

ENW FINANCE PLC

**Annual Report and
Financial Statements
for the year ended 31 March 2018**

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Strategic Report

Business review and principal activities

ENW Finance plc (“the Company”) is a company limited by shares and incorporated in the United Kingdom under the Companies Act 2006.

The Company acts as a financing company which has secured debt listed on the London Stock Exchange. The Company is a financing entity within the North West Electricity Networks (Jersey) Limited group (the “Group”) and following the issue of debt, lent the net proceeds to a fellow group subsidiary and affiliated company, Electricity North West Limited (“ENWL”).

The Company operates solely as a financing company and therefore there are no non-financial key performance indicators. A review of the Group’s non-financial key performance indicators is disclosed in the Annual Report and Consolidated Financial Statements of the key trading subsidiary, ENWL.

Financial performance and key performance indicators

The results for the year are set out in the Profit and Loss Account on page 11. The primary KPI for the year was profit of £1.7m (2017: £1.6m).

The Company had borrowings, net of cash of £199.3m at 31 March 2018 (2017: £199.2m) relating to the listed debt. The debt has a nominal value of £200m at 6.125 per cent, maturing in 2021. The Company recognises a receivable from ENWL on equivalent terms and equal to the external borrowings.

There are no planned changes in the business activities of the Company.

Principal risks and uncertainties

As the Company’s obligations in respect of the listed debt, associated intercompany index-linked swap and embedded derivative are met via income receivable from ENWL, the Board considers the principal risks and uncertainties facing the Company to be those that affect ENWL and the larger Group. The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that company, and ultimately the Group, are discussed in the Strategic Report of the ENWL Annual Report and Consolidated Financial Statements, which are available on ENWL’s website, www.enwl.co.uk.

The Company has exposure to interest rate risk and inflation risk; the intercompany index-linked swap and embedded derivative are exposed to a risk of change in their fair value arising from a risk of change of future cash flows due to changes in market interest rates and inflation rates. This exposure is limited as the impact on the intercompany index-linked swap (liability) is largely offset by an opposite impact on the embedded derivative (asset).

Going concern

After making enquiries and based on the assumptions, sensitivities and uncertainties outlined above and in Note 1, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Corporate governance

The details of the internal control and risk management systems which govern the Company in relation to the financial processes are outlined in the Corporate Governance statements contained in the ENWL Annual Report and Consolidated Financial Statements that are available on the website www.enwl.co.uk.

Fair, balanced and understandable

The Directors have reviewed the Annual Report and Financial Statements, to ensure they are fair, balanced and understandable. As part of the review of the Annual Report and Financial Statements the Directors have acknowledged the detailed guidance given to contributors to the financial statements. As part of this process the Directors have taken guidance and advice from the Company’s external auditor.

Approved by the Board 30 May 2018 and signed on its behalf by:



D Brocksom
Director

Directors' Report

The Directors present their Annual Report and the audited Financial Statements of ENW Finance plc for the year ended 31 March 2018.

Dividends

Dividends recognised in the year were £nil (2017: £nil). The Directors do not propose a final dividend for the year ended 31 March 2018 (2017: £nil).

Directors

The Directors of the Company during the year ended 31 March 2018 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
J Lynch

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 Company's business (2017: same).

Events after the Balance Sheet Date

There have been no significant events after the Balance Sheet date.

Future developments

There are no planned changes in the business activities of the Company.

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. The insurance is a group policy, held in the name of NWEN (Jersey) and is for the benefit of that company and all its subsidiaries.

Auditor

Each of the persons who are a Director at the date of approval of this 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 in accordance with 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

The Company is registered in England, UK at the following address:

ENW Finance plc
304 Bridgewater Place
Birchwood Park
Warrington
United Kingdom
WA3 6XG

Registered number: 06845434

Approved by the Board on 30 May 2018 and signed on its behalf by:



D. Brocksom
Director

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 *'Reduced Disclosure Framework'*. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company 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 of other jurisdictions.

