity demand across the network. Given the difficulty predicting this demand each year we end up with either an over or an under recovery.

For the year 31 March 2016 there was an over recovery of DUoS revenue of £10.4m, before adjustment for RPI indexation (31 March 2015: £22.9m under-recovery), reflecting variability in consumption volumes year on year. This over recovery will be corrected through adjustments in pricing in two years.

Operating profit

Operating profit has decreased to £205m (31 March 2015: £290m) as a result of the reduction in revenue detailed above and higher operating costs impacted by the December 2015 storms.

Profit before tax and fair value movements

Profit before tax and fair value movements has decreased as a result of decreased operating profit.

Cash flow (before financing activities)

Net cash utilised before financing activities in the year was £6m (31 March 2015: £22m inflow), reflecting the fall in operating profit only partially offset by reduced investment.

Liquidity

The Group's primary source of liquidity is from Group operations and from funding raised through external borrowings.

Short-term liquidity

Short-term liquidity requirements are met from the Group's normal operating cash flows. Further liquidity is provided by cash and short-term deposit balances.

At 31 March 2016, unutilised committed facilities of £140m (2015: £332.4m), together with £156m (2015: £294m) of cash and money-market deposits provide substantial short-term liquidity for the Group and Company.

Utilisation of undrawn facilities is with reference to Regulatory Asset Value ("RAV") gearing restrictions for the Group.

Long-term liquidity

The Group's long term debt is comprised of a combination of fixed, floating and index-linked debt, with a range of maturities and interest rates reflective of prevailing market rates at issue.

The Group companies that issue debt in the public bond markets maintain credit ratings with one or more of the leading credit rating agencies. During the year the credit ratings for ENWL have been formally reviewed and have been affirmed on a stable outlook basis. The credit rating of NWEN plc, the immediate parent of ENWL, has been formally reviewed and affirmed. However one of the three agencies has placed NWEN plc on negative outlook whilst the other two agencies remain on stable outlook. Further details are available to credit investors on the ENWL's website www.enwl.co.uk.

At 31 March 2016, £5m (2015: £300m) of the external group debt matures within 1 year, £6m (2015: £92) matures in more than one year but less than two years, £18m (2015: £nil) matures in more than two years but less than five years, and £1,713m (2015: £1,467m) matures in more than five years. . At 31 March 2016 £510m of the intra-group debt matures in more than five years; at 31 March 2015 £510m of the intra-group debt was repayable on demand.

The Group's borrowings, net of cash and money-market deposits, were £2,096m (2015: £2,074m).

Strategic Report *(continued)*

Treasury policy

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Board. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available in line with policy and to maintain the agreed targeted headroom to key financial ratios.

Long-term borrowings are mainly at fixed rates to provide certainty or are indexed to inflation to match the Group's inflation-linked (RPI) cash flows.

Treasury operations

The Group uses two main groups of derivatives to economically hedge exposure to fluctuations in market rates over the medium to long term; interest rates swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing.

At 31 March 2016 there were no formal hedging relationships in the Group (2015: none).

The Group's use of derivative instruments relates directly to underlying indebtedness.

The proportion of post-hedging borrowings at fixed, floating and index-linked rates of interest is maintained in line with target levels set in the Treasury Policy and is monitored by the Board, with reference to both the level of floating rate borrowings and the projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

The derivatives are accounted for at fair value through profit or loss ("FVTPL"), with fair value movements booked through the Income Statement. Similarly, fair value movements on the £250m 8.875% 2026 bond in ENWL are booked through the Income Statement as this bond was designated at FVTPL on initial recognition.

These fair value movements are non-cash and reverse over the life of the financial instrument, but can be significant and result in material volatility in the Income Statement.

In the current year, net fair value losses totalling £40m have been recognised in the Income Statement (2015: losses of £159m), which relates entirely to non-cash movements.

The Group's cash flows are in sterling other than sundry purchases of plant denominated in foreign currencies and some assets of the defined benefit pension scheme which are

managed by the pension scheme investment managers. The Group has no other material exposure to foreign currency exchange movements.

Principal risks and uncertainties

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 ENWL Annual Report and Consolidated Financial Statements, which are available on ENWL's website, www.enwl.co.uk.

An assessment of the change in risk has been carried out and the principle risks are deemed comparable year on year with the exception of the risk of refinancing. However, as discussed below the Group is confident of securing appropriate long term refinancing.

The Board considers the following risks to be the principal ones that may affect the Group's performance and results, in addition to 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 surrounding 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, and is reported to the Board periodically. There have been no covenant breaches in the current year. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan to 31 March 2017.

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 is financed largely by long-term external funding, and this, together with the present cash position and committed undrawn facilities,

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future.

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.

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 (discussed on previous page).

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.

Corporate social responsibility

Details of the Group's approach to corporate responsibility, relating to environment, social and governance policies, can be found in ENWL's Annual Report and Financial Statements.

Environmental impacts

The Group is dedicated to achieving the highest standards of environmental performance, not only by minimising the risk of adverse impacts such as pollution, but through investment in outputs that deliver a positive impact.

Employees

The Group's people are key to achieving its business strategy, delivering high levels of customer service and enhancing shareholder value. The Group is committed to developing an engaged, motivated and high performing workforce to enable it to achieve its vision and goals, whilst putting safety at the core of how it operates.

The Group is committed to employees' health and safety as well as providing equality of opportunity in learning and development. We are committed to developing a nurturing culture in which employees feel valued to reach their full potential and to understand how their own contribution adds value to the Group.

The Group sets policies and encourages a working culture that recognises, respects, values and harnesses diversity for the benefit of the Group and the individual, and we are committed to integrating equality and diversity into all that the Group does.

The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, equal consideration is given to applicants with disabilities in the Group's employment criteria. The business will modify equipment and practices wherever it is safe and practical to do so, both for new employees and for those employees that become disabled during the course of their employment.

Strategic Report (continued)

Corporate social responsibility (continued)

Gender diversity

Information on the composition of the workforce at the year end is summarised below:

	2016 Male	2016 Female	2015 Male	2015 Female
Total Employees	1,274	367	1,286	360
Of which:				
Senior Managers	29	12	29	10
Executive leadership team	8	1	8	1
Directors	5	0	4	0

Human rights

The Group operates exclusively in the UK and, as such, is subject to the European Convention on Human Rights and the UK Human Rights Act 1998.

The Group respects all human rights and regard those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on key stakeholder groups of customers, employees and suppliers.

The Group seeks to anticipate, prevent and mitigate any potential negative human rights impacts as well as enhance positive impacts through policies and procedures and, in particular, through policies regarding employment, equality and diversity, treating customers fairly and information security.

Going concern

When considering continuing to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements, the Directors have taken into account a number of factors, including the following:

- ENWL's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that

licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;

- Management has prepared, and the Directors have reviewed, 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 under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources 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 and £90m in the Company are available from lenders. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12 month projections to 31 May 2017 indicate there is significant headroom on these covenants; and
- 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.

Consequently, after making appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements.

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

Strategic Report *(continued)*

Fair, balanced & understandable

The Directors have reviewed the thorough assurance process in place within the Group with regards to the preparation, verification and approval of financial reports. This process includes:

- ▮ Detailed review and appropriate challenge from key internal Group functions, such as Group Risk, Assurance and Internal Audit;
- ▮ Formal sign-offs from the business area senior managers, the finance managers and CFO of ENWL;
- ▮ Group Audit Committee oversight, involving a review of key financial reporting judgements, review and appropriate challenge on matters such as any changes to significant accounting policies and practices during the year, significant adjustments and the going concern assumption;
- ▮ The involvement of qualified, professional employees with an appropriate level of expertise and experience throughout the business; and
- ▮ Engagement of a professional and experienced external auditor, a framework for full transparent disclosure of information during the audit process and post audit evaluation.

As a result of these processes together with the information and assurance provided by the day to day internal control processes, the information provided by the Executive Leadership Team of ENWL and the in-depth reporting required by Ofgem, both the Audit Committee of ENWL and the Board are satisfied that the Annual Report and Consolidated Financial Statements taken as a whole, provide a fair, balanced and understandable assessment of the Group's position at 31 March 2016.

Approved by the Board on 27 May 2016 and signed on its behalf by:



D. Brocksom
Director

Directors' Report

The Directors present their annual report and the audited Financial Statements of North West Electricity Networks (Holdings) Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2016.

Dividends

During the year ended 31 March 2016, the Directors proposed and paid a final dividend for the year-ended 31 March 2015 of £6m (2015: final dividend for the year-ended 31 March 2014 of £25m) and an interim dividend for the current year of £17m (2015: £13m). The Directors do not propose a final dividend for the year ended 31 March 2016.

Directors

The Directors of the Company during the year ended 31 March 2016 are set out below. Directors were appointed for the whole year and to the date of this report except where otherwise indicated.

S Johnson (resigned 27 May 2016)

R O'Malley (appointed on 5 May 2015 and resigned on 5 October 2015)

A Dench (resigned on 5 May 2015)

D Brocksom (appointed 5 October 2015)

P Emery (appointed 27 May 2016)

At no time during the year did any Director have a material interest in any contract or arrangement which was significant in relation to the Group's business (2015: same).

Directors' and officers' insurance

The Group maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006 (2015: same).

Greenhouse gas emissions

Greenhouse gas emissions are reported in the Strategic Report of ENWL. There are no further disclosures for the rest of the Group which consists of non-trading investment companies with the exception of Electricity North West (Construction and Maintenance) Limited which does not have a material impact on the Group's disclosures.

Capital structure

See note 27 for details of the Company's capital structure.

Disabled employees

See the Employees section in the Strategic Report on page 5.

Auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted within the provisions of s418 of the Companies Act 2006.

Registered address

North West Electricity Networks (Holdings) Limited
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

Registered number: 06428534

Approved by the Board on 27 May 2016 and signed on its behalf by:



D Brocksom
Director

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the ENWL's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 27 May 2016 and is signed on its behalf by:



D Brocksom
Director

Independent Auditor's Report to the members of North West Electricity Networks (Holdings) Limited

We have audited the financial statements of North West Electricity Networks (Holdings) Limited for the year ended 31 March 2016 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- ✔ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's profit for the year then ended;
- ✔ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- ✔ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ✔ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ✔ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ✔ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

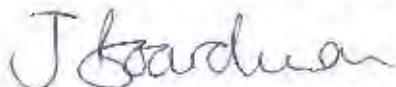
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

**Independent Auditor's Report to the
members of North West Electricity
Networks (Holdings) Limited**
(continued)

**Matters on which we are required to report
by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- ▣ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▣ the parent company financial statements are not in agreement with the accounting records and returns; or
- ▣ certain disclosures of directors' remuneration specified by law are not made; or
- ▣ we have not received all the information and explanations we require for our audit.



Jane Boardman BSc FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
27 May 2016

CONSOLIDATED INCOME STATEMENT
 For the year ended 31 March 2016

	Note	Group 2016 £m	Group 2015 £m
Revenue	2	450.8	533.7
Employee costs	3,4	(47.2)	(44.5)
Depreciation and amortisation expense (net)	3	(103.6)	(97.2)
Retail property provision credit	3,21	1.0	-
Other operating costs		(95.7)	(99.4)
Restructuring costs	3,6	-	(2.8)
Total operating expenses		(245.5)	(243.9)
Operating profit	3	205.3	289.8
Investment income	7	1.2	0.6
Finance expense (net)	8	(138.4)	(275.3)
Profit before taxation		68.1	15.1
Taxation	9	17.5	(4.2)
Profit for the year attributable to equity shareholders	26	85.6	10.9

The results shown in the Consolidated Income Statement for both the current and preceding years are derived from continuing operations.

