Company Registration No. 06428375

NORTH WEST ELECTRICITY NETWORKS PLC

Annual Report and Consolidated Financial Statements for the year ended 31 March 2017

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 Strategic Report and Directors' 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 Ltd'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 Ltd'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 visiting our website www.enwl.co.uk/about-us/investor-relations.

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Strategic Report

The Directors present their Annual Report and Consolidated Financial Statements of North West Electricity Networks plc (referred to as the “Company”, or “NWEN plc”) and its subsidiaries (together referred to as the “Group”) for the year ended 31 March 2017.

Business model

NWEN plc is a holding and financing company within the group of companies headed by North West Electricity Networks (Jersey) Ltd and is a non-trading entity.

The Group’s principal activity is the operation and maintenance of the North West’s electricity distribution network and is undertaken by the Company’s directly held subsidiary, Electricity North West Ltd (“ENWL”). The distribution of electricity is regulated by the terms of the Electricity Distribution Licence granted to ENWL under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

The strategy and objectives of the Group are outlined in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements.

The Company has issued debt via private placements and bank facilities. The Group includes two financing companies, one of which, ENW Finance plc, had debt listed on the London Stock Exchange throughout the year. The listed debt in the other financing company, ENW Capital Finance plc, was repaid in the year ended 31 March 2016. Following the issue of debt, the proceeds are lent down the group to finance operations in ENWL. Debt is also issued in ENWL.

Operational background

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 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 promote good customer service and to minimise 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 electrical 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.

Strategic Report *(continued)*

Financial performance and key performance indicators

Key performance indicators – Group

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 2017 and 2016 is set out in the following table:

	2017	2016
Revenue	**£486m**	£451m
Operating profit	**£251m**	£205m
Profit before tax and fair value movements	**£130m**	£108m
Cash inflow/(outflow) before financing activities	**£81m**	£(6)m

Revenue

Revenue has increased to £486m (2016: £451m) during the year, in line with the allowed Distribution Use of System ("DUoS") revenue under the RIIO price control.

The allowed revenue is recovered against an estimated level of electricity demand across the network. Given the difficulty of predicting this demand each year we end up with either an over or an under recovery against planned revenue. These over or under recoveries are included in the Consolidated Income Statement for the period and will be corrected in future periods through the Ofgem price setting mechanism.

For the year 31 March 2017 there was an over recovery of DUoS revenue of £3.7m against plan, before adjustment for RPI indexation (2016: £10.4m over-recovery), reflecting variability against forecast in consumption volumes year on year. This over recovery will be corrected through adjustments in pricing in two years' time, in accordance with Ofgem methodology.

Operating profit

Operating profit has increased to £251m (31 March 2016: £205m) as a result of the increase in revenue detailed above and lower operating costs.

Profit before tax and fair value movements

Profit before tax and fair value movements has increased as a result of increased operating profit as is noted above.

Cash flow (before financing activities)

Net cash inflow before financing activities in the year was £81m (31 March 2016: £6m outflow), reflecting the increase in cash from operations and reduced investment.

Non-financial key performance indicators

For an understanding of the Group's operational performance, non-financial key performance indicators are outlined in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements.

Key performance indicators – Company

As the Company is primarily a financing company, performance is assessed by monitoring the Group's treasury activities, as outlined below.

Treasury policy and operations

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 on key financial ratios.

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

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.

Strategic Report *(continued)*

Liquidity

The Group's primary sources of liquidity are operating cash flows and external borrowings.

Group budgets for the year-ending 31 March 2018, forecasts to the end of the current price review in 2023 and longer-term forecasts to 2047 are used to assess the liquidity needs of the Group.

Short-term liquidity

Short-term liquidity requirements are met from operating cash flows, cash balances, short-term deposits and unutilised committed borrowing facilities.

At 31 March 2017, unutilised committed facilities of £74m (2016: £140m), together with £154m (2016: £144m) of cash and deposits provide short-term liquidity for the Group.

Utilisation of facilities is with reference to Regulatory Asset Value ("RAV") gearing restrictions for the Group. Actual and forecast RAV gearing is monitored by the Board.

Long-term liquidity

Where a liquidity need cannot be met by existing resources as outlined above, for example the refinancing of existing debt or a demand for additional borrowing, the Group treasury function starts the process of raising the required debt at least 18 months ahead of the requirement.

Debt

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

ENWL, NWEN plc and the listed debt in ENW Finance plc are rated by one or more of the leading credit rating agencies. During the year each of the credit ratings have been formally reviewed and have been affirmed on a stable outlook basis. Further details are available to credit investors on the ENWL's website www.enwl.co.uk.

At 31 March 2017, £6m (2016: £5m) of the Group's external debt matures within 1 year, £7m (2016: £6m) matures in more than one year but less than two years, £220m (2016: £18m) matures in more than two years but less than five years, and £1,353m (2016: £1,535m) matures in more than five years. At 31 March 2017 £677m (2016: £677m) of the intra-group debt matures in more than five years.

The Group's borrowings, net of cash and money-market deposits, were £2,109m (2016: £2,097m).

Derivatives

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. All derivatives relate directly to underlying debt. At 31 March 2017 there were no formal hedging relationships in the Group (2016: none).

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 the projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

Strategic Report *(continued)*

Fair values

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 will 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 £103m have been recognised in the Income Statement (2016: losses of £40m), which relates entirely to non-cash movements.

Additionally, the re-measurement of the defined benefit pension scheme has resulted in a £52m loss (2016: £9m gain) booked directly to equity.

The significant fair value movements in the year were primarily driven by the significant changes in market expectations of future interest rate and inflation rates following the outcome of the EU Referendum in June 2016.

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 outlined in the Strategic Report of 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 principal risks are deemed comparable year on year, with the exception of refinancing risk.

Of the principal risks and uncertainties identified in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements, the Board considers the following risk to be the principal one that affects the Company.

Risk:

- Failure to identify and effectively manage treasury and tax exposures and to meet the Group's funding requirements and obligations.

Mitigation:

- A formal treasury policy is in place to manage exposure to counterparty, liquidity and market risk, overseen by the Audit Committee.
- A well established monthly banking covenant monitoring process.

The financial risks are explained further in note 20.

Corporate Social Responsibility

Details of the Group's approach to Corporate Social Responsibility, relating to environmental matters, the Group's employees, and social, community and human rights issues can be found in the Strategic Report of ENWL's Annual Report and Consolidated Financial Statements.

Human rights

The Group operates exclusively in the UK and, as such, is subject to the European Convention on Human Rights, the UK Human Rights Act 1998 and the Modern Slavery Act 2015.

The Group respects all human rights and regards 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 our policies and procedures and, in particular, through our policies regarding employment, equality and diversity, treating customers fairly and information security.

The Group's Modern Slavery Act statement is available on its website:

www.enwl.co.uk/about-us/modern-slavery-act-compliance-statement.

Strategic Report *(continued)*

Corporate Social Responsibility *(continued)*

Employees

The Group is a major employer in the North West of England and employs circa 1,700 people in the region. The Group also works with a carefully chosen contractor workforce providing even greater levels of employment for the region. We are committed to providing secure, long-term employment and career development opportunities for employees. We look to balance the right skills and people resources to support the business in the long term.

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.

Gender diversity

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

	2017 Male	**2017 Female**	2016 Male	2016 Female
Total Employees	**1,287**	**415**	1,274	367
Senior Managers	**30**	**10**	29	12
Executive Leadership Team	**7**	**1**	8	1
Directors	**6**	**0**	5	0

** The Executive leadership team figure includes the two Executive Directors, who are also included in the Directors figure.*

Going concern

When considering whether to continue 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 2018 and forecasts covering the period to the end of the current price review in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources are available to the Group within the forecast period; and
- 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 £25m within ENWL and £49m 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 2018 indicate there is significant headroom on these covenants.

Strategic Report *(continued)*

Going concern *(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.

Viability statement

In accordance with the provision of C.2.2 of the 2014 UK Corporate Governance Code, the Directors have assessed viability over a period longer than that required for going concern and have chosen three years.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group’s longer-term viability, based on the risk and sensitivity analysis undertaken, is the three-year period to 31 March 2020. Whilst this period is shorter than the forecast period the Board reviews, this three-year forecast period gives management and the Board sufficient, realistic visibility of the future. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

The Directors have conducted a robust assessment of the principal risks facing the Company and believe that it is in a position to manage these risks.

In arriving at their conclusion, the Directors have considered the Company’s forecast financial performance and cash flow over the three year viability period. The forecast has been subject to sensitivity analysis driven by the principal risks and the potential impact has been considered by sensitising a number of key assumptions, including Retail Price Index (“RPI”), interest rates and incentive revenue performance. Each analysis considered the Company’s ability to meet its operational and financial obligations throughout the period, including debt covenant compliance.

On the basis of this assessment, and assuming that the principal risks are managed or mitigated as expected, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

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 Chief Financial Officer 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 2017.

Approved by the Board on 26 May 2017 and signed on its behalf by:

D Brocksom
Director

Directors' Report

The Directors present their Annual Report and Consolidated Financial Statements of North West Electricity Networks plc (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 March 2017.

Dividends

During the year ended 31 March 2017, the Directors proposed and paid a final dividend for the year-ended 31 March 2016 of £9m (2016: final dividend for the year-ended 31 March 2015 of £6m) and an interim dividend for the current year of £42m (2016: £17m). The Directors do not propose a final dividend for the year ended 31 March 2017.

Directors

The Directors of the Company during the year ended 31 March 2017 are set out below. Directors were appointed for the whole year and to the date of this report except where otherwise indicated.