Independent Auditor's Report to the Members of ENW Finance plc

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of ENW Finance Plc (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including [Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice)].

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

| | |
|--------------------------|---|
| Key audit matters | The key audit matters that we identified in the current year were management override of controls and the recoverability of intercompany receivables. |
| Materiality | The materiality that we used in the current year was £3.9m which equates to 1% of total assets. |
| Scoping | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. |

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Management override of control

Key audit matter description



Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the business, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the financial statements and accounting records.

In particular the risk of management override of control is in the preparation of the financial statements from the underlying accounting records.

Details of critical accounting judgements and key sources of estimation uncertainty are included in note 2.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

How the scope of our audit responded to the key audit matter

We substantively tested the extraction of the company's accounting records from the general ledger and the preparation of the financial statements from those underlying accounting records.

We also assessed the design and implementation of the company's controls over the preparation of its financial statements.

Furthermore we reviewed the financial statements as a whole for accuracy, completeness and clarity as part of our procedures.

Key observations

Based on the work done, we found no matters that were reportable to those charged with governance.

Recoverability of intercompany receivables

Key audit matter description



There is a level of judgement involved in determining the recoverability of the £226 million receivable from group undertakings based on the financial position and future prospects of the group undertakings. This takes into consideration a range of factors such as the trading performance of the group undertakings and support available from the wider group where required.

Further details are included within note 2 to the financial statements.

How the scope of our audit responded to the key audit matter

We challenged the directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest financial information and our understanding of the future trading performance of the group undertakings and by assessing the ability of the group undertakings to repay these amounts. We also reviewed the historical accuracy of management's forecasts by comparing the actual results to forecasts.

Key observations

Based on the work done, we found no matters that were reportable to those charged with governance.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|--|---|
| Materiality | £3.9m. |
| Basis for determining materiality | Materiality represents 1% of total assets. |
| Rationale for the benchmark applied | We determined materiality based on total assets as this is the key metric used by management, investors, analysts and lenders, with shareholder value being driven by total equity value movements. |

We agreed with the Board of Directors that we would report to them all audit differences in excess of £78,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. A full scope audit has been performed for the company's financial statements. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The company's financial activities are not complex in nature. As the company has no subsidiaries and requires a standalone audit, we treat the company as one single audit component for scoping purposes.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

***We have nothing to report
in respect of these matters.***

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of ENW Finance plc (continued)

Use of our report

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.

Report on other legal and regulatory requirements

Opinions 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 or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

**Independent Auditor's Report to the Members of ENW Finance plc
(continued)**


Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders in 2002 to audit the financial statements for the year ending 31 March 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 March 2002 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).



Chris Robertson (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor,
Manchester, United Kingdom
30 May 2018

Financial Statements**Profit and Loss Account***for the year ended 31 March 2018*

| | <i>Note</i> | 2018 £'000 | 2017 £'000 |
|---|-------------|-----------------------------|---------------|
| Operating result | 3 | - | - |
| Interest receivable and similar income | 5 | 12,862 | 12,809 |
| Interest payable and similar charges | 6 | (10,560) | (10,671) |
| Profit on ordinary activities before tax | | 2,302 | 2,138 |
| Taxation | 7 | (570) | (511) |
| Profit for the financial year | | 1,732 | 1,627 |

All the results shown in the Profit and Loss Accounts for the current year and preceding year derive from continuing operations.

There are no other items of comprehensive income for the current year or preceding year, other than the results shown above, and therefore no separate Statement of Comprehensive income has been presented.