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME
 For the year ended 31 March 2016

	Note	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Profit for the year		85.6	23.0	10.9	38.2
Items that will not be classified subsequently to profit or loss:					
Remeasurement of defined benefit pension schemes	20	9.1	-	4.4	-
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	22	(1.6)	-	(0.9)	-
Adjustment due to change in future tax rates of brought forward deferred tax taken directly to equity	22	(2.2)	-	-	-
Other comprehensive income for the year		5.3	-	3.5	-
Total comprehensive income for the year attributable to equity holders		90.9	23.0	14.4	38.2

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 March 2016

	Note	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	11	226.4	-	216.3	-
Property, plant and equipment	12	2,953.8	-	2,847.9	-
Investments	13	-	3.1	-	3.1
Intercompany loan	15	-	676.5	-	-
		3,180.2	679.6	3,064.2	3.1
Current assets					
Inventories	14	8.5	-	7.3	-
Trade and other receivables	15	64.1	13.6	62.7	689.8
Cash and cash equivalents	16	132.7	11.9	269.3	11.6
Money market deposits	16,19	23.5	-	25.0	-
Current tax asset		5.7	-	14.5	0.1
		234.5	25.5	378.8	701.5
Total assets		3,414.7	705.1	3,443.0	704.6
LIABILITIES					
Current liabilities					
Borrowings	18	(4.6)	-	(809.3)	(509.7)
Trade and other payables	17	(152.6)	(13.7)	(145.9)	(13.6)
Provisions	21	(0.6)	-	(2.8)	-
		(157.8)	(13.7)	(958.0)	(523.3)
Net current assets/(liabilities)		76.7	11.8	(579.2)	178.2
Non-current liabilities					
Borrowings	18	(2,247.7)	(688.0)	(1,559.2)	(177.9)
Derivative financial instruments	19	(295.1)	-	(241.9)	-
Deferred tax liabilities	22	(248.6)	-	(283.0)	-
Customer contributions	23	(261.3)	-	(240.9)	-
Provisions	21	(1.9)	-	(3.3)	-
Refundable customer deposits	24	-	-	(4.8)	-
Retirement benefit obligation	20	(16.2)	-	(33.7)	-
		(3,070.8)	(688.0)	(2,366.8)	(177.9)
Total liabilities		(3,228.6)	(701.7)	(3,324.8)	(701.2)
Net assets		186.1	3.4	118.2	3.4
EQUITY					
Called up share capital	25	3.1	3.1	3.1	3.1
Retained earnings/(deficit)	26	183.0	0.3	115.1	0.3
Total equity	26	186.1	3.4	118.2	3.4

The Financial Statements of North West Electricity Networks (Holdings) Limited (registered number 06428534) were approved by the Board of Directors and authorised for issue on 27 May 2016 and signed on its behalf by:

D Brocksom
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 March 2016

	Note	Called up share capital £m	Retained earnings /(deficit) £m	Total equity £m
At 1 April 2014		3.1	138.7	141.8
Profit for the year		-	10.9	10.9
Other comprehensive income	20	-	4.4	4.4
Tax on components of comprehensive income	22	-	(0.9)	(0.9)
Total comprehensive income for the year		-	14.4	14.4
Transactions with owners recorded directly in equity				
Equity dividends	10	-	(38.0)	(38.0)
At 31 March 2015		3.1	115.1	118.2
Profit for the year		-	85.6	85.6
Other comprehensive income	20	-	9.1	9.1
Tax on components of comprehensive income	22	-	(3.8)	(3.8)
Total comprehensive income for the year		-	90.9	90.9
Transactions with owners recorded directly in equity				
Equity dividends	10	-	(23.0)	(23.0)
At 31 March 2016		3.1	183.0	186.1

COMPANY STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 March 2016

	Note	Called up share capital £m	Retained earnings/ (deficit) £m	Total equity £m
At 1 April 2014		3.1	0.1	3.2
Profit for the year		-	38.2	38.2
Total comprehensive income for the year		-	38.2	38.2
Transactions with owners recorded directly in equity				
Equity dividends	10	-	(38.0)	(38.0)
At 31 March 2015		3.1	0.3	3.4
Profit for the year		-	23.0	23.0
Total comprehensive income for the year		-	-	-
Transactions with owners recorded directly in equity				
Equity dividends	10	-	(23.0)	(23.0)
At 31 March 2016		3.1	0.3	3.4

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Note	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Operating activities					
Cash generated from/(used in) operations	30	270.8	-	394.3	-
Interest paid		(96.4)	(31.1)	(108.3)	(31.1)
Tax (paid)/ received		(11.9)	0.1	(52.3)	0.1
Net cash generated from/(used in) operating activities		162.5	(31.0)	233.7	(31.0)
Investing activities					
Interest received and similar income		1.7	31.3	0.5	31.1
Dividend received		-	23.0	-	38.0
Purchase of property, plant and equipment		(199.5)	-	(243.7)	-
Purchase of intangible assets		(14.9)	-	(11.0)	-
Customer contributions received		44.0	-	41.1	-
Proceeds from sale of property, plant and equipment		0.2	-	1.2	-
Net cash (used in)/generated from investing activities		(168.5)	54.3	(211.9)	69.1
Net cash (outflow)/ inflow before financing activities		(6.0)	23.3	21.8	38.1
Financing activities					
Dividends paid	10	(23.0)	(23.0)	(38.0)	(38.0)
Transfers (to)/from money market deposits		1.5	-	(25.0)	-
Proceeds from borrowings		285.0	-	232.0	-
Fees associated with borrowings		-	-	(2.6)	-
Repayment of borrowings		(394.1)	-	-	-
Net cash (used in)/generated from financing activities		(130.6)	(23.0)	166.4	(38.0)
Net (decrease)/ increase in cash and cash equivalents		(136.6)	0.3	188.2	0.1
Cash and cash equivalents at the beginning of the year	16	269.3	11.6	81.1	11.5
Cash and cash equivalents at the end of the year	16	132.7	11.9	269.3	11.6

Notes to the Financial Statements

North West Electricity Networks (Holdings) Limited is a company incorporated in the United Kingdom under the Companies Act.

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently in the current year and prior year.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The Financial Statements are presented in Sterling which is also the functional currency. All values are rounded to the nearest million pounds (£m) unless otherwise indicated.

The preparation of financial statements, under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

Basis of preparation – going concern basis

When considering continuing to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements, the Directors have taken into account a number of factors, including the following:

- █ ENWL's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating;
- █ Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- █ Management has prepared, and the Directors have reviewed, 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 under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources 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 and £90m in the Company are available from lenders. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 13 month projections to 31 May 2017 indicate there is significant headroom on these covenants; and
- █ 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.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation – going concern basis *(continued)*

Consequently, after making appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Consolidated Financial Statements.

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

Adoption of new and revised standards

Certain new and amended standards have taken effect during the year. The Directors have determined that the following standards have no impact on the Financial Statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities. The Group and Company do not meet the definition of an investment entity. Therefore the amendments have no impact.
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities. The amendments clarify that right of offset must be legally enforceable in the event of default, bankruptcy or insolvency as well as in the normal course of business. This does not affect the offsetting performed in these Financial Statements.
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets. The amendment adds disclosure requirements for impaired assets and assets with recoverable amounts based on fair value measurements. Neither requirement is applicable to the Group or Company.
- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting. The Group does not designate any hedge relationships, therefore there is no impact from the amendment.
- IFRIC 21 Levies. The Group has no levies. Therefore there is no impact from the amendment.

In the current year the Directors are not aware of any new or revised Standards or Interpretations which have impacted these financial statements.

New standards in issue not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and had not yet been adopted by the EU):

- IFRS 15: Revenue from customer contracts (Effective for the year ended 31 March 2018);
- IFRS 9: Financial Instruments (Effective for the year ended 31 March 2019); and
- IFRS 16 Leases (Effective for periods beginning on or after 1 January 2019).

The Group intends to adopt these standards, as applicable, when they become effective.

IFRS 9 will impact the measurement and disclosure of the Group's financial instruments. IFRS 15 may impact the measurement of the Group's revenue. The Group is assessing the impact of both these IFRSs.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The Group Financial Statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries), made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries

Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the cost of acquisition is below the fair values of the identifiable net assets acquired the difference is recognised as negative goodwill and immediately written-off and credited to the Income Statement in the year of acquisition. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments (Company only)

Investments in subsidiary undertakings are stated at cost less any provisions for permanent diminution in value. Dividends received and receivable are credited to the company's income statement to the extent that they represent a realised profit for the Company.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. All costs associated with business combinations are expensed to the Income Statement.

Goodwill arising on the acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the negative goodwill is recognised, but immediately written-off to the Income Statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment, this is because it has an indefinite life.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Assets which have an indefinite life are not subject to amortisation but are tested for impairment at least annually and where there is an indication of impairment. The carrying amount is reduced by any provision for impairment where necessary.

Amortisation periods for categories of intangible assets are:

Computer software	3-10 years
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Intangible assets under construction are not amortised. Amortisation commences from the date the intangible asset is available for use.

The licence has an indefinite useful life and therefore, is tested annually for impairment.

Property, plant and equipment

Property, plant and equipment comprises operational structures and other assets (including properties, overground plant and equipment and electricity operational assets).

Operational structures

Infrastructure assets are depreciated by writing off their deemed cost less the estimated residual value, evenly over their useful lives, which range from 5 to 80 years. Employee costs incurred in implementing the capital schemes of the Group are capitalised within operational structure assets.

Other assets

All other property, plant and equipment are stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

Buildings	30-60 years
Fixtures and equipment, vehicles and other	3-40 years

Depreciation methods and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Income Statement.

Impairment of tangible and intangible fixed assets

Intangible assets and property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. An intangible asset with an indefinite life is tested for impairment at least annually and whenever there is an indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible fixed assets *(continued)*

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment of non-current assets is recognised in the Income Statement within operating costs.

Where an impairment loss subsequently reverses, the reversal is recognised in the Income Statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on weighted average cost and includes expenditure incurred in acquiring the inventories, conversion costs and other costs in bringing them to their existing location and condition. Net realisable value refers to the net amount expected to realise from the sale of inventory in the ordinary course of business.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are stated at nominal value, with any allowances made for any estimated irrecoverable amounts.

Trade payables

Trade payables are stated at their nominal value.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Cash and cash equivalents

In the consolidated statement of cash flows and related notes, cash and cash equivalents includes cash at bank and in hand, deposits, other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less and which are subject to an insignificant risk of change in value.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Money market deposits

Money market deposits with terms to maturity in excess of three months are not included as cash or cash equivalents and are separately disclosed on the face of the Statement of Financial Position.

Financial investments

Investments (other than interests in subsidiaries and fixed deposits) are recognised and derecognised on a trade date basis and are initially measured at fair value, including transaction costs. Investments are classified as available-for-sale and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' (FVTPL) or 'other financial liabilities'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities designated at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the Income Statement. The net gain or loss recognised in the Income Statement incorporates any interest paid on the financial liabilities and is included in the interest charge. Fair value is determined in the manner described in note 19.

The Group elects to designate a financial liability at inception as fair value through the profit or loss on the basis that it meets the conditions specified in IAS 39 'Financial Instruments: Recognition and Measurement'.