C Dowling

D Brocksom

N Mills

P Emery (appointed 27 May 2016)

R Holden (appointed 27 May 2016)

J Lynch (appointed 31 January 2017)

S Johnson (resigned 27 May 2016)

M Walters (resigned 31 January 2017)

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.

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.

People

The Group's policies on employee consultation and involvement, the treatment of disabled employees and on equality and diversity across all areas of the business are contained within the Strategic Report, with further information provided in the People section of the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements.

Corporate Social Responsibility

Details of the Group's approach to Corporate Social Responsibility can be found in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements.

Research and development

The Group is committed to developing innovative and cost-effective solutions for providing high quality services and reliability to our customers, and for the benefit of the wider community and the development of the network, as further detailed in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements. During the year ended 31 March 2017 the Group incurred £3.9m of expenditure on research and development (2016: £6.7m), see note 5.

Financial instruments

The risk management objectives and policies of the Group in relation to the use of financial instruments can be found in the Strategic Report and in note 20 to the Financial Statements.

Fixed assets

Further details on Property, Plant and Equipment are provided in the Strategic Report and note 13 to the Financial Statements.

Capital structure

The Company's capital structure is set out in note 28 to the Financial Statements.

Commitments

Details of commitments and contractual obligations are provided in notes 12, 13, 20 and 32 of the Financial Statements.

Directors' Report _(continued)_

Information given to auditor

Each of the persons who are 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) each Director has taken all the steps that they ought to have taken as a Director in order to make themselves 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.

Independent auditor

Deloitte LLP has expressed its willingness to continue in office as auditor of the Group. In accordance with section 487 of the Companies Act 2006, Deloitte LLP is deemed to be re-appointed as auditor of the Company.

Registered address

North West Electricity Networks plc
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG
Registered number: 06428375

Approved by the Board on 26 May 2017 and signed on its behalf by:

P Brocksom
Director

Directors' Report _(continued)_

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 have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and have also chosen to prepare the parent Company financial statements under IFRS as adopted by the EU. Under company law the Directors must not approve the financial statements 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 Group 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 Company'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 IFRSs as adopted by the EU, 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 26 May 2017 and is signed on its behalf by:

D Brocksom
Director

Independent Auditor's Report to the Members of North West Electricity Networks plc

We have audited the financial statements of North West Electricity Networks plc for the year ended 31 March 2017 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 2017 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.

Independent Auditor's Report to the Members of North West Electricity Networks plc *(continued)*

Opinion on other matters 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.

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.

J Boardman

Jane Boardman BSc FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
26 May 2017

Financial Statements

Consolidated Income Statement

for the year ended 31 March 2017

	Note	Group 2017 £m	Group 2016 £m
Revenue	4	**485.5**	450.8
Employee costs	5,6	**(46.9)**	(47.2)
Depreciation and amortisation expense (net)	5	**(108.4)**	(103.6)
Other operating costs		**(79.6)**	(94.7)
Total operating expenses		**(234.9)**	(245.5)
Operating profit	5	**250.6**	205.3
Investment income	8	**0.7**	1.1
Finance expense (net)	9	**(224.2)**	(138.4)
Profit before taxation		**27.1**	68.0
Taxation	10	**4.8**	17.5
Profit for the year attributable to equity shareholders		**31.9**	85.5

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

Consolidated and Company Statement of Comprehensive Income
for the year ended 31 March 2017

	Note	**Group 2017 £m**	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Profit for the year		**31.9**	**43.6**	85.5	(6.7)
Items that will not be reclassified subsequently to profit or loss:					
Re-measurement of defined benefit pension schemes	_21_	**(52.1)**	**-**	9.1	-
Deferred tax on re-measurement of defined benefit pension schemes taken directly to equity	_23_	**8.9**	**-**	(1.6)	-
Adjustment due to change in future tax rates of brought forward deferred tax taken directly to equity	_23_	**(1.0)**	**-**	(2.2)	-
Other comprehensive (loss)/ income for the year		**(44.2)**	**-**	5.3	-
Total comprehensive (loss)/ income for the year attributable to equity holders		**(12.3)**	**43.6**	90.8	(6.7)

Consolidated and Company Statement of Financial Position
as at 31 March 2017

	Note	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	12	**232.4**	**-**	226.4	-
Property, plant and equipment	13	**3,048.2**	**-**	2,953.8	-
Investments	14	**-**	**1,145.7**	-	1,145.7
Intercompany loan	16	**-**	**71.2**	-	70.9
		3,280.6	**1,216.9**	3,180.2	1,216.6
Current assets					
Inventories	15	**9.6**	**-**	8.5	-
Trade and other receivables	16	**57.7**	**1.0**	64.7	1.0
Current Tax Asset		**1.0**	**12.7**	5.7	16.1
Money market deposits	17,20	**10.0**	**-**	23.5	-
Cash and cash equivalents	17,20	**143.5**	**0.8**	120.7	1.4
		221.8	**14.5**	223.1	18.5
Total assets		**3,502.4**	**1,231.4**	3,403.3	1,235.1
LIABILITIES					
Current liabilities					
Trade and other payables	18	**(158.4)**	**(23.2)**	(153.2)	(23.7)
Borrowings	19	**(6.4)**	**-**	(4.6)	-
Provisions	22	**(1.1)**	**-**	(0.6)	-
		(165.9)	**(23.2)**	(158.4)	(23.7)
Net current assets/(liabilities)		**55.9**	**(8.7)**	64.7	(5.2)
Non-current liabilities					
Borrowings	19	**(2,255.6)**	**(1,104.6)**	(2,236.1)	(1,099.1)
Derivative financial instruments	20	**(387.8)**	**(16.1)**	(295.1)	(17.4)
Provisions	22	**(2.9)**	**-**	(1.9)	-
Retirement benefit obligations	21	**(58.0)**	**-**	(16.2)	-
Deferred tax	23	**(211.8)**	**-**	(248.6)	-
Customer contributions	24	**(298.0)**	**-**	(261.3)	-
		(3,214.1)	**(1,120.7)**	(3,059.2)	(1,116.5)
Total liabilities		**(3,380.0)**	**(1,143.9)**	(3,217.6)	(1,140.2)
Total net assets		**122.4**	**87.5**	185.7	94.9
EQUITY					
Called up share capital	26	**3.0**	**3.0**	3.0	3.0
Retained earnings		**119.4**	**84.5**	182.7	91.9
Total equity		**122.4**	**87.5**	185.7	94.9

The financial statements of North West Electricity Networks plc (registered number 06428375) were authorised for issue and approved by the Board of Directors on 26 May 2017 and signed on its behalf by:

D Brocksom
Director

Consolidated Statement of Changes in Equity
for the year ended 31 March 2017

Group

	Note	**Called up share capital £m**	**Retained earnings £m**	**Total Equity £m**
At 1 April 2015		3.0	114.9	117.9
Profit for the year		-	85.5	85.5
Other comprehensive income	*21*	-	9.1	9.1
Tax on components of comprehensive income	*23*	-	(3.8)	(3.8)
Total comprehensive income for the year		-	90.8	90.8
Transactions with owners recorded directly in equity				
Equity dividends	*11*	-	(23.0)	(23.0)
At 31 March 2016		3.0	182.7	185.7
Profit for the year		**-**	**31.9**	**31.9**
Other comprehensive expense	*21*	**-**	**(52.1)**	**(52.1)**
Tax on components of comprehensive expense	*23*	**-**	**7.9**	**7.9**
Total comprehensive expense for the year		**-**	**(12.3)**	**(12.3)**
Transactions with owners recorded directly in equity				
Equity dividends	*11*	**-**	**(51.0)**	**(51.0)**
At 31 March 2017		**3.0**	**119.4**	**122.4**

Company Statement of Changes in Equity
for the year ended 31 March 2017

Company

	Note	**Called up share capital £m**	**Retained earnings £m**	**Total Equity £m**
At 1 April 2015		3.0	121.6	124.6
Profit for the year		-	(6.7)	(6.7)
Total comprehensive expense for the year		-	(6.7)	(6.7)
Transactions with owners recorded directly in equity				
Equity dividends	*11*	-	(23.0)	(23.0)
At 31 March 2016		3.0	91.9	94.9
Profit for the year		**-**	**43.6**	**43.6**
Total comprehensive income for the year		**-**	**43.6**	**43.6**
Transactions with owners recorded directly in equity				
Equity dividends	*11*		**(51.0)**	**(51.0)**
At 31 March 2017		**3.0**	**84.5**	**87.5**

Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2017

	Note	**Group 2017 £m**	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Operating activities					
Cash generated from operations	*31*	**348.2**	**0.1**	270.8	-
Interest paid		**(89.5)**	**(45.1)**	(96.2)	(51.8)
Tax (paid)/ received		**(19.5)**	**12.8**	(12.0)	10.8
Net cash generated from/(used in) operating activities		**239.2**	**(32.2)**	162.6	(41.0)
Investing activities					
Interest received and similar income		**0.9**	**2.0**	1.3	2.5
Dividends received		**-**	**81.0**	-	30.0
Purchase of property, plant and equipment		**(194.3)**	**-**	(199.5)	-
Purchase of intangible assets		**(10.1)**	**-**	(14.9)	-
Customer contributions received		**45.5**	**-**	44.0	-
Proceeds from sale of property, plant and equipment		**0.1**	**-**	0.2	-
Net cash (used in)/generated from investing activities		**(157.9)**	**83.0**	(168.9)	32.5
Net cash flow before financing activities		**81.3**	**50.8**	(6.3)	(8.5)
Financing activities					
Proceeds from external borrowings		**-**	**-**	285.0	285.0
Movement on intercompany borrowings		**-**	**(0.4)**	-	-
Repayment of borrowings		**(4.8)**	**-**	(394.1)	(371.9)
Increase in group loan receivable		**-**	**-**	-	(1.8)
Accretion of index linked swaps		**(16.2)**	**-**	-	-
Transfer tfrom money market deposits		**13.5**	**-**	1.5	-
Dividends paid to equity shareholders of the Company	*11*	**(51.0)**	**(51.0)**	(23.0)	(23.0)
Net cash from/(used in) financing activities		**(58.5)**	**(51.4)**	(130.6)	(111.7)
Net increase/(decrease) in cash and cash equivalents		**22.8**	**(0.6)**	(136.9)	(120.2)
Cash and cash equivalents at the beginning of the year	*17*	**120.7**	**1.4**	257.6	121.6
Cash and cash equivalents at the end of the year	*17*	**143.5**	**0.8**	120.7	1.4