ENW Finance plc

Annual Report and Financial Statements for the year ended 31 March 2018

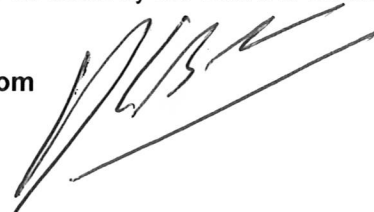
Balance Sheet

as at 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|--|------|------------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Derivative financial instruments | 8,12 | 300,126 | 310,728 |
| Intercompany loan | 8 | 219,848 | 219,686 |
| | | 519,974 | 530,414 |
| Current assets | | | |
| Debtors: due within one year | 9 | 6,502 | 6,052 |
| Cash at bank and in hand | 10 | 12 | 12 |
| | | 6,514 | 6,064 |
| Total assets | | 526,488 | 536,478 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Creditors: Amounts falling due within one year | 13 | (6,347) | (5,971) |
| Net current assets | | 167 | 93 |
| Total assets less current liabilities | | 520,141 | 530,507 |
| Non-current liabilities | | | |
| Borrowings | 11 | (199,348) | (199,186) |
| Derivative financial instruments | 12 | (306,489) | (318,943) |
| Deferred Tax | 14 | (1,350) | (1,156) |
| | | (507,187) | (519,285) |
| Total liabilities | | (513,534) | (525,256) |
| Net assets | | 12,954 | 11,222 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 13 | 13 |
| Profit and loss account | | 12,941 | 11,209 |
| Total shareholders' funds | | 12,954 | 11,222 |

The financial statements of ENW Finance plc (registered number 06845434) were approved and authorised for issue by the Board of Directors on 30 May 2018 and signed on its behalf by:

D Brocksom
Director



Statement of Changes in Equity*for the year ended 31 March 2018*

| | Called-up share capital | Profit and loss account | Total Equity |
|---|------------------------------------|------------------------------------|---------------------|
| | £'000 | £'000 | £'000 |
| At 1 April 2016 | 13 | 9,582 | 9,595 |
| Profit and total comprehensive income for the year | - | 1,627 | 1,627 |
| At 31 March 2017 | 13 | 11,209 | 11,222 |
| Profit and total comprehensive income for the year | - | 1,732 | 1,732 |
| At 31 March 2018 | 13 | 12,941 | 12,954 |

Notes to the Financial Statements

ENW Finance plc is a company incorporated in the United Kingdom under the Companies Act 2006.

1. Significant accounting policies

The principal policies adopted in the preparation of the financial statements are set out below:

Basis of preparation

The Company has adopted Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"), on the basis that it meets the definition of qualifying entity under Financial Reporting Standard 100 'Application of Financial Reporting Requirements' ("FRS 100") and the financial statements have therefore been prepared in accordance with FRS 101 as issued by the Financial Reporting Council.

As permitted by FRS 101, for both periods presented, the Company has taken advantage of the disclosure exemptions available under the standard in relation to financial instruments, capital management, presentation of cash flow statement, standards not yet effective and related party transactions with other wholly-owned members of the Group.

Where relevant, equivalent disclosures are given in the consolidated financial statements of North West Electricity Networks plc ("NWEN plc"), the Company's immediate parent; the consolidated financial statements of NWEN plc are available to the public and can be obtained as set out in Note 17.

The financial statements have been prepared on the historical cost basis, except for the valuation of derivative financial instruments, and are presented in sterling, which is also the functional currency. All values are rounded to the nearest thousand pounds (£'000) except where otherwise stated.

All Company operations arise from its activities as a financing company in the North West of England. Accordingly, only one operating and geographic segment is reviewed by the Chief Executive Officer and Executive Team.

Basis of preparation - going concern basis

The performance, financial position and principal risks and uncertainties impacting the Company are detailed in the Strategic Report on page 1. The Company is ultimately a subsidiary of North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)"); the key trading subsidiary in the Group is ENWL. As the Company's obligations in respect of the listed debt are met via income receivable from ENWL, the Board considers the principal risks and uncertainties facing the Company to be those that affect ENWL and the larger Group.

In consideration of this, the Directors of this Company are cognisant of the going concern disclosure which appears in the financial statements of both NWEN (Jersey) and ENWL for the year ended 31 March 2018, the latter of which is available on the website www.enwl.co.uk.

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

Basis of preparation – adoption of new and revised standards

The Directors are not aware of any new or revised Standards or Interpretations which have impacted these financial statements.