The Group applied the fair value through profit or loss option to the £250m 8.875% 2026 bond upon initial recognition as the complexity of the associated swaps at that time meant that the criteria to allow hedge accounting was not met and the otherwise inconsistent accounting treatment that would have resulted allowed the Group to satisfy the criteria for this designation. Whilst these swaps were closed out during an earlier year, IAS 39 does not permit the reclassification of the bond, which remains designated at fair value through profit or loss.

Derivative financial instruments and borrowings

The Group's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the Statement of Financial Position at fair value.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Income Statement immediately. This has the potential to introduce considerable volatility to both the Income Statement and the Statement of Financial Position. This area is considered to be of significance due to the magnitude of the Group's level of borrowings and derivatives.

Interest rate and indexed-linked swap agreements are used to manage interest rate exposure. The Group does not use derivative financial instruments for speculative purposes.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Hedge accounting

There are two types of hedge accounting strategies that the Group considers; a fair value hedge and a cash flow hedge. There are currently no formal hedging relationships in the Group.

Movements in fair values are reflected through the Income Statement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Finance expense and interest income

All borrowing costs and finance income that are not directly attributable to the acquisition, issue or disposal of a financial asset or financial liability are recognised in the Income Statement in the year in which they are accrued. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise. The effective interest rate is a method of calculating the amortised cost of a financial liability and of allocating interest expense to the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Under IAS 23 borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. A qualifying asset is any major project with a projected timescale of greater than 12 months. Capitalisation commences when activities are undertaken to prepare the asset for use, and expenditure and borrowing costs are being incurred. Capitalisation ceases when substantially all of the activities necessary to prepare the intended asset for its intended use or sale are complete.

Borrowing costs capitalised in the year under IAS 23 were £1.0m (2015: £0.8m), using an average annual capitalisation rate of 4.9% (2015: 5.9%).

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

Fair value

IFRS 13 provides clarity around the methodology for measuring fair value. The Group applies the definition of fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than an entity specific, measurement.

The fair value methodology for derivative financial instruments under IFRS 13 takes into account the non-performance risk inherent within the instruments held for both assets and liabilities. Determination of the non-performance risk is based on the transaction price for similar instruments or market data on appropriate credit spreads for the Group and counterparties.

Operating profit

Operating profit is stated after charging operating expenses but before investment income, finance expense and other gains and losses.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

The tax expense represents the sum of current and deferred tax charges for the financial year, adjusted for prior year items.

Current taxation

Current tax, representing UK corporation tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date. Taxable profit differs from the net profit as reported in the Income Statement because taxable profit excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the Statement of Financial Position date.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer more likely than not that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the Income Statement, except when it relates to items charged or credited to equity, in which case the deferred tax is dealt with in other comprehensive income.

Employee benefits – Retirement benefit obligations

The Group's defined pension benefit arrangements are provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2013; agreed Actuarial valuations are carried out thereafter at intervals of not more than three years. The pension cost under IAS 19 (Revised 2011) 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries.

The assumptions are disclosed in note 20 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the scheme's assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants. Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

The net interest expense is recognised within finance costs (see note 8).

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits – Retirement benefit obligations *(continued)*

The remeasurement of the defined benefit pension schemes is recognised immediately through the Statement of Comprehensive Income.

In addition, the Group also operates a defined contribution pension scheme. Payments are charged to the Income Statement as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

IFRIC14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction' was published by the interpretations committee of the International Accounting Standards Board in July 2007 and was adopted during the year ended 31 March 2008. IFRIC14 provides guidance on the extent to which a pension scheme surplus should be recognised as an asset and may also require additional liabilities to be recognised where minimum funding requirements exist. Legal opinion was obtained that a pension surplus could be recovered on wind up of the scheme and could therefore be recognised, along with associated liabilities. At the current time, this interpretation does not affect the Group.

Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business primarily for the distribution of electricity during the year, exclusive of value-added tax. Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

Where turnover received or receivable in the year exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

An element of the Group's revenue is generated from construction contracts. Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the Income Statement turnover and related costs as contract activity progresses. Turnover is calculated by reference to the value of work performed to date as proportion of the total contract value.

The Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred revenue.

Customer contributions

Contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the Income Statement over the estimated economic lives of the related assets. Amortisation of contributions received post 1 July 2009 is shown as revenue rather than within operating costs following the adoption of IFRIC 18.

Refundable customer deposits

Refundable customer deposits received in respect of property, plant and equipment are held as a liability until repayment conditions come into effect and the amounts are repaid to the customer or are transferred to customer contributions.

Leases

Operating lease rentals are charged to the Income Statement on a straight-line basis over the period of the lease.

Research and development

Research and development costs are written off to the Income Statement as incurred.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Group is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses during the years presented.

On an ongoing basis, the Group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the year in which the facts that give rise to the revision become known.

The following policies are those critical judgements which the Group believes have the most significant impact on the annual results under IFRS.

Carrying value of long-life assets

The Group's accounting policy for property, plant and equipment ("PPE") is detailed above. The carrying value of PPE under IFRS as at 31 March 2016 was £2,953.8 (2015: £2,847.9m). Additions to PPE totalled £206.4m (2015: £238.7m) and the depreciation charge was £100.5m in the year ended 31 March 2016 (2015: £95.3m).

The estimated useful economic lives of PPE are based on management's judgement and experience. When management identify that the actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the Group, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

In accordance with IFRS, the Group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash-generating units under review.

In the financial year ended 31 March 2016, the Directors have assessed the carrying value of both tangible and intangible fixed assets in accordance with the principles of IAS 36 'Impairment of Assets'. This review was underpinned by value in use calculations on the recoverable amounts of the cash generating units ("CGUs").

Revenue recognition

Under IFRS, the Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue. The Group raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes.

The principal customers of the business are the electricity supply companies that utilise the Group's distribution network to distribute electricity from generators to the end consumer. Revenue from such activity is known as 'use of system'. The amount billed is dependent upon the volume of electricity distributed, including estimates of the units distributed to customers. The estimated usage is based on historic data, judgement and assumptions. Operating revenues are gradually adjusted to reflect actual usage in the period over which the meters are read.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Accounting for provisions and contingencies

The Group is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Property provision

ENWL held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. ENWL assigned the majority of these to a third party in 1996. However, the third party went into administration and ENWL still has a potential liability for lease obligations under privity of contract rules for these retail properties.

The retail properties have lease expiry dates ranging from 2015 to 2021. The Directors have recognised a provision based on the probable financial exposure, having consulted with both internal and external property advisors and property management agents. Further information on the judgements involved is provided in note 21 to the financial statements.

Taxation

Assessing the outcome of uncertain tax positions such as the tax treatment of provisions requires judgements to be made regarding the application of tax law and the results of negotiations with, and enquiries from, tax authorities.

Retirement benefits

The pension cost under IAS 19 (revised 2011) 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 20 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Fair values of derivative financial instruments

The Group uses derivative financial instruments to manage the exposure to interest rate risk and inflation risk. The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each Statement of Financial Position date.

Changes in the fair value of all derivative financial instruments that are not in a hedging relationship are recognised in the Income Statement within finance expense as they arise. The Group designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial Instruments: Recognition and Measurement' are met. The Group is therefore subject to volatility in the Income Statement due to changes in the fair values of the derivative financial instruments. Further information on the judgements involved is provided in note 19 to the Financial Statements.

Notes to the Financial Statements *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The value in use calculation performed concludes that no impairment loss is required against this goodwill.

Impairment of intangibles

Management assesses the recoverability of intangible assets on an annual basis. Determining whether any of the intangible assets are impaired requires an estimation of the value in use of the asset to the Group. This value in use calculation requires the Group to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate the present value for the asset and compare that calculation to its carrying value (see note 12).

Impairment of investments

Management assesses the recoverability of investments on an annual basis. The net assets at the Statement of Financial Position date of the Company which the investment is held within are compared with the carrying value of the investment at the Statement of Financial Position date. Should the net assets be lower than the carrying value, this is treated as an indicator for impairment and an impairment test is conducted.

Any such impairment test would require an estimation of the value in use of the asset to the Group. The value in use calculation would require the Group to estimate the future cash flows expected to arise from the asset, discounted at a suitable rate to calculate the present value for the asset, and compare that calculation to its carrying value.

2. REVENUE

	Group 2016 £m	Group 2015 £m
Revenue	450.8	533.7

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

Included within the above are revenues of approximately £303.2m (2015: £370.8m) which arose from sales to the Group's five (2015: five) largest customers. Customer 1 represented £88.6m (2015: £109.6m), Customer 2 £84.0m (2015: £98.9m), Customer 3 £61.8m (2015: £75.2m), Customer 4 £35.0m (2015: £46.8m) and Customer 5 £33.8m (2015: £40.3m) of revenues. No other customer represented more than 10 per cent of revenues either this year or prior year.

Notes to the Financial Statements *(continued)*

3. OPERATING PROFIT

The following items have been included in arriving at the Group's operating profit:

	2016 £m	2015 £m
Employee costs		
Employee costs (note 4)	47.2	44.5
	<u>47.2</u>	<u>44.5</u>
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment:		
Owned assets (note 12)	100.5	95.3
Amortisation of intangible assets and customer contributions:		
Software (note 11)	4.8	3.6
Customer contributions ¹ (note 23)	(1.7)	(1.7)
	<u>103.6</u>	<u>97.2</u>
Other income		
Profit on disposal of property, plant and equipment	(0.2)	(0.8)
	<u>(0.2)</u>	<u>(0.8)</u>
Other operating costs include:		
Research and development	6.7	3.3
Operating leases:		
- land and buildings	0.7	0.8
- hire of plant and machinery	2.7	1.7
Retail property provision credit (note 21)	1.0	-
Restructuring costs (note 6)	-	2.8
	<u>-</u>	<u>2.8</u>

¹ For the year ended 31 March 2016, £4.6m (2015: £1.9m) of customer contributions have been amortised through revenue in line with IFRIC 18.

Notes to the Financial Statements *(continued)*

3. OPERATING PROFIT *(continued)*

Analysis of the auditor's remuneration is as follows:

	Group 2016 £m	Group 2015 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual Financial Statements	-	-
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	0.2	0.1
Total audit fees	<u>0.2</u>	<u>0.1</u>
Audit related assurance services	0.1	0.1
Taxation advisory services	-	-
Total non-audit fees	<u>0.1</u>	<u>0.1</u>
Total fees payable	<u><u>0.3</u></u>	<u><u>0.2</u></u>

Fees payable for the audit of the Company's Financial Statements are £4,440 (2015: £3,552) were borne by another Group company and have not been recharged.

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the Consolidated Financial Statements are only required to disclose such fees on a consolidated basis.

4. EMPLOYEE COSTS

	Group 2016 £m	Group 2015 £m
Wages and salaries	77.3	74.7
Social security costs	7.6	7.2
Pension costs (see note 20)	17.4	16.3
Employee costs (including Directors' remuneration)	<u>102.3</u>	<u>98.2</u>
Costs transferred directly to fixed assets	<u>(55.1)</u>	<u>(53.7)</u>
Charged to operating expenses	<u><u>47.2</u></u>	<u><u>44.5</u></u>

The average monthly number of employees during the year (including executive Directors) was:

	Group 2016 Number	Group 2015 Number
Electricity distribution - Group	<u><u>1,604</u></u>	<u><u>1,670</u></u>

There are no employees of the Company (2015: nil).