Notes to the Financial Statements

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

1. Adoption of new and revised Standards

Amendments to IFRSs that are mandatorily effective for the current year

Certain new and amended standards have taken effect during the year, as outlined below. The Directors have determined that these have not had any material impact on the amounts or disclosures reported in these Financial Statements:

- Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment Entities: Applying the Consolidation Exception*. The Group and Company do not meet the definition of an investment entity, therefore the amendments have no impact.
- Amendments to IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations.* The Group and Company have not acquired a joint operation in the year, therefore the amendments have no impact.
- Amendments to IAS 1 – *Disclosure Initiative.* The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, whilst reiterating that additional disclosures should be considered when compliance with the specific requirements in IFRS is insufficient for the understanding of users of the financial statements. The structure of the financial statements is also addressed, in terms of systematic ordering and grouping of notes. The amendments have no material impact. In addition, the amendments clarify the treatment of other comprehensive income from associates and joint ventures accounted for using the equity method. The Group and Company have no such arrangements, therefore this amendment has no impact.
- Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation.* The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The Group and Company uses the straight-line method for depreciation and amortisation, therefore the amendments have no impact.
- Amendments to IAS 16 and IAS 41 – *Agriculture: Bearer Plants.* As the Group and Company are not engaged in agricultural activities these amendments have no impact.
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements.* The amendments allow the use of the equity method in separate financial statements and also clarify when a parent ceases to be, or becomes, an investment entity the change should be accounted for from the date of the change. The Company accounts for investments in subsidiaries at cost and is not an investment entity, therefore the amendments have no impact.

Notes to the Financial Statements *(continued)*

1. Adoption of new and revised Standards *(continued)*

The Group has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2012-2014 Cycle* for the first time in the current year. The adoption of these amendments has had no effect on the Group's consolidated financial statements.

- IFRS 5 – the amendments introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). Such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The guidance for when held-for-distribution accounting is discontinued is also clarified.
- IFRS 7 – the amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
- IAS 19 – the amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

New and revised IFRSs in issue but 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, in some cases, had not yet been adopted by the EU):

IFRS 9*: Financial Instruments*
IFRS 15: *Revenue from Contracts with Customers*
IFRS 16: *Leases*
IFRS 2 (amendments): *Classification and Measurement of Share-based Payment Transactions*
IAS 7 (amendments): *Disclosure Initiative*
IAS 12 (amendments): *Recognition of Deferred Tax Assets for Unrealised Losses*
IFRS 10 and IAS 28 (amendments): *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group intends to adopt these standards, as applicable, when they become effective. It is not expected that they will have a material impact on the financial statements of the Group, except as noted below:

- IFRS 9 will impact the measurement and disclosures of financial instruments; and
- IFRS 15 may have an impact on revenue recognition and related disclosures.

The Group is assessing the impact of both these IFRSs.

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)*

2. 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 the prior year.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU") and Article 4 of the IAS Regulation and have chosen to prepare the financial statements of the Company under IFRS as adopted by the EU.

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair value, and certain property, plant and equipment that were revalued in 1997. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. More details on the fair value measurements of financial instruments are given in note 20.

The financial statements are presented in Sterling, which is the functional currency of the Company and Group. All values are rounded to the nearest million pounds (£m) unless otherwise indicated.

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 date the Company gains control until the date the Company ceases to control the subsidiary. There have been no such acquisitions or disposals in the current or prior year.

Accounting policies are consistent in all Group companies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group members are eliminated on consolidation.

Going concern

The Directors have, at the time of approving the financial statements, 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. Further detail is contained in the Strategic Report.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

Business combinations and goodwill

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Goodwill is measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed and is recognised as an asset. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the consideration transferred, the excess is recognised immediately in profit or loss.

Goodwill is allocated to cash-generating units and is not amortised but reviewed for impairment annually, or more frequently when there is an indication that it may be impaired.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable primarily for the distribution of electricity in the normal course of business, net of VAT.

The recognition of revenue from the distribution of electricity includes an assessment of the volume of unbilled energy distributed as at the year end. Non-distribution 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 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.

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

Customer contributions received in respect of expenditure on 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.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

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 otherwise credited to customer contributions.

Dividend income

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

Investment income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. It is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Operating profit

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

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

The defined benefit retirement benefit scheme is 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 2016; agreed Actuarial valuations are carried out thereafter at intervals of not more than three years.

Results are affected by the actuarial assumptions used, which are disclosed in note 21. 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 costs are split into three categories:

- current service cost, past service cost and gains and losses on curtailments and settlements, recognised in employee costs (see note 6) in the Consolidated Income Statement;
- net interest expense or income, recognised within finance costs (see note 9); and
- re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

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.

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.

2. 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 is based on taxable profit for the year and is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the Income Statement because it 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 and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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 calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Notes to the Financial Statements _(continued)_

2. Significant accounting policies _(continued)_

Intangible assets

Intangible assets with finite useful economic lives are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. 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

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 economic life and, therefore, is tested annually for impairment.

Property, plant and equipment

Property, plant and equipment comprise operational structures, non-operational land and buildings, fixtures and equipment, vehicles and other 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.

Assets other than operational structures

All other property, plant and equipment is 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 year in which they are incurred.

Freehold land and assets in the course of construction are not depreciated until the asset is available for use.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

Assets other than operational structures (continued)

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

Tangible and intangible assets are reviewed for impairment at each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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.

An intangible asset with an indefinite life is tested for impairment at least annually and whenever there is an indication of impairment.

The recoverable amount is the higher of fair value less costs of disposal, 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. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the reversal is recognised immediately in profit or loss 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.

Research and development

Research costs are recognised in the Income Statement as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to reliably measure the expenditure incurred during development.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

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 present location and condition. Net realisable value represents the estimated selling price, net of estimated costs of selling.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised as a gain or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss such that it reaches a value of zero at the time when the contract can be valued using active market quotes or verifiable objective market information. The Group policy for the amortisation of day 1 gain or loss is to release it in a reasonable fashion based on the facts and circumstances (e.g. using a straight line amortisation).

Financial assets

All financial assets are recognised and derecognised on a trade date basis 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 when the transactions costs are recognised immediately in profit or loss.

Financial assets are classified into the relevant categories, as specified in IAS 39. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The financial assets held by the Group are either financial assets 'at fair value through profit or loss' ("FVTPL") or 'loans and receivables'.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL

The financial assets held by the Group classified as at FVTPL are derivatives and are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. Fair value is determined in the manner described in note 20.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Trade receivables

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

Cash and cash equivalents

In the consolidated cash flow statement 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.

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.

Effective interest method

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.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

The financial liabilities held by the Group classified as at FVTPL are either derivatives or those designated as at FVTPL and are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. Fair value is determined in the manner described in note 20.

Notes to the Financial Statements *(continued)*

2. Significant accounting policies *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities at FVTPL *(continued)*

The Group elects to designate a financial liability at inception as at FVTPL on the basis that it meets the conditions specified in IAS 39 *'Financial Instruments: Recognition and Measurement'*. The £250m 8.875% 2026 bond was designated as at FVTPL upon initial recognition as the complexity of the associated swaps at that time meant that the criteria to allow hedge accounting was not met.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and 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 through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Trade payables

Trade payables are stated at their nominal value.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and inflation risk. Further details of derivative financial instruments are disclosed in note 20.

Notes to the Financial Statements _(continued)_

2. Significant accounting policies _(continued)_

Derivative financial instruments _(continued)_

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately; the Group does not currently designate derivatives into hedging relationships and apply hedge accounting.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group considers hedge accounting when entering any new derivative, however, there are currently no formal hedging relationships in the Group.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Notes to the Financial Statements *(continued)*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

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 recognises revenue in accordance with its entitlement to receive revenue as established by the periodic regulatory price review process.

The principal direct 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 reflects the volume of electricity distributed, including estimates of the units distributed to customers. Revenue is gradually adjusted to reflect actual usage in the period over which the meters are read.

Property Plant and Equipment

The Group recognises infrastructure assets where the expenditures incurred enhance or increase the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental. The costs capitalised include an allocation of overhead costs, relating to the proportion of time spent by support function staff, which is also inherently judgemental.

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.

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.

Notes to the Financial Statements *(continued)*

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

Accounting for provisions and contingencies *(continued)*

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 judgements are made by management after considering available 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. 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.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Impairment of tangible and intangible assets (including goodwill)

Management assesses the recoverability of tangible and intangible assets on an annual basis. Determining whether any of those 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 present value for the asset and compare that to its carrying value. This concluded that no impairment loss is required against those assets. Details of the impairment loss calculation are set out in note 13.

Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Group uses market-observable data to the extent it is available. Where such data is not available, certain estimates regarding inputs to the valuation are required to be made. Information about the valuation techniques and inputs used are disclosed in note 20.