Operating result

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

Notes to the Financial Statements *(continued)***1. Significant accounting policies** *(continued)***Taxation**

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

Current taxation

Current tax 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 Profit and Loss Account 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 Profit and Loss Account, 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.

Financial Instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Debtors

Debtors are stated at their nominal value, less any allowances made for any estimated irrecoverable amounts.

Creditors

Creditors are stated at their nominal value.

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 Company are recognised at the proceeds received, net of direct issue costs.

Notes to the Financial Statements *(continued)***1 Significant accounting policies** *(continued)***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 in to the following specific categories: financial assets 'at fair value through profit or loss' (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

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.

Financial Liabilities

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

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method other than those financial liabilities classified as at FVTPL, which are subsequently measured at fair value.

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

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

Borrowing costs and interest income

All borrowing costs and interest income are recognised in profit or loss in the period in which they are incurred.

Derivative financial instruments

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 Company 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.

Notes to the Financial Statements *(continued)***1 Significant accounting policies** *(continued)***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.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 1, 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.

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.

The following are the critical judgements, which the Directors have made in applying the Company's accounting policies and that have the most significant impact on the amounts recognised in the financial statements.

The Directors do not deem there to be any key sources of estimation that affect the Company.

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 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 are recognised in profit or loss.

Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Company 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 12.

3. Operating Profit

Audit fees payable to Deloitte LLP of £7,087 for the year (2017: £6,910) were borne by another Group company and have not been recharged (2017: same). There were no non-audit fees payable to the auditor in the year (2017: £nil).

4. Directors and employees

The Company had no employees during the year (2017: same). Directors' costs are borne by another Group company and cannot be fairly apportioned to the Company (2017: same).

Notes to the Financial Statements *(continued)***5. Interest receivable and similar income**

| | 2018 | 2017 |
|--|---------------|--------|
| | £'000 | £'000 |
| Interest receivable from Group companies | 12,862 | 12,809 |

6. Interest payable and similar charges

| | 2018 | 2017 |
|---|----------------|---------|
| | £'000 | £'000 |
| Interest payable | | |
| Interest payable on borrowings held at amortised cost | 12,412 | 12,403 |
| Fair value gains on financial instruments at fair value through profit or loss | | |
| Derivatives | (1,852) | (1,732) |
| Net interest payable and similar charges | 10,560 | 10,671 |

Notes to the Financial Statements *(continued)***7. Taxation**

| | 2018 | 2017 |
|--------------------------------|--------------|-------|
| | £'000 | £'000 |
| Current Tax: | | |
| UK corporation tax | 376 | 396 |
| Deferred tax (Note 14): | | |
| Current year | 194 | 173 |
| Prior year | - | (58) |
| | 570 | 511 |

Corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year. The rate reduces to 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:

| | 2018 | 2017 |
|---|--------------|-------|
| | £'000 | £'000 |
| Profit before tax | 2,302 | 2,138 |
| Tax at the UK corporation tax rate of 19% (2017: 20%) | 437 | 428 |
| Non-taxable expenses | 156 | 172 |
| Impact from change in future tax rates | (23) | (31) |
| Prior year tax adjustment | - | (58) |
| | 570 | 511 |

Notes to the Financial Statements *(continued)***8. Debtors due after one year**

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|---------------|
| Amounts falling due after one year: | | |
| Amounts due from Group companies | 219,848 | 219,686 |
| Derivative financial instruments (Note 12) | 300,126 | 310,728 |
| | 519,974 | 530,414 |

On 21 July 2009 the Company lent Electricity North West Limited proceeds of £198.2m in relation to the Notes issue of £200.0m at 6.125 per cent fixed rate due in 2021, net of discount on issue, on terms aligned to the terms of the external debt (see Note 11) and associated intercompany hedging arrangements. The carrying value of the receivable reflects the amortisation of the discount.

9. Debtors due within one year

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|---------------|
| Amounts falling due within one year: | | |
| Amounts due from Group companies | 6,502 | 6,052 |

The amounts due from group companies relate to interest on the inter-company loan (see Note 8).