Notes to the Financial Statements *(continued)*

5. DIRECTORS' REMUNERATION

	2016 £m	2015 £m
Salaries	0.7	0.5
Accrued bonus	0.1	0.3
Amounts receivable under long term incentive schemes	0.3	1.1
Pension	-	-
	1.1	1.9

The aggregate emoluments of the Directors in 2016 amounted to £1,092,221 (2015: £1,914,515). Emoluments comprise salaries, fees, taxable benefits, compensation for loss of office and the value of short-term and long-term incentive awards. The emoluments of the highest paid Director in 2016 in respect of services to the Group amounted to £682,020 (2015: £1,607,702). Included in the total emoluments shown above are amounts payable for compensation for loss of office of £35,000 (2015: £nil) all paid in cash.

Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 29.

The highest paid director is a member of the defined contribution section of the ENW ESPS scheme. The pension contributions for the highest paid Director for 31 March 2016 were £nil (2015: £nil). The accrued pension at 31 March 2016 for the highest paid Director was £nil (2015: £nil).

As at 31 March 2016 and 31 March 2015 the Directors have no interests in the ordinary shares of the Company. All remuneration was borne by ENWL (2015: same).

6. RESTRUCTURING COSTS

At the start of the year the Group executed the redesign of the organisational structure to respond to the challenges of the RIIO-ED1 framework and to remove complexity in the hierarchy, ensuring single point of accountability. As a consequence where employees could not be redeployed within the business, redundancy terms were agreed in prior year.

	Group 2016 £m	Group 2015 £m
Redundancy costs	-	2.8
Total charge for the year	-	2.8

Notes to the Financial Statements *(continued)*

7. INVESTMENT INCOME

Group	2016 £m	2015 £m
Interest receivable on short-term bank deposits held at amortised cost	1.2	0.6
	<u>1.2</u>	<u>0.6</u>
Total investment income	1.2	0.6
	<u><u>1.2</u></u>	<u><u>0.6</u></u>

8. FINANCE EXPENSE (NET)

Group	2016 £m	2016 £m	2015 £m	2015 £m
Interest payable				
Interest payable on Group borrowings	20.5		20.4	
Interest payable on borrowings held at amortised cost	62.9		72.6	
Interest payable on borrowings designated at fair value through profit or loss	22.2		22.2	
Net (receipts)/payments on derivatives held for trading	(11.5)		(5.4)	
Other finance charges related to index linked debt	4.1		6.3	
Capitalisation of borrowing costs under IAS 23	(1.0)		(0.8)	
Interest cost on pension plan obligations (note 20)	0.7		1.2	
Total interest expense	<u>97.9</u>	97.9	<u>116.5</u>	116.5
Fair value movements on financial instruments				
Fair value movement on borrowings designated at fair value through profit or loss	(12.7)		29.4	
Fair value movement on derivatives held for trading	53.2		129.4	
Total fair value movement	<u>40.5</u>	40.5	<u>158.8</u>	158.8
Total finance expense (net)	<u><u>138.4</u></u>	138.4	<u><u>275.3</u></u>	275.3

Where available, market values have been used to determine fair values; this is a Level 1 in input under IFRS13. 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; these are level 2 inputs. In accordance with IFRS 13, an adjustment for the non-performance risk of either the Group or the counterparty, as applicable, is made. The non-performance risk has been quantified by calculating a credit valuation adjustment ("CVA") and deducting this from the discounted cash flow figure to give the fair value. Note 19 provides more detail on this.

There have been no accretion payments on the index-linked swaps in the year; these are scheduled five-yearly and seven-yearly with the next payment due in July 2016. No swaps have been closed out in the year (2015: same).

Notes to the Financial Statements *(continued)*

9. TAXATION

	Group 2016 £m	Group 2016 £m	Group 2015 £m	Group 2015 £m
Current tax:				
Current year	22.8		30.1	
Prior year	(2.1)		(3.8)	
	<hr/>		<hr/>	
		20.7		26.3
Deferred tax (note 22):				
Current year	(8.1)		(25.2)	
Prior year	0.7		3.1	
Impact of change in future tax rates	(30.8)		-	
	<hr/>		<hr/>	
		(38.2)		(22.1)
		<hr/>		<hr/>
Tax (credit)/charge for the year		(17.5)		4.2

Corporation tax is calculated at 20% (2015: 21%) of the estimated assessable profit for the year.

The rate will be reduced to 19% on 1 April 2017 and 18% on 1 April 2020. The Finance Bill 2016 proposes a further rate reduction to 17% on 1 April 2020 but as the legislation is not substantially enacted at the Balance Sheet date, the tax disclosures reflect deferred tax measured at the 18% rate from 1 April 2020.

The deferred tax credit in respect of the change from 18% to a 17% tax rate is expected to be in the region of £14m.

The table below reconciles the notional tax charge at the UK corporation tax rate to the effective tax rate for the year for the Group:

	2016 £m	2015 £m
Profit before taxation	68.1	15.1
Tax at the UK corporation tax rate of 20% (2015: 21%)	13.6	3.2
Prior year adjustments	(1.4)	(0.7)
Impact of change in tax rates on current period		
deferred tax	0.9	1.3
Non-deductible expenses	0.2	0.4
Impact from change in future tax rates	(30.8)	-
	<hr/>	<hr/>
Tax (credit)/charge for the year	(17.5)	4.2

Notes to the Financial Statements *(continued)*

9. TAXATION *(CONTINUED)*

In addition to the amount charged to the Income Statement, £1.6m of deferred tax relating to remeasurement of defined benefit schemes has been charged to the Statement of Comprehensive Income (2015: £0.9m charge), as has a £2.2m deferred tax charge due to changes in future tax rates of the brought forward deferred tax asset (2015: nil).

10. DIVIDENDS

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

Group and Company	2016 £m	2015 £m
Final dividends for the year ended 31 March 2015 of 196.72 pence per share (2015: 819.67 pence per share)	6.0	25.0
Interim dividends for the year ended 31 March 2016 of 557.38 pence per share (2015: 426.23 pence per share)	17.0	13.0
	23.0	38.0

At the current and prior year ends, there were no proposed final dividends at the year end subject to approval by equity holders of the Company and, hence, no liabilities have been included in the Financial Statements at 31 March 2016 and 31 March 2015 respectively.

Notes to the Financial Statements *(continued)*

11. INTANGIBLE ASSETS AND GOODWILL

Group	Goodwill £m	Licence £m	Software £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2014	10.1	186.9	55.9	0.2	253.1
Additions	-	-	-	11.0	11.0
Transfers	-	-	0.2	(0.2)	-
At 31 March 2015	10.1	186.9	56.1	11.0	264.1
Additions	-	-	5.9	9.0	14.9
Transfers	-	-	6.6	(6.6)	-
At 31 March 2016	10.1	186.9	68.6	13.4	279.0
Amortisation					
At 1 April 2014	-	-	44.2	-	44.2
Charge for the year	-	-	3.6	-	3.6
Disposals	-	-	-	-	-
At 31 March 2015	-	-	47.8	-	47.8
Charge for the year	-	-	4.8	-	4.8
Disposals	-	-	-	-	-
At 31 March 2016	-	-	52.6	-	52.6
Net book value at 31 March 2016	10.1	186.9	16.0	13.4	226.4
Net book value at 31 March 2015	10.1	186.9	8.3	11.0	216.3

At 31 March 2016, the Group had entered into contractual commitments for the acquisition of software amounting to £11.1m (2015: £15.5m). The Company had not entered into contractual commitments for the acquisition of software at 31 March 2016 (2015: same).

The licence held by the Group to transmit and distribute electricity is viewed as having an indefinite life as the Directors' believe the licence would only be revoked if there were a serious breach of the terms and conditions of the licence. The licence is held subject to 25 years notice in writing from the Authority to the licensee.

Goodwill arose on the acquisition of Electricity North West Services Limited ("ENWSL") in 2010.

At each balance sheet date the Group reviews the carrying amounts of its goodwill and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss (See note 12).

Notes to the Financial Statements *(continued)*

12. PROPERTY, PLANT AND EQUIPMENT

Group	Operational structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2014	3,599.4	22.9	58.1	287.9	3,968.3
Additions	67.8	1.8	4.6	164.5	238.7
Transfers	119.8	(0.1)	11.4	(131.1)	-
Disposals	(3.8)	-	(3.5)	-	(7.3)
At 31 March 2015	3,783.2	24.6	70.6	321.3	4,199.7
Additions	138.5	2.4	7.7	57.8	206.4
Transfers	238.9	4.1	14.6	(257.6)	-
Disposals	(1.4)	-	(0.8)	-	(2.2)
At 31 March 2016	4,159.2	31.1	92.1	121.5	4,403.9
Depreciation					
At 1 April 2014	1,218.8	5.6	39.0	-	1,263.4
Charge for the year	82.1	0.8	12.4	-	95.3
Disposals	(3.8)	-	(3.1)	-	(6.9)
At 31 March 2015	1,297.1	6.4	48.3	-	1,351.8
Charge for the year	87.8	0.8	11.9	-	100.5
Disposals	(1.4)	-	(0.8)	-	(2.2)
At 31 March 2016	1,383.5	7.2	59.4	-	1,450.1
Net book value at 31 March 2016	2,775.7	23.9	32.7	121.5	2,953.8
Net book value at 31 March 2015	2,486.1	18.2	22.3	321.3	2,847.9

At 31 March 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £63.2m (2015: £71.3m). The Company had not entered into any contractual commitments for the acquisition of property, plant and equipment at 31 March 2016 (2015: none).

Notes to the Financial Statements *(continued)*

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Impairment testing of intangible assets and property plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For the purposes of impairment testing the Group have determined that there is only one CGU. The key assumptions for the value in use calculations are those regarding discount rates and the outcomes of future Ofgem price control settlements.

The Group has prepared cash flow forecasts for a 31 year period, which represents the planning horizon used for management purposes being aligned to the end of the 8 year RIIO framework period. The rate used to discount cash flows was 6.08% (2015: 6.46%) reflecting an assumed level of risk associated with the cash flows generated from the licence. Cash flow projections for the 8 year period to 2023 are based on the Ofgem final determination and ENWL's latest approved business plan (2015: based on forecast business plan submission to Ofgem) and reflect recent RPI forecasts. Forecasts beyond this point are projected forward based on expected levels of expenditure to maintain the health of the network and long term inflation assumptions. The forecasts have been sensitised to a change in the discount rate of 1% either way and that analysis indicates that there is sufficient headroom and impairment would be required.

Based on the impairment testing performed, management are comfortable that sufficient headroom exists between the value in use and the carrying value of the assets such that no impairment loss is required to be booked.