Retirement benefit schemes

The Group's defined benefit obligation is derived using various assumptions, as disclosed in note 21. Results can be affected significantly by the assumptions used, which management decide based on advice by a firm of actuaries.

Notes to the Financial Statements *(continued)*

4. Revenue

Group	2017 £m	2016 £m
Revenue	**485.5**	450.8

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 from two customers (2016: three), each of which represented more than 10 per cent of the total revenue. Revenue from these customers totalled £162.7m (2016: £234.4m). No other customer represented more than 10 per cent of revenues either this year or in the prior year.

5. Operating profit

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

Group	2017 £m	2016 £m
Employee costs (see note 6)	**46.9**	47.2
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
Owned assets (see note 13)	**106.0**	100.5
Amortisation of intangible assets and customer contributions		
Software (see note 12)	**4.1**	4.8
Customer contributions[1] (see note 24)	**(1.7)**	(1.7)
Depreciation and amortisation expense (net)	**108.4**	103.6
Other income		
Profit on disposal of property, plant and equipment	**(0.1)**	(0.2)
Provision charge / (credit) (see note 22)	**1.9**	(1.0)
Other operating costs include:		
Research and development	**3.9**	6.7
Write down of inventories to net realisable value	**0.3**	0.2
Operating leases:		
- land and buildings	**0.7**	0.7
- hire of plant and machinery	**1.9**	2.7

[1] In the current year £5.5m (2016: £4.6m) of customer contributions amortisation has been amortised through revenue in line with IFRIC 18.

Notes to the Financial Statements *(continued)*

5. Operating profit *(continued)*

Analysis of the auditor's remuneration is as follows:

Group	2017 £m	2016 £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	**0.1**	0.2
Total audit fees	**0.1**	0.2
Audit-related assurance services	**0.1**	0.1
Taxation advisory services	**0.1**	-
Total non-audit fees	**0.2**	0.1
Total fees	**0.3**	0.3

*Fees payable for the audit of the Company's Financial Statements are £6,910 (2016: £6,908). 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.

6. Employee costs

Group	2017 £m	2016 £m
Wages and salaries	**80.6**	77.3
Social security costs	**8.8**	7.6
Pension costs (see note 21)	**15.6**	17.4
Employee costs (including Directors' remuneration)	**105.0**	102.3
Costs transferred directly to fixed assets	**(58.1)**	(55.1)
Charged to operating expenses	**46.9**	47.2

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

Group	2017 Number	2016 Number
Electricity distribution	**1,666**	1,604

The Company has no employees (2016: nil).

Notes to the Financial Statements *(continued)*

7. Directors' remuneration

Group	**2017 £m**	2016 £m
Salaries	**0.8**	0.7
Accrued bonus	**0.5**	0.1
Amounts receivable under long-term incentive schemes	**0.5**	0.3
	1.8	1.1

The aggregate emoluments of the Directors in 2017 amounted to £1,781,000 (2016: £1,155,237). Emoluments comprise salaries, fees, taxable benefits, compensation for loss of office and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid Director in 2017 in respect of services to the Group amounted to £865,000 (2016: £682,020). Under the Executive Incentive Plan bonuses are awarded and either paid in the following financial year (accrued bonus) or paid in subsequent years (amounts receivable under long-term incentive schemes). There were no amounts payable for compensation for loss of office in the year (2016: £35,000). Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 30.

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 2017 were £nil (2016: £nil). The accrued pension at 31 March 2017 for the highest paid Director was £nil (2016: £nil).

As at 31 March 2017 the Directors have no interests in the ordinary shares of the Company (2016: same). All remuneration was borne by ENWL (2016: same).

8. Investment income

Group	**2017 £m**	2016 £m
Interest receivable on short-term bank deposits held at amortised cost	**0.7**	1.1
Total investment income	**0.7**	1.1

Notes to the Financial Statements *(continued)*

9. Finance expense (net)

Group	2017 £m	2016 £m
Interest payable		
Interest payable on Group borrowings	**31.5**	31.4
Interest payable on borrowings held at amortised cost	**47.7**	52.0
Interest payable on borrowings designated at fair value through profit or loss	**22.2**	22.2
Net receipts on derivatives held for trading	**(10.6)**	(11.5)
Other finance charges related to index-linked debt	**14.8**	4.1
Accretion on index-linked swaps	**16.2**	-
Interest cost on pension plan obligations (see note 21)	**0.1**	0.7
Capitalisation of borrowing costs under IAS 23	**(0.8)**	(1.0)
Total interest expense	**121.1**	97.9
Movements on financial instruments		
Fair value movement on borrowings designated at fair value through profit or loss	**10.3**	(12.7)
Fair value movement on derivatives held for trading	**92.8**	53.2
Total fair value movements	**103.1**	40.5
Total finance expense (net)	**224.2**	138.4

Borrowing costs capitalised in the year under IAS 23 were £0.8m (2016: £1.0m), using an average annual capitalisation rate of 4.9% (2016: 4.9%).

The fair value movement of the borrowings designated at fair value through profit or loss is derived from movements in the market ask price of the bond; this is a Level 1 input under IFRS 13. The fair value movements on the derivatives are derived using a discounted cash flow technique using both market expectations of future interest rates and future inflation levels, obtained from Bloomberg, and calibrations to observable market transactions evidencing fair value; these are Level 2 inputs and Level 3 inputs under IFRS 13. Note 20 provides more detail on this.

There was £16.2m (2016: £nil) of accretion payments on the index-linked swaps in the year; these are scheduled five-yearly, seven-yearly and ten-yearly with the next payment due in July 2017. No swaps have been closed out in the year (2016: same).

Notes to the Financial Statements *(continued)*

10. Taxation

Group	2017 £m	2016 £m
Current tax		
Current year	**25.3**	22.8
Prior year	**(1.1)**	(2.1)
	24.2	20.7
Deferred tax		
Current year	**(16.4)**	(8.1)
Prior year	**2.2**	0.7
Impact of change in future tax rates	**(14.8)**	(30.8)
	(29.0)	(38.2)
Tax (credit) for the year	**(4.8)**	(17.5)

Corporation tax is calculated at 20% (2016: 20%) of the estimated assessable profit for the period. The rate reduces to 19% on 1 April 2017 and 17% on 1 April 2020.

Deferred tax is calculated using the rate at which it is expected to reverse.

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

Group	2017 £m	2016 £m
Profit before tax	**27.1**	68.0
Tax at the UK corporation tax rate of 20% (2016: 20%)	**5.4**	13.6
Prior year tax adjustments	**1.1**	(1.4)
Reduction in current year deferred tax due to rate change	**2.6**	0.9
Non taxable expense	**0.9**	0.2
Impact of change in future tax rates	**(14.8)**	(30.8)
Tax (credit) for the year	**(4.8)**	(17.5)

Notes to the Financial Statements _(continued)_

11. Dividends

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

Group and Company	**2017 £m**	2016 £m
Final dividends for the year ended 31 March 2016 of 300.00 pence per share (31 March 2015 of 200.00 pence per share)	**9.0**	6.0
Interim dividends for the year ended 31 March 2017 of 1,400.00 pence per share (31 March 2016: 566.67 pence per share)	**42.0**	17.0
	51.0	23.0

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, no liabilities have been included in the financial statements at 31 March 2017 and 31 March 2016 respectively.

Notes to the Financial Statements *(continued)*

12. Intangible assets and goodwill

Group	Goodwill £m	Licence £m	Software £m	Assets under the course of construction £m	Total £m
Cost					
At 1 April 2015	10.1	186.9	56.1	11.0	264.1
Additions	-	-	5.9	9.0	14.9
Transfers	-	-	6.6	(6.6)	-
Disposals	-	-	-	-	-
At 31 March 2016	**10.1**	**186.9**	**68.6**	**13.4**	**279.0**
Additions	**-**	**-**	**2.9**	**7.2**	**10.1**
Transfers	**-**	**-**	**3.4**	**(3.4)**	**-**
At 31 March 2017	**10.1**	**186.9**	**74.9**	**17.2**	**289.1**
Amortisation					
At 1 April 2015	-	-	47.8	-	47.8
Charge for the year	-	-	4.8	-	4.8
Disposals	-	-	-	-	-
At 31 March 2016	**-**	**-**	**52.6**	**-**	**52.6**
Charge for the year		**-**	**4.1**	**-**	**4.1**
Disposals	**-**	**-**	**-**	**-**	**-**
At 31 March 2017	**-**	**-**	**56.7**	**-**	**56.7**
Net book value					
At 31 March 2017	**10.1**	**186.9**	**18.2**	**17.2**	**232.4**
At 31 March 2016	10.1	186.9	16.0	13.4	226.4

Goodwill arose on the acquisition of assets and liabilities of Electricity North West Number 1 Company Limited (previously Electricity North West Services Ltd, having changed its name on 21 October 2016) in the year ended 31 March 2011. This value reflects the excess of the investment over the book value of the trade and assets at the date of acquisition.

The licence held by the Group, identified as an intangible asset on the acquisition of Electricity North West Company Number 1 Limited and measured at fair value at that date, to 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.

At 31 March 2017, the Group had entered into contractual commitments for the acquisition of software amounting to £6.3m (2016: £11.1m).

Notes to the Financial Statements *(continued)*

12. Intangible assets and goodwill *(continued)*

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 13).