10. Cash at bank and in hand

| | 2018 £'000 | 2017 £'000 |
|--------------------------|-----------------------------|---------------|
| Cash at bank and in hand | 12 | 12 |

11. Borrowings

This note provides information about the contractual terms of the Company's loans and borrowings. For more information about the Company's exposure to interest rate risk and liquidity risk, see Note 12. For more information about the Group's financial risk management and exposure to credit risk, liquidity risk and market risk refer to the NWEN plc consolidated financial statements.

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------------|---------------|
| Borrowings measured at amortised cost | | |
| 6.125% £200m bond maturing in 2021 | 199,348 | 199,186 |

The Company has issued £200.0m 6.125 per cent fixed rate Notes due 2021, guaranteed by ENWL (2017: same).

Borrowing facilities

The Company had no unutilised committed bank facilities at 31 March 2018 (2017: same). There was no formal bank overdraft facility in place at 31 March 2018 (2017: same).

Notes to the Financial Statements *(continued)***12. Financial instruments****Categories of financial instruments**

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|---------------|
| Financial assets at FVTPL: | | |
| Derivative financial instruments | 300,126 | 310,728 |
| Financial liabilities at FVTPL: | | |
| Derivative financial instruments | (306,489) | (318,943) |
| Profit for the year has been arrived at after charging/(crediting): | | |
| | 2018 £'000 | 2017 £'000 |
| Financial assets at FVTPL: | | |
| Derivative financial instruments | 10,602 | (53,527) |
| Financial liabilities at FVTPL: | | |
| Derivative financial instruments | (12,454) | 51,795 |
| Net credit to Profit and Loss Account (Note 6) | (1,852) | (1,732) |

Valuation techniques and assumptions applied for the purpose of measuring fair values

The fair values of derivative financial instruments are determined by a discounted cash flow technique using the applicable yield curve for the duration of the instruments. An adjustment for the relevant credit risk is then made.

Financial risk management

Disclosure around the Company's risk management policies, which are the same as the Group's, can be found in NWEN plc's consolidated financial statements.

13. Creditors: amounts falling due in one year

| | 2018 £'000 | 2017 £'000 |
|------------------|-----------------------------|---------------|
| Accrued interest | 2,378 | 2,378 |
| Corporation tax | 3,969 | 3,593 |
| | 6,347 | 5,971 |

Notes to the Financial Statements *(continued)***14. Deferred Tax**

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

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|---------------|
| At 1 April 2017 | 1,156 | 1,041 |
| Charges to the profit and loss account (Note 7) | 194 | 115 |
| At 31 March 2018 | 1,350 | 1,156 |

The deferred tax arises on certain financing items, primarily on the derivatives.

There are no unrecognised deferred tax assets or liabilities in either the current or prior year.

15. Called up share capital

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------------|---------------|
| Authorised: | | |
| 50,000 ordinary shares of £1 each | 50 | 50 |
| | 2018 £'000 | 2017 £'000 |
| Allotted, called up and part paid: | | |
| 50,000 ordinary shares of £1 each, of which £0.25 has been called up and paid | 13 | 13 |

16. Financial commitments

There are no contracted for, but not provided for, financial commitments at the year end (2017: none).

17. Ultimate parent undertaking and controlling party

The immediate parent undertaking is North West Electricity Networks plc and the ultimate parent undertaking is North West Electricity Networks (Jersey) Limited, a company incorporated and registered in Jersey. The address of the ultimate parent company is: 44 Esplanade, St Helier, Jersey JE4 9WG.

The largest group in which the results of the Company are consolidated is that headed by North West Electricity Networks (Jersey) Limited. The smallest group in which they are consolidated is that headed by North West Electricity Networks plc, a company incorporated and registered in the UK. The consolidated financial statements of this Group are available to the public and may be obtained from 304 Bridgewater Place, Birchwood Park, Warrington WA3 6XG.

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