Notes to the Financial Statements *(continued)*

13. INVESTMENTS

	Company £m
Cost and carrying value	
At 1 April 2015 and 31 of March 2016	3.1

Details of the investments, all of which are incorporated in the UK, as at 31 March 2016 are as follows:

Investment	Description of holding	Proportion held	Nature of business
Company			
NWEN Group Ltd	Ordinary shares of £1 each	100%	Holding company
Group			
Indirect subsidiaries			
NWEN Finance plc	Ordinary shares of £1 each	100%	Financing company
North West Electricity Networks plc	Ordinary shares of £1 each	100%	Financing company
Electricity North West Ltd	Ordinary shares of 50p each	100%	Energy distribution
ENW Capital Finance plc	Ordinary shares of £1 each	100%	Financing company
ENW Finance plc	Ordinary shares of £1 each	100%	Financing company
Electricity North West Services Ltd	Ordinary shares of £1 each	100%	Dormant company
ENW (ESPS) Pensions Trustees Ltd	Ordinary shares of £1 each	100%	Dormant company
Joint venture			
Nor.Web DPL Ltd	Ordinary shares of £1 each	50%	Dormant company

Notes to the Financial Statements *(continued)*

13. INVESTMENTS *(continued)*

Other investments	Description of holding	Proportion held	Nature of business
Selectusonline Ltd	Ordinary shares of 66.67p each	16.67%	Planning and procurement Industry support services
Energy Networks Association Ltd	Limited by Guarantee	11.11%	Industry support services
Electricity Association Services Ltd – in liquidation	Ordinary shares of £1 each	9.09%	Industry support services
Electralink Ltd	Ordinary shares of £0.10 each	7.38%	Industry support services
Electricity Pensions Ltd	Limited by Guarantee	4.76%	Industry support services
Northmere Ltd	Limited by Guarantee	4.55%	Industry support services
Electricity Pensions Ltd	Ordinary shares of £1 each	3.38%	Industry support services
Gemserv Ltd	Ordinary shares of £1 each	2.78%	Industry support services
DCUSA Ltd	Ordinary shares of £1 each	1.72%	Industry support services
Smart Energy Code Company Ltd	Ordinary shares of £1 each	0.85%	Industry support services
MRA Service Company Ltd	Ordinary shares of £1 each	0.61%	Industry support services
National Grid Plc	Ordinary shares of 11.76p each	Negligible	Energy distribution

Notes to the Financial Statements (continued)

14. INVENTORIES

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Raw materials and consumables	8.5	-	7.3	-

15. TRADE AND OTHER RECEIVABLES

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Current assets				
Trade receivables	12.8	-	6.7	-
Amounts owed by Group undertakings	0.7	13.6	0.6	689.8
Prepayments and accrued income	50.6	-	55.4	-
Balance at 31 March	64.1	13.6	62.7	689.8

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Non-current assets				
Amounts owed by Group undertakings	-	676.5	-	-
Balance at 31 March	-	676.5	-	-

Group

Group trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.7m (2015: £0.3m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment. The average credit period taken on sales is 14 days (2015: 14 days). No interest is charged on these balances (2015: same).

The Directors consider that the carrying amount of Group trade and other receivables approximates their fair value. Of the Group trade receivables, 51% (2015: 56%) are past due. The majority of balances are less than 30 days past due; a balance of £1.1m is greater than 30 days past due at 31 March 2016 (2015: £1.0m), against which an allowance for doubtful debt of £0.7m (2015: £0.3m) has been made.

The movement on the provision for estimated irrecoverable amounts of trade receivables is as follows:

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Balance at beginning of year	0.3	-	0.4	-
Charged/(Credited) to Income Statement	0.4	-	(0.1)	-
Balance at end of year	0.7	-	0.3	-

Notes to the Financial Statements *(continued)*

15. TRADE AND OTHER RECEIVABLES *(continued)*

Group *(continued)*

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.

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value ("RAV") of the Company. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level under the contract the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2016 £2.6m (2015: £4.8m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of ED1 (1 April 2015 to 31 March 2023) and is £1,643m (2015: £1,609m) for the year ended 31 March 2016 based on the actual retail price index (RPI) for March.

At 31 March 2016 £103.0m (2015: £112.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £10.7m (2015: £10.7m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Company

For further details of the amounts owed by Group undertakings see note 29. There are no provisions against these receivables. No element of the balance is overdue.

16. CASH AND CASH EQUIVALENTS AND MONEY MARKET DEPOSITS

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Cash and cash equivalents	132.7	11.9	269.3	11.6
Short-term money market deposits (maturity over three months)	23.5	-	25.0	-
	<u>156.2</u>	<u>11.9</u>	<u>294.3</u>	<u>11.6</u>
Cash and cash equivalents				

Cash and cash equivalents comprise cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less, net of any bank overdrafts which are payable on demand. Money market deposits with terms to maturity in excess of three months are not included as cash or cash equivalents and are separately disclosed on the face of the Statement of Financial Position.

The effective interest rate on short-term deposits was a weighted average of 0.71% (2015: 0.57%) and these deposits had an average maturity of 40 days (2015: 53 days).

Notes to the Financial Statements *(continued)*

17. TRADE AND OTHER PAYABLES

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Trade payables	13.4	-	17.9	-
Amounts owed to Group companies	10.1	13.0	10.1	13.6
Amounts owed to Subsidiary	-	0.7	-	-
Undertakings				
Other taxation and social security	11.2	-	15.1	-
Customers' contributions (note 23)	23.9	-	6.6	-
Refundable customer deposits (note 24)	2.6	-	0.2	-
Accruals and deferred income	91.4	-	96.0	-
	<u>152.6</u>	<u>13.7</u>	<u>145.9</u>	<u>13.6</u>

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 15 days from receipt of invoice (2015: 18 days). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk and liquidity risk see note 19.

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Non-current liabilities				
Bonds	1,489.2	-	1,214.3	-
Bank and other term borrowings	248.8	-	344.9	-
Amounts owed to subsidiary undertaking	-	178.3	-	177.9
Amounts owed to parent undertaking	509.7	509.7	-	-
Total borrowings	<u>2,247.7</u>	<u>688.0</u>	<u>1,559.2</u>	<u>177.9</u>
Current liabilities				
Bonds	-	-	299.6	-
Bank and other term borrowings	4.6	-	-	-
Amounts owed to parent undertaking	-	-	509.7	509.7
Total borrowings	<u>4.6</u>	<u>-</u>	<u>809.3</u>	<u>509.7</u>
	<u>2,252.3</u>	<u>688.0</u>	<u>2,368.5</u>	<u>687.6</u>

Notes to the Financial Statements *(continued)*

18. BORROWINGS *(continued)*

Carrying value by category

The carrying values by category of financial instruments were as follows:

	Year of maturity	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Borrowings designated at fair value through profit or loss					
8.875% £250m bond	2026	380.7	-	393.4	-
Borrowings measured at amortised cost					
8.875% £200m bond	2026	196.4	-	196.1	-
6.125% £200m bond	2021	197.2	-	196.7	-
6.750% £300m bond	2015	-	-	299.6	-
5.875% £180m bond	2021	178.4	-	177.9	-
1.4746%+RPI ¹ £100m index-linked bond	2046	134.3	-	132.9	-
1.5911%+RPI ¹ £135m index-linked loan	2024	154.0	-	152.2	-
0.38%+RPI ¹ £50m index-linked loan	2032	49.6	-	50.5	-
0.0%+RPI ¹ £50m index-linked loan	2033	50.0	-	50.0	-
4.07% £100m USPP bond	2029	99.1	-	97.8	-
4.17% £100m USPP bond	2029	99.1	-	-	-
1.40%+RPI ¹ £20m index-linked USPP bond	2034	19.9	-	19.5	-
1.50%+RPI ¹ £85m index-linked USPP bond	2034	84.6	-	-	-
1.265% +RPI ¹ £100m index-linked PP bond	2040	99.5	-	-	-
Amortising costs re: Long term loans at LIBOR plus 0.7%	2017	-	-	(0.1)	-
Long term loans at LIBOR plus 1.2%	2016	-	-	92.3	-
Amortising costs re: Long term loans at LIBOR plus 1.2%	2017	(0.2)	-	-	-
Amounts owed to parent undertaking	On demand	-	-	509.7	509.7
Amounts owed to parent undertaking	2027	509.7	509.7	-	-
Amounts owed to subsidiary undertaking	2021	-	178.3	-	177.9
Total borrowings measured at amortised cost		1,871.6	688.0	1,975.1	687.6
Total borrowings		2,252.3	688.0	2,368.5	687.6

¹ Adjusted for RPI - Retail Price Index – the UK general index of retail prices (for all items) as published by the Office of National Statistics (January 1987 = 100).

Notes to the Financial Statements *(continued)*

18. BORROWINGS *(continued)*

The 6.125% £200m bonds are guaranteed by the ENW Finance plc (the issuing company) and ENWL.

The 6.75% £300m bonds are secured and guaranteed by ENW Capital Finance plc (the issuing company), NWEN Plc and NWEN Group Limited.

The 5.875% £180m bonds are secured and guaranteed by both North West Electricity Networks (Holdings) Limited and North West Electricity Networks (Finance) Limited.

The 4.07%+RPI £100m tranche, 4.17%+RPI £100m tranche, 1.40% £20m tranche and 1.50% £85m tranche of the index linked USPP and 1.265%+RPI £100m tranche are secured and guaranteed by NWEN Plc, ENW Capital Finance plc and NWEN Group Limited.

All other loans and borrowings are unsecured (2015: same). There is no formal bank overdraft facility in place at 31 March 2016 (2015: none). All borrowings are in sterling (2015: same). The fair values of the Group's financial instruments are shown in note 19.

Borrowing facilities

The Group had £140.0m (2015: £332.4m) in unutilised committed bank facilities at 31 March 2016 of which £40m (2015: £40.0m) expires within one year, £100m (2015: £57.4m) expires after one year but less than two years and £nil (2015: £235.0m) expires in more than two years.

The Company has no unutilised committed bank facilities at 31 March 2016 (2015: none).

19. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability or equity in another entity. The Group uses financial instruments to invest liquid asset balances, raise funding and manage the risks arising from its operations.

The principal risks to which the Group is exposed and which arise in the normal course of business include credit risk, liquidity risk and market risk, in particular interest rate risk and inflation risk. Derivative financial instruments are used to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons.

The accounting policy for derivatives is provided in note 1.

Control over financial instruments

The Group has a formal risk management structure, which includes the use of risk limits, reporting and monitoring requirements, mandates, and other control procedures. It is currently the responsibility of the Board to set and approve the risk management procedures and controls.

Risk management

All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most important types of financial risk are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation and equity price risks.

The only material exposure the Group has to foreign exchange risk or equity price risk relates to purchases of plant denominated in foreign currencies and to the assets of the defined benefit pension scheme, which are managed by the pension scheme investment managers.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENT *(continued)*

Risk management *(continued)*

The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Group treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee. The Group's processes for managing risk and the methods used to measure risk have not changed since the prior year. In the year, there have been changes to the Group's policies in relation to the management of credit risk; risk limits and minimum credit ratings of counterparties have been amended to reflect changes to market conditions and the associated level of perceived risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk.

The counterparties under treasury activities consist of financial institutions. In accordance with IAS 39, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. The exposure to counterparty credit risk will continue to be monitored. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

Significant changes in the economy, or in the utilities sector could result in losses not necessarily provided for at the Statement of Financial Position date there are only 5 (2014: 5) principal customers, see note 2. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor adherence to this process.

Trade receivables

Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers, and the fact that each of these customers has a contract in place with the Group, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating.

At 31 March 2016 there was £7.2m receivables past due (2015: £3.8m) against which an allowance for doubtful debts of £0.7m has been made (2015: £0.3m).

Treasury investments

The Directors do not believe that the Group is exposed to any material concentrations of credit risk in relation to treasury investments, including amounts placed on deposit with counterparties.

As at 31 March 2016 none (2015: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been re-negotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Credit risk *(continued)*

The table below provides details of the ratings of the Group's treasury portfolio:

Credit Rating	2016	2016	2015	2015
	£m	%	£m	%
AAA	52.4	24.8	135.3	45.4
AA	-	-	-	-
AA-	24.6	11.6	13.2	4.4
A+	42.1	19.9	-	-
A	92.4	43.7	149.9	50.2
	211.5	100.0	298.4	100.0

No collateral is held in relation to Treasury assets at the Statement of Financial Position date (2015: none).