13. Property, plant and equipment

Group	Operational Structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets under the course of construction £m	Total £m
Cost or valuation					
At 1 April 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**
Additions	**147.4**	**0.6**	**7.9**	**44.5**	**200.4**
Transfers	**42.2**	**0.4**	**4.1**	**(46.7)**	**-**
Disposals	**(4.9)**	**-**	**(0.8)**	**-**	**(5.7)**
At 31 March 2017	**4,343.9**	**32.1**	**103.3**	**119.3**	**4,598.6**
Accumulated depreciation and impairment					
At 1 April 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**
Charge for the year	**92.7**	**1.0**	**12.3**	**-**	**106.0**
Disposals	**(4.9)**	**-**	**(0.8)**	**-**	**(5.7)**
At 31 March 2017	**1,471.3**	**8.2**	**70.9**	**-**	**1,550.4**
Net book value					
At 31 March 2017	**2,872.6**	**23.9**	**32.4**	**119.3**	**3,048.2**
At 31 March 2016	2,775.7	23.9	32.7	121.5	2,953.8

Notes to the Financial Statements *(continued)*

13. Property, plant and equipment *(continued)*

At 31 March 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £69.7m (2016: £63.2m). The Company had not entered into any contractual commitments for the acquisition of property, plant and equipment at 31 March 2017 (2016: same).

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 cash generating unit (“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 30 year period, which represents the planning horizon used for management purposes being aligned to the end of an eight year RIIO regulatory period. The rate used to discount cash flows was 7.11% (2016: 6.08%) reflecting an assumed level of risk associated with the cash flows generated from the licence. Cash flow projections for the six year period to 2023 are based on the Ofgem final determination and the Company’s latest approved business plan (2016: same) 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 that no impairment would be required.

Based on the impairment testing performed, management believe 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)_

14. Investments

Company	**2017 £m**	2016 £m
Cost and carrying value	**1,145.7**	1,145.7

Details of the investments as at 31 March 2017, all of which were incorporated in the UK, are as follows.

Investment	Description of holding	Proportion held	Nature of business
Subsidiary undertakings			
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
Indirect subsidiaries			
Electricity North West Number 1 Company Limited*	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Dormant
Joint venture			
Nor.Web DPL Limited	Ordinary shares of £1 each	50%	Dormant

* Electricity North West Number 1 Company Ltd was previously known as Electricity North West Services Ltd having changed its name on 21 October 2016.

There have been no changes to these shareholdings during the year and the address of the registered office for all of the investments noted above is: 304 Bridgewater Place, Birchwood Park, Warrington, WA3 6XG.

Notes to the Financial Statements *(continued)*

15. Inventories

Group	2017 £m	2016 £m
Raw materials and consumables	9.6	8.5

There is no inventory held in the Company (2016: same).

16. Trade and other receivables

Current assets	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Trade receivables	6.1	-	12.8	-
Amounts owed by Group undertakings	2.6	1.0	1.3	1.0
Prepayments and accrued income	49.0	-	50.6	-
Balance at 31 March	57.7	1.0	64.7	1.0

Non-current assets	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Intercompany loan	-	71.2	-	70.9
Balance at 31 March	-	71.2	-	70.9

Group

The average credit period taken on sales is 14 days (2016: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.8m (2016: £0.7m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

Of the Group trade receivables, 16% (2016: 51%) are past due but not impaired. A balance of £0.7m (2016:£6.1m) is less than 30 days past due; a balance of £1.0m is greater than 30 days past due at 31 March 2017 (2016: £1.1m), against which an allowance for doubtful debt of £0.8m (2016: £0.7m) has been made.

Notes to the Financial Statements *(continued)*

16. Trade and other receivables *(continued)*

The movement on the provision for impairment of Group trade receivables is as follows:

	2017 £m	2016 £m
Balance at 1 April	**0.7**	0.3
Charged /(credited) to the Income Statement	**0.1**	0.4
Utilised	**-**	-
Balance at 31 March	**0.8**	0.7

The Group is required by Ofgem to accept any company as a counterparty 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 2017 £1.0m (2016: £2.6m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of ED1 (1 April 2016 to 31 March 2023) and is £1,696.0m (2016: £1,643m) for the year ended 31 March 2017 based on the actual retail price index ("RPI") for March.

At 31 March 2017 £129.0m (2016: £103.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £13.3m (2016: £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 30. There are no provisions against these receivables. No element of the balance is overdue.

Notes to the Financial Statements *(continued)*

17. Cash and cash equivalents and money market deposits

	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Cash and cash equivalents	**143.5**	**0.8**	120.7	1.4
Short-term money market deposits (maturity over 3 months)	**10.0**	**-**	23.5	-
Balance at 31 March	**153.5**	**0.8**	144.2	1.4

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 all short-term deposits was a weighted average of 0.4% (2016: 0.7%) and these deposits had an average maturity of 15 days (2016: 40 days).

18. Trade and other payables

	Group 2017 £m	Company 2017 £m	Group 2016 £m	Company 2016 £m
Trade payables	**14.7**	**-**	13.4	-
Refundable customer deposits (note 25)	**1.0**	**-**	2.6	
Other taxation and social security	**15.1**	**-**	11.2	-
Amounts owed to Group undertakings	**13.7**	**13.1**	13.6	13.7
Amounts owed to subsidiary undertakings	**-**	**7.0**	-	6.9
Customer contributions (note 24)	**25.4**	**-**	23.9	-
Accruals and deferred income	**88.5**	**3.1**	88.5	3.1
Balance at 31 March	**158.4**	**23.2**	153.2	23.7

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 (2016: 15 days).

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

Notes to the Financial Statements *(continued)*

19. 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 credit risk, liquidity risk and market risk see note 20.

	Group 2017 £m	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Current liabilities				
Bank and other term borrowings	**6.4**	**-**	4.6	-
	6.4	**-**	4.6	-
Non-current liabilities				
Bonds	**1,329.8**	**407.7**	1,310.8	402.2
Bank and other term borrowings	**249.3**	**(0.1)**	248.8	(0.1)
Amounts owed to parent undertaking	**676.5**	**676.5**	676.5	676.5
Amounts owed to subsidiary undertaking	**-**	**20.5**	-	20.5
	2,255.6	**1,104.6**	2,236.1	1,099.1
Balance at 31 March	**2,262.0**	**1,104.6**	2,240.7	1,099.1

Notes to the Financial Statements _(continued)_

19. Borrowings _(continued)_

Carrying value by category

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

	Nominal value £m	Interest rate %	Maturity year	**Group 2017 £m**	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Borrowings designated at fair value through profit or loss statement							
Bond	250.0	8.875%	2026	**391.0**	**-**	380.7	-
Borrowings measured at amortised cost							
Bond	200.0	8.875%	2026	**196.6**	**-**	196.4	-
Bond	200.0	6.125%	2021	**197.7**	**-**	197.2	-
Index-linked bond	100.0	1.4746%+RPI[1]	2046	**136.8**	**-**	134.3	-
Index-linked loan	135.0	1.5911%+RPI[1]	2024	**157.9**	**-**	154.0	-
Index-linked loan	50.0	0.38% +RPI[1]	2032	**47.7**	**-**	49.6	-
Index-linked loan	50.0	0%+RPI[1]	2033	**50.3**	**-**	50.0	-
USPP bond	100.0	4.07%	2029	**99.2**	**99.2**	99.1	99.1
USPP bond	100.0	4.17%	2029	**99.1**	**99.1**	99.1	99.1
Index-linked USPP bond	20.0	1.40%+RPI[1]	2034	**20.4**	**20.4**	19.9	19.9
Index-linked USPP bond	85.0	1.50%+RPI[1]	2034	**86.9**	**86.9**	84.6	84.6
Index-linked PP bond	100.0	1.265%+RPI[1]	2040	**102.1**	**102.1**	99.5	99.5
Amortising costs re: Long-term loan		Libor+0.55%	2020	**(0.1)**	**-**	-	-
Amortising costs re: Long-term loan		Libor+0.90%	2020	**(0.1)**	**(0.1)**	(0.2)	(0.1)
Amounts owed to parent undertaking	149.5		2021	**149.5**	**149.5**	149.5	149.5
Amounts owed to parent undertaking	327.0	0.0%	2027	**327.0**	**327.0**	527.0	527.0
Amounts owed to parent undertaking	200.0	10.0%	2027	**200.0**	**200.0**	-	-
Amounts owed to subsidiary undertaking	20.5		2021	**-**	**20.5**	-	20.5
Total borrowings measured at amortised cost				**1,871.0**	**1,104.6**	1,860.0	1,099.1
Total borrowings				**2,262.0**	**1,104.6**	2,240.7	1,099.1

Notes to the Financial Statements *(continued)*

19. Borrowings *(continued)*

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

The 6.125% £200m bonds issued by ENW Finance plc are guaranteed by Electricity North West Ltd.

The 4.07% £100m tranche, 4.17% £100m tranche, 1.40%+RPI £20m tranche and 1.50%+RPI £85m tranche of the USPP and 1.265%+RPI £100m tranche PP are secured and guaranteed by ENW Capital Finance plc and NWEN Group Limited (the 'Parent Company').

As at 31 March 2016 and at 31 March 2017 all other loans and borrowings are unsecured and are in sterling. As in the prior year, there were no formal bank overdraft facilities in place in the year to 31 March 2017. The fair values of the Group's financial instruments are shown in note 20.

Borrowing facilities

The Group had £74.0m (2016: £140.0m) in unutilised committed bank facilities at 31 March 2017 of which £24.0m (2016: £40.0m) expires within one year, £nil (2016: £100m) expires after one year but less than two years and £50.0m (2016: £nil) expires in more than two years.

The Company had £49.0m (2016: £90m) in unutilised committed bank facilities at 31 March 2017 of which £24.0m (2016: £40.0m) expires within one year, £nil (2016: £50m) expires after one year but less than two years and £25.0m (2016: £nil) expires in more than two years.

20. 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 2.

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 the assets of the defined benefit pension scheme which are managed by the pension scheme investment managers.

20. Financial instruments *(continued)*

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. 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's 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 two (2016: three) principal customers, see note 4. The credit worthiness 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 2017 there was £1.7m receivables past due (2016: £7.2m) against which an allowance for doubtful debts of £0.8m has been made (2016: £0.7m).

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 on deposit with counterparties.

As at 31 March 2017, none (2016: 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)*

20. Financial instruments *(continued)*

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

Group and Company	2017 £m	2017 %	2016 £m	2016 %
Credit Rating for cash and cash equivalents, excluding unpresented cheques				
AAA	**73.3**	**48.0**	52.3	26.2
AA	**-**	**-**	-	-
AA-	**0.6**	**0.4**	12.7	6.4
A+	**29.3**	**19.2**	42.1	21.1
A	**49.4**	**32.4**	92.4	46.3
	152.6	**100.0**	199.5	100.0

At the Statement of Financial Position date, no collateral is held in relation to Treasury assets (2016: same).

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 (see note 16 for further details).

	2017 Group £m	2017 Company £m	2016 Group £m	2016 Company £m
Credit risk by category				
Trade receivables	**6.1**	**-**	12.8	-
Amounts owed by Group undertakings	**2.6**	**1.0**	1.3	1.0
Money market deposits (maturity over three months)	**10.0**	**-**	23.5	-
Cash and cash equivalents	**143.5**	**0.8**	120.7	1.4
Balance at 31 March	**162.2**	**1.8**	158.3	2.4

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

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 30 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 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.

Available liquidity at 31 March was as follows:

	2017 Group £m	**2017 Company £m**	2016 Group £m	2016 Company £m
Cash and cash equivalents	**143.5**	**0.8**	120.7	1.4
Money market deposits (maturity over three months)	**10.0**	**-**	23.5	-
Committed undrawn bank facilities	**74.0**	**49.0**	140.0	90.0
Balance at 31 March	**227.5**	**49.8**	284.2	91.4

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 less than three months, net of any unpresented cheques. There was no formal bank overdraft facility in place during the year (2016: none).

Committed undrawn bank facilities of the Group include £24.0m (2016: £40.0m) of facilities that expire within one year, £nil (2016: £100.0m) that expires after one year but less than two years and £50.0m (2016: £nil) that expires in more than two years.

The Company had £49.0m (2016: £90.0m) in unutilised committed bank facilities at 31 March 2017 of which £24.0m (2016: £40.0m) expires within one year, £nil (2016: £50.0m) expires after one year but less than two years and £25.0m (2016: £nil) expires in more than two years.

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.

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.

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

Group At 31 March 2017	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	**(14.7)**	**-**	**-**	**-**	**-**	**-**	**(14.7)**
Refundable customer deposits	**(1.0)**	**-**	**-**	**-**	**-**	**-**	**(1.0)**
Amounts owed to parent undertaking	**-**	**(185.0)**	**(20.0)**	**(20.1)**	**(20.0)**	**(661.4)**	**(906.5)**
Bonds	**-**	**(65.4)**	**(65.4)**	**(65.4)**	**(65.4)**	**(1,583.4)**	**(1,845.0)**
Borrowings and overdrafts	**-**	**(10.9)**	**(10.9)**	**(10.9)**	**(10.8)**	**(357.3)**	**(400.8)**
Derivative financial instruments - net	**-**	**5.1**	**10.4**	**10.4**	**10.4**	**(303.0)**	**(266.7)**
	(15.7)	**(256.2)**	**(85.9)**	**(86.0)**	**(85.8)**	**(2,905.1)**	**(3,434.7)**

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)
Amounts owed to parent undertaking	-	(180.5)	(31.1)	(31.1)	(31.1)	(366.9)	(640.7)
Bonds	-	(65.3)	(65.3)	(65.3)	(65.2)	(1,634.4)	(1,895.5)
Borrowings and overdrafts	-	(7.3)	(8.8)	(8.8)	(8.8)	(241.9)	(275.6)
Derivative financial instruments - net	-	10.6	6.1	10.7	10.7	(140.1)	(102.0)
	(16.0)	(242.5)	(99.1)	(94.5)	(94.4)	(2,383.3)	(2,929.8)

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

Company At 31 March 2017	On demand £m	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
Amounts owed to parent undertaking	-	(185.0)	(20.0)	(20.1)	(20.0)	(661.4)	(906.5)
Amount owed to Subsidiary	-	-	-	-	-	(20.5)	(20.5)
Bonds	-	(11.2)	(11.2)	(11.2)	(11.2)	(535.8)	(580.6)
Derivative financial instruments - net	-	(1.4)	(1.4)	(1.4)	(1.4)	(12.4)	(18.0)
		(197.6)	(32.6)	(32.7)	(32.6)	(1,230.1)	(1,525.6)

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
Amounts owed to parent undertaking	-	(180.5)	(31.1)	(31.1)	(31.1)	(366.9)	(640.7)
Amount owed to Subsidiary	-	-	-	-	-	(20.5)	(20.5)
Bonds	-	(11.1)	(11.1)	(11.1)	(11.1)	(538.6)	(583.0)
Derivative financial instruments - net	-	(1.4)	(1.4)	(1.4)	(1.4)	(13.8)	(19.4)
	-	(193.0)	(43.6)	(43.6)	(43.6)	(939.8)	(1,263.6)

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.

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

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 fixed rate 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.

			2017			2016
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	**(14.1)**	**13.5**	**26.4**	(14.8)	14.1	27.5
Interest rate swaps	**(0.5)**	**0.5**	**0.9**	(0.6)	0.6	1.1
Inflation-linked swaps	**(64.3)**	**56.9**	**92.4**	(54.9)	47.8	90.6
Total finance expense impact	**(78.9)**	**70.9**	**119.7**	(70.3)	62.5	119.2

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. The Group had no floating rate borrowings at 31 March 2017.

Notes to the Financial Statements _(continued)_

20. Financial instruments _(continued)_

			2017			2016
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	**-**	**-**	**-**	(0.5)	0.5	1.1
Total finance expense impact	**-**	**-**	**-**	(0.5)	0.5	1.1

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 rates.

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 company 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 and future cash flows due to changes in inflation rates. The Group’s revenues are 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)*

20. Financial instruments *(continued)*

Sensitivity analysis on inflation

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.

			2017			2016
Change in inflation rates	**-0.5%**	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
	£m	**£m**	**£m**	£m	£m	£m
Inflation-linked swaps	**75.4**	**(83.7)**	**(176.7)**	65.6	(72.6)	(153.4)
Total finance expense impact	**75.4**	**(83.7)**	**(176.7)**	65.6	(72.6)	(153.4)

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.

			2017			2016
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)**	**(6.1)**	3.0	(3.0)	(6.0)
Inflation-linked swaps	**-**	**-**	**(0.1)**	-	-	(0.1)
Total finance expense impact	**3.0**	**(3.0)**	**(6.2)**	3.0	(3.0)	(6.1)

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 2017, the Group's derivatives are not designated in formal hedging relationships (2016: none), and instead are measured at fair value through the Income Statement.

Notes to the Financial Statements *(continued)*

20. 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 on page 62).

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 on page 62) 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 2017, is £75.0m (2016: £93.4m), of which £73.7m (2016: £91.3m) is classed as Level 3.

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

Group	**2017**	**2017**	2016	2016
	-10bps £m	**+10bps £m**	-10bps £m	-10bps £m
Inflation-linked swaps	**(2.1)**	**2.0**	(3.3)	3.2

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

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.

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

Group Financial assets	**2017 Carrying value £m**	**2017 Fair value £m**	2016 Carrying value £m	2016 Fair value £m
Current assets				
Trade receivables	**6.1**	**6.1**	12.8	12.8
Amounts owed by group undertakings	**2.6**	**2.6**	1.3	1.3
Cash and cash equivalents	**143.5**	**143.5**	120.7	120.7
Short-term money market deposits (maturity over 3 months)	**10.0**	**10.0**	23.5	23.5
	162.2	**162.2**	158.3	158.3

Company Financial assets	**2017 Carrying value £m**	**2017 Fair value £m**	2016 Carrying value £m	2016 Fair value £m
Current assets				
Trade receivables	**-**	**-**	-	-
Amounts owed by group undertakings	**1.0**	**1.0**	1.0	1.0
Cash and cash equivalents	**0.8**	**0.8**	1.4	1.4
Short-term money market deposits (maturity over 3 months)	**-**	**-**	-	-
	1.8	**1.8**	2.4	2.4

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

Group Financial Liabilities	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Non-current liabilities				
Borrowings designated at fair value through profit and loss (FVTPL)	**(391.0)**	**(391.0)**	(380.7)	(380.7)
Borrowings measured at amortised cost	**(1,188.1)**	**(1,425.1)**	(1,178.9)	(1,364.1)
Derivative financial instruments	**(387.8)**	**(387.8)**	(295.1)	(295.1)
Amounts due to parent undertaking	**(676.5)**	**(676.5)**	(676.5)	(676.5.)
Amounts due to subsidiary undertaking	**-**	**-**	-	-
Current liabilities				
Trade and other payables	**(14.7)**	**(14.7)**	(13.4)	(13.4)
Refundable customer deposits	**(1.0)**	**(1.0)**	(2.6)	(2.6)
Borrowings measured at amortised cost	**(6.4)**	**(6.4)**	(4.6)	(4.6)
	(2,665.5)	**(2,902.5)**	(2,551.8)	(2,737.0)