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position. For trade receivables, the value is net of any collateral held in cash deposits (please refer to note 15 for further details).

Credit risk by category	2016	2016	2015	2015
	Group £m	Company £m	Group £m	Company £m
Trade receivables	12.8	-	6.7	-
Amounts owed by Group undertakings	0.7	13.6	0.6	689.8
Cash and cash equivalents	132.7	11.9	269.3	11.6
Money market deposits (maturity over three months)	23.5	-	25.0	-
	169.7	25.5	301.6	726.9

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. 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.

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which currently project cash flows out 31 years ahead, to the end of the Regulatory Period ending 31 March 2047. A medium-term view is provided by the Group business plan covering the following accounting period, which is updated and approved annually by the Board. Liquidity is also monitored via an 18 month liquidity projection updated and reported to the Board monthly. The Board has approved a liquidity framework within which the business operates.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

Available liquidity at 31 March was as follows:

	2016	2016	2015	2015
	Group	Company	Group	Company
Available liquidity	£m	£m	£m	£m
Cash and cash equivalents	132.7	11.9	269.3	11.6
Committed undrawn bank facilities	140.0	-	332.4	-
Money market deposits (maturity over three months)	23.5	-	25.0	-
Total	296.2	11.9	626.7	11.6

Cash and cash equivalents comprise cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less, net of any un-presented cheques. There was no formal bank overdraft facility in place during the year (2015: nil).

Committed undrawn bank facilities of the Group include £40.0m (2015: £40.0m) of facilities that expire within one year, £100m (2015: £57.4m) that expires after one year but less than two years and £nil (2015: £235.0m) that expires in more than two years. The Company has no unutilised committed bank facilities at March 2016 (2015: none).

The Company has no unutilised committed bank facilities at 31 March 2016 (2015: none).

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cash flows within particular time periods. The Group uses economic hedges to ensure that certain cash flows can be matched.

Notes to the Financial Statements (continued)

19. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The following is an analysis of the maturity profile of contractual cash flows of principal and interest payable under financial liabilities and derivative financial instruments on an undiscounted basis. Derivative cash flows have been shown net; all other cash flows are shown gross.

Group At 31 March 2016	On demand £m	<1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	>4 years £m	Total £m
Trade payables	(13.4)	-	-	-	-	-	(13.4)
Refundable customer deposits	(2.6)	-	-	-	-	-	(2.6)
Amount owed to parent undertaking	-	(20.1)	(20.1)	(20.0)	(20.0)	(350.4)	(430.6)
Bonds	-	(75.8)	(75.8)	(75.8)	(75.8)	(1,830.4)	(2,133.6)
Other external borrowings	-	(7.3)	(8.8)	(8.8)	(8.8)	(241.9)	(275.6)
Derivative financial instruments (net)	-	10.7	6.2	10.7	10.7	(140.1)	(101.8)
	(16.0)	(92.5)	(98.5)	(93.9)	(93.9)	(2,562.8)	(2,957.6)

Group At 31 March 2015	On demand £m	<1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	>4 years £m	Total £m
Trade payables	(17.9)	-	-	-	-	-	(17.9)
Refundable customer deposits	-	(0.2)	(4.8)	-	-	-	(5.0)
Amount owed to parent undertaking	(519.7)	-	-	-	-	-	(519.7)
Bonds	-	(379.2)	(69.1)	(69.1)	(69.1)	(1,522.5)	(2,109.0)
Other external borrowings	-	(5.9)	(101.5)	(8.7)	(8.7)	(365.7)	(490.5)
Derivative financial instruments (net)	-	3.4	3.4	(0.9)	3.4	(280.2)	(270.9)
	(537.6)	(381.9)	(172.0)	(78.7)	(74.4)	(2,168.4)	(3,413.0)

Company At 31 March 2016	On demand £m	<1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	>4 years £m	Total £m
Amount owed to parent undertaking	-	(20.1)	(20.1)	(20.0)	(20.0)	(350.4)	(430.6)
Amounts owed to subsidiary undertaking	-	(10.6)	(10.6)	(10.6)	(10.6)	(195.8)	(238.2)
	-	(30.7)	(30.7)	(30.6)	(30.6)	(546.2)	(668.8)

Company At 31 March 2015	On demand £m	<1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	>4 years £m	Total £m
Amount owed to parent undertaking	(519.7)	-	-	-	-	-	(519.7)
Amounts owed to subsidiary undertaking	-	(10.6)	(10.6)	(10.6)	(10.6)	(206.4)	(248.8)
	(519.7)	(10.6)	(10.6)	(10.6)	(10.6)	(206.4)	(768.5)

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation, equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered into. The management of market risk is undertaken by reference to risk limits, approved by the Chief Financial Officer or Treasurer under delegated authority from the Board. The Group has no significant foreign exchange, equity or commodity exposure.

The Group has exposure to interest rate risk and inflation risk and this is explained in the sections below.

The Group borrows in the major global debt markets at fixed, index-linked and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

Interest rate risk

Interest rate risk is the risk that either future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market interest rates. The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The Group's fixed rate borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates.

Investments in short-term receivables and payables are not exposed to interest rate risk due to their short-term nature.

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to either inflation-linked or an alternative fixed profile to more accurately match the revenue profile. The cash flows exchanged under the derivatives are calculated by reference to a notional principal amount. The notional principal reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

Sensitivity analysis on interest

The Group's borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates. The following sensitivity analysis is used by Group management to monitor interest rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve.

	2016			2015		
	Change in interest rates			Change in interest rates		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
	£m	£m	£m	£m	£m	£m
Debt held at fair value	(14.8)	14.1	27.5	(16.1)	15.3	29.9
Interest rate swaps	(0.6)	0.6	1.1	(0.7)	0.7	1.2
Inflation-linked swaps	(54.9)	47.8	90.6	(32.0)	28.4	53.7
Total fair value movement	(70.3)	62.5	119.2	(48.8)	44.4	84.8

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Sensitivity analysis on interest *(continued)*

The sensitivity analysis above shows the amount by which the fair value of items recorded on the Statement of Financial Position at fair value would be adjusted for a given interest rate movement. As fair value movements are taken to the Income Statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. The analysis below shows the impact on profit for the year if interest rates over the course of the year had been different from the actual rates.

	2016			2015		
	Change in interest rates			Change in interest rates		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
	£m	£m	£m	£m	£m	£m
Debt held at amortised cost – floating interest rate	(0.5)	0.5	1.1	(0.2)	0.2	0.5
Total finance expense impact	(0.5)	0.5	1.1	(0.2)	0.2	0.5

Although the above measures provide an indication of the Group's exposure to market risk, such measures are limited due to the long-term nature of many of the financial instruments and the uncertainty over future market rate movements.

Index-linked debt is carried at amortised cost and as such the Statement of Financial Position in relation to this debt is not exposed to movements in interest rates.

Inflation risk

The Group's revenues are linked to movements in inflation, as measured by the Retail Prices Index ("RPI"). To economically hedge exposure to RPI, the Group links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's index-linked swaps are exposed to a risk of change in their fair value cash flows due to changes in inflation rates. The Group's revenues are also linked to RPI via returns on the Regulated Asset Value ("RAV") and an increase in RPI would increase revenues, mitigating any increase in finance expense.

Notes to the Financial Statements (continued)

19. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis on interest (continued)

The Group's inflation-linked derivatives are exposed to a risk of change in their fair value due to changes in inflation rates. The following sensitivity analysis is used by Group management to monitor inflation rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve.

	2016			2015		
	Change in inflation rates			Change in inflation rates		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
	£m	£m	£m	£m	£m	£m
Inflation-linked swaps	65.6	(72.6)	(153.4)	37.8	(41.6)	(87.4)
Total fair value movement	65.6	(72.6)	(153.4)	37.8	(41.6)	(87.4)

The sensitivity analysis above shows the amount by which the fair value of items recorded on the Statement of Financial Position at fair value would be adjusted for a given inflation rate movement. As fair value movements are taken to the Income Statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

The Group's inflation-linked borrowings and derivatives are exposed to a risk of change in cash flows due to changes in inflation rates. The analysis below shows the impact on profit for the year if inflation rates over the course of the year had been different from the actual rates.

	2016			2015		
	Change in inflation rates			Change in inflation rates		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
	£m	£m	£m	£m	£m	£m
Debt held at amortised cost – inflation-linked interest basis	3.0	(3.0)	(6.0)	2.0	(2.0)	(3.9)
Inflation-linked swaps	-	-	(0.1)	-	-	(0.1)
Total finance expense impact	3.0	(3.0)	(6.1)	2.0	(2.0)	(4.0)

Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments.

At 31 March 2016, the Group's derivatives are not designated in formal hedging relationships (2015: none), and instead are measured at fair value with movements reflected through the Income Statement.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Fair values

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the Statement of Financial Position date.

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), and, 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 31 March 2016 is £93.4m (2015: £76.2), of which £91.3m (2015: nil) 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.

Group	2016	2016	2015	2015
	-10bps	+10bps	-10bps	-10bps
	£m	£m	£m	£m
Inflation-linked swaps	(3.3)	3.2	-	-

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.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Fair values *(continued)*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Financial assets:	Group Carrying value £m	Group Fair value £m	Company Carrying value £m	Company Fair value £m
31 March 2016				
<i>Current assets:</i>				
Trade receivables	12.8	12.8	-	-
Amounts owed by group undertakings	0.7	0.7	13.6	13.6
Cash and cash equivalents	132.7	132.7	11.9	11.9
Short-term money market deposits (maturity over three months)	23.5	23.5	-	-
	<u>169.7</u>	<u>169.7</u>	<u>25.5</u>	<u>25.5</u>
31 March 2015				
<i>Current assets:</i>				
Trade receivables	6.7	6.7	-	-
Amounts owed by group undertakings	0.6	0.6	689.8	689.8
Cash and cash equivalents	269.3	269.3	11.6	11.6
Short-term money market deposits (maturity over three months)	25.0	25.0	-	-
	<u>301.6</u>	<u>301.6</u>	<u>701.4</u>	<u>701.4</u>

The carrying value of trade receivables approximates to their fair value for both the Group and Company.

Notes to the Financial Statements (continued)

19. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

31 March 2016	Group Carrying value £m	Group Fair value £m	Company Carrying value £m	Company Fair value £m
Financial liabilities:				
Non-current liabilities:				
Borrowings designated at fair value through profit or loss	(380.7)	(380.7)	-	-
Borrowings measured at amortised cost	(1,357.3)	(1,554.5)	-	-
Derivative financial instruments	(295.1)	(295.1)	-	-
Amounts owed to parent undertaking	(509.7)	(509.7)	(509.7)	(509.7)
Amounts owed to subsidiary undertaking	-	-	(178.3)	(178.3)
Refundable customer deposits	-	-	-	-
	<u>(2,542.8)</u>	<u>(2,740.0)</u>	<u>(688.0)</u>	<u>(688.0)</u>
Current liabilities:				
Trade payables	(13.4)	(13.4)	-	-
Borrowings measured at amortised cost	(4.6)	(4.6)	-	-
Amounts owed to parent undertaking	-	-	-	-
Refundable customer deposits	(2.6)	(2.6)	-	-
	<u>(20.6)</u>	<u>(20.6)</u>	<u>-</u>	<u>-</u>
31 March 2015	Group Carrying value £m	Group Fair value £m	Company Carrying value £m	Company Fair value £m
Financial liabilities:				
Non-current liabilities:				
Borrowings designated at fair value through profit or loss	(393.4)	(393.4)	-	-
Borrowings measured at amortised cost	(1,165.8)	(1,382.8)	-	-
Derivative financial instruments	(241.9)	(241.9)	-	-
Amounts owed to subsidiary undertaking	-	-	(177.9)	(194.3)
Refundable customer deposits	(4.8)	(4.8)	-	-
	<u>(1,805.9)</u>	<u>(2,022.9)</u>	<u>(177.9)</u>	<u>(194.3)</u>
Current liabilities:				
Trade payables	(17.9)	(17.9)	-	-
Borrowings measured at amortised cost	(299.6)	(303.6)	-	-
Amounts owed to parent undertaking	(509.7)	(509.7)	(509.7)	(509.7)
Refundable customer deposits	(0.2)	(0.2)	-	-
	<u>(827.4)</u>	<u>(831.4)</u>	<u>(509.7)</u>	<u>(509.7)</u>

The carrying value of trade payables approximates to their fair value for both the Group and Company.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements recognised in the Statement of Financial Position

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).