Company Financial Liabilities	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Non-current liabilities				
Borrowings designated at fair value through profit and loss (FVTPL)	**-**	**-**	-	-
Borrowings measured at amortised cost	**(407.6)**	**(407.6)**	(402.1)	(402.1)
Derivative financial instruments	**(16.1)**	**(16.1)**	(17.4)	(17.4)
Amounts due to parent undertaking	**(676.5)**	**(676.5)**	(676.5)	(676.5)
Amounts due to subsidiary undertaking	**(20.5)**	**(20.5)**	(20.5)	(20.5)
Current liabilities				
Trade and other payables	**-**	**-**	-	-
Refundable customer deposits	**-**	**-**	-	-
Borrowings measured at amortised cost	**-**	**-**	-	-
	(1,120.7)	**(1,120.7)**	(1,116.5)	(1,116.5)

Notes to the Financial Statements *(continued)*

20. Financial instruments *(continued)*

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of 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 **At 31 March 2017**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total** **£m**
Financial liabilities at FVTPL				
Derivative financial liabilities				
- £300m notional inflation-linked swaps	**-**	**(119.2)**	**(252.5)**	**(371.7)**
- £150m notional interest rate swaps	**-**	**(16.1)**	**-**	**(16.1)**
Financial liabilities designated at FVTPL	**(391.0)**	**-**	**-**	**(391.0)**
	(391.0)	**(135.3)**	**(252.5)**	**(778.8)**

Group **At 31 March 2016**	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total** **£m**
Financial liabilities at FVTPL				
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)
	(380.7)	(117.3)	(177.8)	(675.8)

Notes to the Financial Statements _(continued)_

20. Financial instruments _(continued)_

Inflation-linked swap liabilities with fair values of £8.7m were transferred from Level 2 to Level 3 at the start of the current year (2016: £143.0m), principally due to a change in the significance of the unobservable inputs used to derive Electricity North West's credit curve for the DVA, as described in this section above.

The Company has £150m notional interest rate swaps valued at fair value through profit or loss, measured at £16.1m at 31 March 2017 (2016: £17.4m). These are disclosed as Level 2 (2016: same).

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

Group	**2017** **£m**	2016 £m
At 1 April	**(177.8)**	-
Transfers into Level 3 from Level 2	**(8.7)**	(143.0)
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	**4.4**	(24.4)
- On new derivatives in the year	**-**	(10.4)
- On instruments carried forward in Level 3	**(70.4)**	-
At 31 March	**(252.5)**	(177.8)

Notes to the Financial Statements _(continued)_

21. Retirement benefit schemes

Group and Company

Nature of Scheme

The Group's defined benefit arrangement is the Electricity North West 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 Electricity North West Number 1 Company Ltd (previously Electricity North West Services Limited, having changed its name on 21 October 2016) to the Company and the termination of the Asset Services Agreement between the two companies on 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 provided instead 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 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 £23.6m (2016: £24.6m) to the defined benefit section of the Scheme. This includes £11.3m of deficit contributions. The Group estimates that contributions for the year ending 31 March 2018 will amount to around £31.1m which includes £17.3m of expected deficit contribution payments. The total defined benefit pension expense for the year was £13.3m (2016: £16.2m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2017 contributions of £2.1m (2016: £2.1m) 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 2016 and identified a shortfall of £142.6m 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 2016 Actuarial valuation the Group agreed to remove the shortfall by paying annual contributions to 2023.

21. Retirement benefit schemes *(continued)*

The results of the 2016 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 2017 for the purpose 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 £58.0m is included in the Statement of Financial Position at 31 March 2017 (2016 deficit of £16.2m).

The weighted average duration of the defined benefit obligation is approximately 17 years (2016: 17 years).

Investment strategy

The Scheme has an investment strategy to aim to match pensioner and other liabilities with lower risk cash flow investments and to invest liabilities in respect of active members into return seeking assets. As active members retire, then a switch of investments would be carried out.

The Company recognises that the interests of customers, who ultimately fund pension costs, should be given full recognition in determining the investment 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.

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).

Notes to the Financial Statements *(continued)*

21. Retirement benefit schemes *(continued)*

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 2017 was £3.2m (2016: £2.7m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2017 contributions of £nil (2016: £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:

Group	2017	2016
	£m	£m
At 1 April	**(16.2)**	(33.7)
Expense recognised in the Income Statement	**(13.3)**	(16.2)
Contributions paid	**23.6**	24.6
Total re-measurement included in Other Comprehensive Income	**(52.1)**	9.1
At 31 March	**(58.0)**	(16.2)

Movements in the fair value of the Group defined benefit obligations are as follows:

Group	2017	2016
	£m	£m
At 1 April	**(1,219.9)**	(1,276.6)
Current service cost	**(12.0)**	(13.7)
Interest expense	**(41.6)**	(41.1)
Member contributions	**(1.9)**	(2.0)
Augmentation	**(0.4)**	(1.0)
Re-measurement:		
Effect of changes in demographic assumptions	**(24.6)**	-
Effect of changes in financial assumptions	**(221.8)**	52.6
Effect of experience adjustments	**33.1**	-
Benefits paid	**58.7**	61.9
At 31 March	**(1,430.4)**	(1,219.9)

Notes to the Financial Statements *(continued)*

21. Retirement benefit schemes *(continued)*

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

Group	2017 £m	2016 £m
Liabilities owing to active members	**439.7**	400.6
Liabilities owing to deferred members	**89.0**	93.1
Liabilities owing to pensioner members	**901.7**	726.2
Total liability at 31 March	**1,430.4**	1,219.9

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

Group	2017 £m	2016 £m
At 1 April	**1,203.7**	1,242.9
Interest income	**41.5**	40.4
Return on plan assets (net of interest income)	**161.4**	(43.5)
Company contributions	**23.6**	24.6
Member contributions	**1.9**	2.0
Benefits paid	**(58.7)**	(61.9)
Administration expenses	**(1.0)**	(0.8)
At 31 March	**1,372.4**	1,203.7

Notes to the financial statements *(continued)*

21. Retirement benefit schemes *(continued)*

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

Group	**2017** **£m**	2016 £m
Current service cost	**(12.0)**	(13.7)
Past service cost	**(0.4)**	(1.0)
Interest income on plan assets	**41.5**	40.4
Interest (expense) on Scheme obligations	**(41.6)**	(41.1)
Administration expenses and taxes	**(0.8)**	(0.8)
Net pension expense before taxation	**(13.3)**	(16.2)

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

For the year ending 31 March 2017 the past service cost includes £0.4m in respect of augmentations (2016: £1.0m).

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

Group	**2017** **%**	2016 %
Discount rate	**2.50**	3.50
Pensionable salary increases	**3.10**	3.20
Pension increases	**3.05**	2.90
Price inflation	**3.10**	2.95

The mortality rates utilised in the valuation are based on the standard actuarial tables S2PMA/S2PFA (birth year) tables with a loading of 95% for male pensioners, 90% for female for female pensioners, 105% for male non-pensioners and 100% for female non-pensioners. These loading factors allow for differences in expected mortality between the Scheme population and the population used in the standard tables. A long-term improvement rate of 1.5% p.a. is assumed within the underlying CMI 2015 model (2016:1.25%).

Notes to the Financial Statements _(continued)_

21. Retirement benefit schemes _(continued)_

The current life expectancies underlying the value of the accrued liabilities for the Scheme are:

Group	**2017**	2016
Male life expectancy at age 60	**Years**	Years
Retired member	**27.9**	26.9
Non-retired member (current age 45)	**28.7**	28.4

In valuing the liabilities of the Scheme at 31 March 2017 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 Statement of Financial Position 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 also increase.

Group	**2017**	2016
Increase in Defined Benefit Obligation	**£m**	£m
Discount rate: decrease by 25 basis points	**61**	53
Price inflation: increase by 25 basis points	**49**	43
Life expectancy: increase longevity by 1 year	**48**	34

Notes to the Financial Statements *(continued)*

21. Retirement benefit schemes *(continued)*

As at 31 March 2017, the fair value of the Scheme's assets and liabilities recognised in the Statement of Financial Position were as follows:

Group **At 31 March**	**Scheme assets 2017** **%**	**Value 2017** **£m**	Scheme assets 2016 %	Value 2016 £m
Cash and Cash equivalents	**6.7**	**92.6**	0.5	5.9
Equity instruments	**9.4**	**128.4**	9.3	113.3
Debt instruments	**68.6**	**942.1**	68.0	819.1
Real estate	**11.0**	**150.6**	12.4	148.5
Distressed debt	**2.5**	**34.7**	2.7	32.0
Hedge funds	**1.8**	**24.0**	7.1	84.9
Total fair value of assets	**100.0**	**1,372.4**	100.0	1,203.7
Present value of liabilities		**(1,430.4)**		(1,219.9)
Net retirement benefit obligation		**(58.0)**		(16.2)

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

Notes to the Financial Statements *(continued)*

22. Provisions

Group	2017 £m	2016 £m
At 1 April	**2.5**	6.1
Charged /(credited) to the income statement	**1.9**	(1.0)
Utilisation of provision	**(0.4)**	(2.6)
At 31 March	**4.0**	2.5

Group	2017 £m	2016 £m
Current	**1.1**	0.6
Non current	**2.9**	1.9
At 31 March	**4.0**	2.5

During the year ended 31 March 2013 a provision was created in connection with a portfolio of retail properties for which Electricity North West Ltd ("ENWL") was liable under privity of contract. The combined closing provision of £2.2m at 31 March 2017 which now relates to one High Street retail property and two out of town retail properties has been evaluated by management, is supported by relevant external property specialists, and reflects ENWL's best estimate as at the Statement of Financial Position date of the amounts that could become payable by ENWL, 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 ENWL to both defend its position and also to re-let the properties, conditions in the local property markets, demand for retail warehousing, likely periods of vacant possession and the results of negotiations with individual landlords, letting agents and tenants, and is hence inherently judgemental.