Group	31 March 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities				
- £300m notional inflation-linked swaps	-	(99.9)	(177.8)	(277.7)
- £150m notional interest rate swaps	-	(17.4)	-	(17.4)
Financial liabilities designated at FVTPL	(380.7)	-	-	(380.7)
Total	(380.7)	(117.3)	(177.8)	(675.8)

Group	31 March 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities				
- £200m notional inflation-linked swaps	-	(223.7)	-	(223.7)
- £150m notional interest rate swaps	-	(18.2)	-	(18.2)
Financial liabilities designated at FVTPL	(393.4)	-	-	(393.4)
Total	(393.4)	(241.9)	-	(635.3)

Inflation-linked swaps with fair values of £143.0m were transferred from Level 2 to Level 3 during the current year (2015: none), principally due to a change in the significance of the unobservable inputs used to derive ENWL's credit curve for the DVA, as described above in this section.

Notes to the Financial Statements *(continued)*

19. FINANCIAL INSTRUMENTS *(continued)*

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

Group	2016 £m	2015 £m
At 1 April	-	-
Transfers into Level 3 from Level 2	(143.0)	-
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	(24.4)	-
- On new derivatives in the year	(10.4)	-
At 31 March	(177.8)	-

Notes to the Financial Statements *(continued)*

20. RETIREMENT BENEFIT SCHEMES

Group

The Group's defined benefit arrangement is the ENW Group of the ESPS ("the Scheme") and forms part of the Electricity Supply Pension Scheme ("ESPS"). Up to 31 March 2011 the Scheme was split into two sections. However, following the 'hive-up' of the assets and liabilities of ENWSL to ENWL and the termination of the Asset Services Agreement between ENWL and ENWSL on the 31 March 2011, the two sections were merged as at that date.

The Scheme contains both a defined benefit section and a defined contribution section. The defined benefit section of the Scheme closed to new entrants on 1 September 2006, with new employees of the Group since then instead provided with access to the defined contribution section.

The defined benefit section is a UK funded final salary arrangement providing pensions and lump sums to members and dependants. The defined benefit section is a separate fund that is legally separated from the entity. The Trustee board of the Scheme is composed of representatives from both the employer and members of the Scheme. Under the Pensions Act 2004 at least one third of the Trustee Board must be member nominated and the Trustee Board has made the necessary arrangements to fulfil this obligation. The Trustee Board of the pension Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e. active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme.

During the year the Group made contributions of £24.6m (2015: £15.0m) to the defined benefit section of the Scheme. The Group estimates that contributions for the year ending 31 March 2016 will amount to around £24.3m which includes £11.3m of expected deficit contributions depending on the funding position as at 31 March 2016, there is a potential catch up deficit contribution due before 31 March 2017. The minimum possible catch up contribution due is £16.8m. The total defined benefit pension expense for the year was £16.2m (2015: £16.0m). Information about the pension arrangements for the Executive Directors is contained in note 5.

As at 31 March 2016 contributions of £2.1m (2015: £2.7m) due in respect of the current reporting period had not been paid over to the defined benefit Scheme.

Funding the liabilities

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation was carried out as at 31 March 2013 and identified a shortfall of £188.0m against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2013 Actuarial valuation the Group agreed to remove the shortfall by paying the following annual contributions to 2015.

In addition as described above depending on the funding position as at 31 March 2016, a further deficit catch up contribution is payable by 31 March 2017 under certain circumstances. The next actuarial valuation will be carried out as at 31 March 2016.

The results of the 2013 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2016 for the purposes of these financial statements. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension deficit under IAS 19 (revised 2011) of £16.2m is included in the Statement of Financial Position at 31 March 2016 (2015 deficit of £33.7m).

The weighted average duration of the defined benefit obligation is approximately 17 years (2015: 17 years).

Notes to the Financial Statements *(continued)*

20. RETIREMENT BENEFIT SCHEMES *(continued)*

Investment strategy

The Scheme assets are invested in a diversified range of assets, details of which are set out below. The Scheme has a de-risking strategy in place to move assets from growth to bond assets when certain funding triggers are met. The triggers are assessed against the Scheme's funding level on a 'low-risk' basis. The Trustees and the Group have also agreed a mechanism to hedge interest rate and inflation risks over time. The de-risking and hedging strategies have been communicated to Ofgem and are currently being reviewed as part of the 2016 actuarial valuation and ongoing consultation from Ofgem around pensions.

The Company recognises that the interests of customers, who ultimately fund pension costs, should be given full recognition when implementing the de-risking strategy. The Company works in collaboration with the Independent Scheme Trustee to ensure these interests are considered alongside those of the members of the pension scheme.

Other risks

The Scheme exposes the Group to risks, such as longevity risk, inflation risk, interest rate risk and investment risk. As the Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

These risks are managed through de-risking and hedging strategies and are measured and reported at Board level through a risk dashboard.

Winding up

Although currently there are no plans to do so, the Scheme could be wound up in which case the benefits would have to be bought out with an insurance company. The cost of buying-out benefits would be significantly more than the defined benefit obligation calculated in accordance with IAS 19 (revised 2011).

Defined Contribution arrangements

All assets within the defined contribution section of the Scheme are held independently from the Group.

The total cost charged to the Income Statement in relation to the defined contribution section for the year ended 31 March 2016 was £2.7m (2015: £2.3m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2016 contributions of £nil (2015: £nil) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

Defined benefits employee benefits

The reconciliation of the opening and closing Statement of Financial Position is as follows:

	2016 £m	2015 £m
At 1 April	(33.7)	(37.1)
Expense recognised in the Income Statement	(16.2)	(16.0)
Contributions paid	24.6	15.0
Total remeasurement included in OCI	9.1	4.4
At 31 March	(16.2)	(33.7)

Notes to the Financial Statements *(continued)*

20. RETIREMENT BENEFIT SCHEMES *(continued)*

The reconciliation of the opening and closing Statement of Financial Position is as follows:

Movements in the fair value of the Group pension Scheme liabilities were as follows:

	2016 £m	2015 £m
At 1 April	(1,276.6)	(1,130.5)
Current service cost	(13.7)	(12.1)
Interest expense	(41.1)	(48.5)
Member contributions	(2.0)	(2.1)
Augmentation	(1.0)	(1.9)
Remeasurement:		
Effect of changes in demographic assumptions	-	-
Effect of changes in financial assumptions	52.6	(136.3)
Effect of experience adjustments	-	-
Benefits paid	61.9	54.8
At 31 March	(1,219.9)	(1,276.6)

The liability value as at 31 March 2016 is made up of the following approximate splits:

	2016 £m	2015 £m
Liabilities owing to active members	400.6	403.5
Liabilities owing to deferred members	93.1	100.0
Liabilities owing to pensioner members	726.2	773.1
Total liability	1,219.9	1,276.6

Notes to the Financial Statements *(continued)*

20. RETIREMENT BENEFIT SCHEMES *(continued)*

Movements in the fair value of the Group pension Scheme assets were as follows:

	2016 £m	2015 £m
At 1 April	1,242.9	1,093.4
Interest income	40.4	47.3
Return on plan assets	(43.5)	140.7
Company contributions	24.6	15.0
Member contributions	2.0	2.1
Benefits paid	(61.9)	(54.8)
Administrative expenses	(0.8)	(0.8)
Bulk transfers	-	-
At 31 March	1,203.7	1,242.9

The net pension expense before taxation recognised in the Income Statement, before capitalisation, in respect of the defined benefit Scheme is summarised as follows:

	2016 £m	2015 £m
Current service cost	(13.7)	(12.1)
Past service cost	(1.0)	(1.9)
Interest income on plan assets	40.4	47.3
Interest expense on Scheme obligations	(41.1)	(48.5)
Administration expenses and taxes	(0.8)	(0.8)
Net pension expense before taxation	(16.2)	(16.0)

The above amounts are recognised in arriving at operating profit except for the interest on plan assets and interest on Scheme obligations which have been recognised within investment income.

For the year ending 31 March 2016 the past service cost includes £1.0m in respect of augmentations (2015: £1.9m).

The main financial assumptions used by the actuary (in determining the deficit) were as follows:

	2016 %	2015 %
Discount rate	3.50	3.30
Pensionable salary increases	3.20	3.25
Pension increases	2.90	2.95
Price inflation	2.95	3.00

Notes to the Financial Statements *(continued)*

20. RETIREMENT BENEFIT SCHEMES *(continued)*

The mortality rates utilised in the valuation are based on the standard actuarial tables S1PMA/S1PFA (birth year) tables with a 105% loading to allow for differences in mortality between the Scheme population and the population used in the standard tables (unchanged from 2015). A long term improvement rate of 1.25% p.a. is assumed within the underlying CMI 2011 model (unchanged from 2015).

The current life expectancies (in years) underlying the value of the accrued pension Scheme liabilities for the Scheme are:

Life expectancy on retirement at age 60	2016 Years	2015 Years
Retiring today (Age 60)	26.9	26.8
Retiring in 15 years (Age 45)	28.4	28.3

In valuing the liabilities of the Scheme at 31 March 2016 mortality assumptions have been made as indicated above.

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of Scheme assets. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also.

Increase in Defined Benefit Obligation	2016 £m	2015 £m
Discount rate decrease by 25 basis points	53	56
Price inflation increase by 25 basis points	43	45
Life expectancy increase longevity by 1 year	34	37

Notes to the Financial Statements *(continued)*

20. RETIREMENT BENEFIT SCHEMES *(continued)*

As at 31 March 2016, the fair value of the Scheme's assets and the liabilities recognised in the Statement of Financial Position were as follows:

	Scheme assets at 31 March 2016 %	Value at 31 March 2016 £m	Scheme assets at 31 March 2015 %	Value at 31 March 2015 £m
Cash and Cash equivalents	0.5	5.9	1.3	16.4
Equity instruments	9.4	113.3	8.6	107.3
Debt instruments	68.0	819.1	70.8	879.9
Real estate	12.3	148.5	11.1	138.0
Distressed debt	2.7	32.0	1.4	17.5
Hedge funds	7.1	84.9	6.8	83.8
Total fair value of assets	100.0	1,203.7	100	1,242.9
Present value of liabilities		(1,219.9)		(1,276.6)
Net retirement benefit obligation		(16.2)		(33.7)

The fair values of the assets set out above are as per the quoted market prices in active markets.

21. PROVISIONS

	Group 2016 £m	Group 2015 £m
At 1 April	6.1	9.6
Release to Income Statement on re-estimate of liability	(1.0)	-
Utilisation of provision	(2.6)	(3.5)
At 31 March	2.5	6.1
	Group 2016 £m	Group 2015 £m
Current	0.6	2.8
Non-current	1.9	3.3
At 31 March	2.5	6.1

Notes to the Financial Statements *(continued)*

21. PROVISIONS *(continued)*

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

Carried forward provision at 1 April 2015 was £6.1m and related to former Norweb properties, 1 High Street retail property and 10 out of town retail properties. As a result of assignments and surrenders during the year £2.6m of the provision has been utilised and £1.0m has been released on the re-estimation on the liabilities.

The combined closing provision of £2.5m which now covers 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.

22. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current and prior year.

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2014	325.6	(7.5)	(13.9)	304.2
(Credited)/charged to the Income Statement	3.8	(0.2)	(25.7)	(22.1)
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	-	0.9	-	0.9
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	-	-	-
At 31 March 2015	<u>329.4</u>	<u>(6.8)</u>	<u>(39.6)</u>	<u>283.0</u>
Charged/(credited) to the Income Statement	(36.4)	-	(1.8)	(38.2)
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	-	1.6	-	1.6
Adjustment due to change in future tax rates of brought forward deferred tax - charged to OCI	-	2.2	-	(2.2)
At 31 March 2016	<u>293.0</u>	<u>(3.0)</u>	<u>(41.4)</u>	<u>248.6</u>

Notes to the Financial Statements *(continued)*

22. DEFERRED TAX *(continued)*

The Company has no deferred tax (2015: none). There are no significant unrecognised deferred tax assets or liabilities for either the Group or Company in either the current or prior year. Other deferred tax relates primarily to derivative financial instruments.

23. CUSTOMER CONTRIBUTIONS

Customer contributions are amounts received from a customer in respect of the provision of a new connection to the network.

Customer contributions are amortised through the Income Statement over the lifetime of the relevant asset.

Group	£m	
At 1 April 2014		210.0
Additions in the year		41.1
Amortisation		(1.7)
Amortisation recognised as revenue (IFRIC18)		(1.9)
		<u>247.5</u>
At 31 March 2015		<u>247.5</u>
Additions in the year		44.0
Amortisation		(1.7)
Amortisation recognised as revenue (IFRIC18)		(4.6)
		<u>285.2</u>
	2016	2015
	£m	£m
Amounts due in less than one year (note 17)	23.9	6.6
Amounts due after more than one year	261.3	240.9
	<u>285.2</u>	<u>247.5</u>

Notes to the Financial Statements *(continued)*

24. REFUNDABLE CUSTOMER DEPOSITS

Refundable customer deposits are those customer contributions which may be partly refundable, dependent on contracted targets.

Group	2016 £m	2015 £m
Amounts due in less than one year (note 17)	2.6	0.2
Amounts due after more than one year	-	4.8
	<u>2.6</u>	<u>5.0</u>

25. CALLED UP SHARE CAPITAL

Group and Company	2016 £m	2015 £m
Authorised:		
3,050,000 (2015: 3,050,000) ordinary shares of £1 each	3.1	3.1

Allotted, called up and fully paid:		
3,050,000 (2015: 3,050,000) ordinary shares of £1 each	3.1	3.1

No person has any special rights of control over the Company's share capital and all allotted shares are fully paid.

See note 27 for details of the voting rights of each share.

26. SHAREHOLDER'S EQUITY

Group	Called up Share capital £m	Retained (deficit)/ earnings £m	Total equity £m
At 1 April 2014	3.1	138.7	141.8
Profit for the year	-	10.9	10.9
Dividends paid	-	(38.0)	(38.0)
Post tax actuarial gain on defined benefit schemes	-	4.4	4.4
Tax on components of comprehensive income	-	(0.9)	(0.9)
	<u>3.1</u>	<u>115.1</u>	<u>118.2</u>
At 31 March 2015	3.1	115.1	118.2
	<u>3.1</u>	<u>115.1</u>	<u>118.2</u>
Profit for the year	-	85.6	85.6
Dividends paid	-	(23.0)	(23.0)
Post tax actuarial gain on defined benefit schemes	-	7.5	7.5
Tax on components of comprehensive income	-	(2.2)	(2.2)
	<u>3.1</u>	<u>183.0</u>	<u>186.1</u>
At 31 March 2016	3.1	183.0	186.1

Notes to the Financial Statements (continued)

26. SHAREHOLDER'S EQUITY (continued)

Company	Called up Share capital £m	Retained (deficit)/ earnings £m	Hedging reserve £m	Total equity £m
At 1 April 2014	3.1	0.1	-	3.2
Profit for the year	-	38.2	-	38.2
Dividend paid	-	(38.0)	-	(38.0)
	3.1	0.3	-	3.4
At 31 March 2015	3.1	0.3	-	3.4
Profit for the year	-	23.0	-	23.0
Dividend paid	-	(23.0)	-	(23.0)
	3.1	0.3	-	3.4
At 31 March 2016	3.1	0.3	-	3.4

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Income Statement. The amount of profit after tax for the Company for the financial year is £23.0m (2015: £38.2m).

27. CAPITAL STRUCTURE

Details of allotted share capital together with details of the movements in the Company's issued share capital during the year are shown in note 25. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all allotted shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, copies of which are available on request.

28. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is North West Electricity Networks (Finance) Limited and the ultimate parent undertaking is North West Electricity Networks (Jersey) Limited, a company registered in Jersey. The address of the ultimate parent company is: Ogier House, The Esplanade, St Helier, Jersey, JE4 9WG.

This Group is the smallest group in which the results of the Company are consolidated. The largest group in which the results of the Company are consolidated is that headed by North West Electricity Networks (Jersey) Limited.

First State Investments Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ("EDIF") and IIF Int'l Holding GP Ltd ("IIF") have been identified as ultimate controlling parties.

Notes to the Financial Statements *(continued)*

29. RELATED PARTY TRANSACTIONS

Group and Company

Loans are made between companies in the North West Electricity Networks (Jersey) Limited 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 the Group figures of this note. During the year, the following transactions with related parties were entered into:

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Limited	1.2	-	0.6	-
Recharges from Electricity North West (Construction and Maintenance) Limited	0.2	-	0.2	-
Directors' remuneration (note 5)	1.1	-	1.9	-
Directors' services	0.2	-	0.2	-
Interest payable to North West Electricity Networks (Finance) Ltd	20.5	20.5	20.4	20.4
Interest payable to NWEN Finance plc	-	10.6	-	10.6
Interest receivable from North West Electricity Networks plc	-	31.5	-	31.5
Dividends paid to North West Electricity Networks (Finance) Limited	23.0	23.0	38.0	38.0
Dividends received from North West Electricity Networks (Group) Limited	-	23.0	-	38.0

Notes to the Financial Statements *(continued)*

29. RELATED PARTY TRANSACTIONS *(continued)*

Amounts outstanding with related parties are as follows:

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Amounts owed to related parties				
Amounts owed to Electricity North West Limited	-	0.2	-	0.1
Loans owed to North West Electricity Networks (Finance) Limited	509.7	509.7	509.7	509.7
Interest payable to North West Electricity Networks (Finance) Limited	10.1	10.1	10.0	10.0
Amounts owed to Electricity North West (Construction and Maintenance) Limited	-	-	-	-
Amounts owed to North West Electricity Networks plc	-	0.5	-	0.5
Amounts owed to NWEN Finance plc	-	180.0	-	180.0
Interest payable to NWEN Finance plc	-	3.0	-	2.9
Group tax relief to Electricity North West (Construction and Maintenance) Limited	-	-	0.1	0.1
Amounts owed by related parties				
Amounts owed by North West Electricity Networks plc	-	676.5	-	676.5
Interest owed by North West Electricity Networks plc	-	13.6	-	12.9
Group tax relief from Electricity North West Limited	-	-	-	-
Group tax relief from North West Electricity Networks plc	-	-	-	-
Group tax relief from Electricity North West (Construction and Maintenance) Limited	-	-	-	-
Amounts owed by Electricity North West (Construction and Maintenance) Limited	0.7	-	0.6	-

Fees of £0.1m (2015: £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 (2015: £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.

For disclosure relating to executive directors remuneration see note 5.

The loans from related parties comprise amounts loaned from North West Electricity Networks (Finance) Limited. £200.0 million carries interest at 10% per annum and £309.7 million is interest free. The loans to related parties comprise amounts loaned to North West Electricity Networks plc. £200.0 million carries interest at 10% per annum, £327.0 million is interest free, £131.0 million carries interest at LIBOR plus 1.5%. All other related party balances bear no interest.

Notes to the Financial Statements *(continued)*

30. CASH GENERATED FROM OPERATIONS

	2016 Group £m	2016 Company £m	2015 Group £m	2015 Company £m
Operating profit	205.3	-	289.8	-
Adjustments for:				
Depreciation of property, plant and equipment	100.5	-	95.3	-
Amortisation of intangible assets	4.8	-	3.6	-
Amortisation of customer contributions	(6.3)	-	(3.6)	-
Profit on disposal of property, plant and equipment	(0.2)	-	(0.8)	-
Cash contributions (in excess of)/less than pension charge to operating profit	(16.0)	-	(0.2)	-
Operating cash flows before movement in working capital	288.1	-	384.1	-
Changes in working capital:				
(Increase)/decrease in inventories	(1.2)	-	-	-
(Increase) in trade and other receivables	(2.0)	-	(4.3)	-
(Decrease)/increase in trade and other payables	(14.1)	-	14.5	-
Cash generated from operations	270.8	-	394.3	-

31. CONTINGENT LIABILITY

A member of the Group, ENWL is part of a Covenanter Group ("CG") which is party to a Deed of Covenant with EA Technologies 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 discontinuance event the Company is liable to pay 6.7% of the discontinuance deficit. 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 approximately £75m as at 31 March 2016, for which the Company's liability could be between £5.0 to £7.0m.

Notes to the Financial Statements *(continued)*

32. OPERATING LEASES

The Group is committed to making the following payments over the lifetime of the lease in respect of non-cancellable operating leases which expire in:

	Land and buildings 2016 £m	Plant and machinery 2016 £m	Land and buildings 2015 £m	Plant and machinery 2015 £m
Within one year	0.1	-	-	-
In the second to fifth years inclusive	1.5	-	2.2	-
After five years	2.8	2.9	3.1	3.0
	4.4	2.9	5.3	3.0

The Company does not hold any non-cancellable operating leases as at the 31 March 2016 (2015: same).

Glossary

C₂C	Capacity to Customers (LCNF/ future networks project)
CGU	Cash Generating Unit
CI	Customer Interruptions
CML	Customer Minutes Lost
CSR	Corporate Social Responsibility
DECC	Department of Energy and Climate Change
DNO	Distribution Network Operator
DPC5	Distribution Price Control 5, 2010-2015
DUoS	Distribution Use Of System
ELT	Executive Leadership Team
ENWL	Electricity North West Limited
ENWSL	Electricity North West Services Limited (formerly 'UUES')
ESPS	Electricity Supply Pension Scheme
ESQCR	Electricity Safety and Quality Continuity (Amendment) Regulations
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Principles
HI	Health Indices
IFI	Innovation Funding Incentive
IFRS	International Financial Reporting Standard
KPI	Key Performance Indicators
LCNF	Low Carbon Network Fund
LI	Load Indices
Ofgem	Office of Gas and Electricity Markets
PPE	Property, Plant and Equipment
RAV	Regulatory Asset Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation
RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RPI	Retail Price Index
SID	Sufficiently Independent Director
UUES	United Utilities Electricity Services Limited