ENWL is part of a Covenanter Group ("CG") which is party to a Deed of Covenant with EA Technology Limited ("EATL") under which certain guarantees over the benefits of members of the EATL Group of the Electricity Supply Pension Scheme have been given. In the event of EATL having been 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. On the 31 March 2017 EATL entered into a Company Voluntary Arrangement ("CVA") to ring-fence the pension and historical employment liabilities, with the agreement of the Pension Regulator. As ENWL represents 6.7% of the liabilities, a provision of £1.8m on a discounted basis was recognised within the Company during the year ended 31 March 2017.

Notes to the Financial Statements *(continued)*

23. Deferred tax

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

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2015	329.4	(6.8)	(39.6)	283.0
Charged/(credited) to the Income Statement	(36.4)	-	(1.8)	(38.2)
Deferred tax on re-measurement of defined benefit pension schemes	-	1.6	-	1.6
Adjustment due to change in future tax rates of brought forward deferred tax OCI	-	2.2	-	2.2
At 1 April 2016	293.0	(3.0)	(41.4)	248.6
Charged/(credited) to the Income Statement	**(15.2)**	**0.9**	**(14.6)**	**(28.9)**
Deferred tax on re-measurement of defined benefit pension schemes	**-**	**(8.9)**	**-**	**(8.9)**
Adjustment due to change in future tax rates of brought forward deferred tax OCI	**-**	**1.0**	**-**	**1.0**
At 31 March 2017	**277.8**	**(10.0)**	**(56.0)**	**211.8**

There is no deferred tax in the Company.

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 instruments.

Notes to the Financial Statements *(continued)*

24. 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 expected lifetime of the relevant asset.

Group	2017 £m	2016 £m
At 1 April	**285.2**	247.5
Additions during the year	**45.4**	44.0
Amortisation	**(1.7)**	(1.7)
Amortised through revenue (IFRIC 18)	**(5.5)**	(4.6)
At 31 March	**323.4**	285.2

Group	2017 £m	2016 £m
Amounts due in less than one year (see note 18)	**25.4**	23.9
Amounts due after more than one year	**298.0**	261.3
At 31 March	**323.4**	285.2

25. Refundable customer deposits

Refundable customer deposits are those customer contributions which may be partly refundable, dependent on contractual obligations.

Group	2017 £m	2016 £m
Amounts due in less than one year (see note 18)	**1.0**	2.6
Amounts due after more than one year	**-**	-
At 31 March	**1.0**	2.6

Notes to the Financial Statements *(continued)*

26. Called up share capital

Group and Company	**2017**	2016
	£m	£m
Authorised:		
3,000,000 (2016: same) ordinary shares of £1 each	**3.0**	3.0
At 31 March	**3.0**	3.0

Group and Company	**2017**	2016
	£m	£m
Allotted, called up and fully paid:		
3,000,000 (2016: same) ordinary shares of £1 each	**3.0**	3.0
At 31 March	**3.0**	3.0

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

See note 28 for voting rights of each share.

27. Shareholders' Equity

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own Income Statement. The result after tax for the Company for the year ended 31 March 2017 was £43.6m profit (2016: £6.7m loss).

28. Capital structure

Details of the authorised and allotted share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has ordinary shares which carry no right to fixed income. 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 or 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 in the transfer of securities or on voting rights.

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

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.

Notes to the Financial Statements *(continued)*

29. Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN Group Ltd, a company incorporated and registered in the United Kingdom. The ultimate parent undertaking is North West Electricity Networks (Jersey) Ltd, a company incorporated and registered in Jersey. The address of the ultimate parent company is: 44 Esplanade, St Helier, Jersey, Channel Islands, 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) Ltd.

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. They are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.

30. Related party transactions

During the year the following transactions with related parties were entered into:

	Group 2017 £m	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Ltd	**1.0**	**-**	1.2	-
Recharges from Electricity North West (Construction and Maintenance) Ltd	**(0.1)**	**-**	(0.2)	-
Recharges to Electricity North West Services Ltd	**1.2**	**-**	-	-
Recharges from Electricity North West Services Ltd	**(0.6)**	**-**	-	-
Directors' remuneration (note 7)	**(1.8)**	**-**	(1.1)	-
Directors' services	**(0.2)**	**-**	(0.2)	-
Interest payable to North West Electricity Networks (Holdings) Ltd	**(31.5)**	**(31.5)**	(31.5)	(31.5)
Interest payable to ENW Capital Finance plc	**-**	**-**	-	(4.4)
Interest payable to ENW Finance plc	**-**	**(0.4)**	-	(0.4)
Interest receivable from Electricity North West Ltd	**-**	**1.9**	-	-
Dividends paid to NWEN Group Ltd	**(51.0)**	**(51.0)**	(23.0)	(23.0)
Dividends received from Electricity North West Ltd	**-**	**81.0**	-	30.0

Notes to the Financial Statements *(continued)*

30. Related party transactions *(continued)*

Amounts outstanding with related parties are as follows:

	Group 2017 £m	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Amounts owed to related parties				
Group tax relief to North West Electricity Networks (UK) Ltd	**(14.3)**	**(14.3)**	-	-
Group tax relief to Electricity North West Services Ltd	**(0.1)**	**(0.1)**	-	-
Amounts owed to Electricity North West Services Ltd	**(0.6)**	**-**	-	-
Amounts owed to Electricity North West Ltd	**-**	**(3.3)**	-	(3.7)
Interest payable to North West Electricity Networks (Holdings) Ltd	**(13.1)**	**(13.1)**	(13.6)	(13.6)
Interest payable to ENW Capital Finance plc	**-**	**(0.1)**	-	(0.1)
Interest payable to ENW Finance plc	**-**	**(3.6)**	-	(3.1)
Borrowings owed to North West Electricity Networks (Holdings) Ltd	**(676.5)**	**(676.5)**	(676.5)	(676.5)
Borrowings owed to ENW Finance plc	**-**	**(20.5)**	-	(20.5)
Amounts owed by related parties				
Group Tax relief owed by Electricity North West Ltd	**-**	**23.6**	-	12.9
Group Tax relief owed by ENW Finance plc	**-**	**3.6**	-	3.2
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	**0.4**	**-**	-	-
Amounts owed by Electricity North West Services Limited	**1.4**	**-**	-	-
Amounts owed by North West Electricity Networks (Holdings) Ltd	**0.7**	**0.5**	1.2	0.5
Amounts owed by North West Electricity Networks (Jersey) Limited	**0.1**	**-**	-	-
Interest owed by Electricity North West Ltd	**-**	**0.5**	-	0.5
Borrowings owed by Electricity North West Ltd	**-**	**71.2**	-	70.9

Notes to the Financial Statements *(continued)*

30. Related party transactions *(continued)*

The loans from related parties comprise amounts loaned from North West Electricity Networks (Holdings) Ltd of £676.5m. Of this, £200.0m carries interest at 10% per annum; £327m is interest free and £149.5m carries interest at 7.37%.

Fees of £0.1m (2016: £0.1m) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party.

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

For disclosure relating to executive directors remuneration see note 7. The Company's key management personnel comprise solely of its directors.

During the year Electricity North West Services Ltd changed its name to Electricity North West Number 1 Company Ltd. A new operating company was set up by the Group named Electricity North West Services Ltd.

31. Cash generated from operations

	Group 2017 £m	**Company 2017 £m**	Group 2016 £m	Company 2016 £m
Operating profit/(loss)	**250.6**	**0.3**	205.3	(0.1)
Adjustments for:				
Depreciation of property, plant and equipment	**106.0**	**-**	100.5	-
Amortisation of intangible assets	**4.1**	**-**	4.8	-
Amortisation of customer contributions	**(7.2)**	**-**	(6.3)	-
Profit on disposal of property, plant and equipment	**(0.1)**	**-**	(0.2)	-
Cash contributions in excess of pension charge to operating profit	**(16.5)**	**-**	(16.0)	-
Operating cash flows before movements in working capital	**336.9**	**0.3**	288.1	(0.1)
Changes in working capital				
Increase in inventories	**(1.1)**	**-**	(1.2)	-
Decrease/(increase) in trade and other receivables	**5.9**	**-**	(2.0)	-
(Decrease)/increase in payables and provisions	**6.5**	**(0.2)**	(14.1)	0.1
Cash generated from operations	**348.2**	**0.1**	270.8	-

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:

Group	**Land and buildings**	**Plant and machinery**	Land and buildings	Plant and machinery
	2017	**2017**	2016	2016
	£m	**£m**	£m	£m
Within one year	**-**	**-**	0.1	-
In the second to fifth years inclusive	**1.1**	**-**	1.5	-
After five years	**2.6**	**2.9**	2.8	2.9
	3.7	**2.9**	4.4	2.9

The Company does not hold any non-cancellable operating leases as at 31 March 2017 (2016: none).

Glossary

CI	Customer Interruptions
CLASS	Customer Load Active System Services
CML	Customer Minutes Lost
DNO	Distribution Network Operator
DUoS	Distribution Use Of System
ENWL	Electricity North West Limited
ESPS	Electricity Supply Pension Scheme
FVTPL	Fair Value Through Profit or Loss
IFRS	International Financial Reporting Standard
KPI	Key Performance Indicators
Ofgem	Office of Gas and Electricity Markets
PPE	Property, Plant and Equipment
RAV	Regulatory Asset Value
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