

# Annual Report and Consolidated Financial Statements

For the year ended 31 March 2018



Electricity North West Limited  
Registered number 02366949

**electricity**  
**north west**  
Bringing energy to your door

**Notice regarding limitations on directors' liability under English law**

The information supplied in the Strategic Report and 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.

**Strategic Report**

In preparing the Strategic Report, the Directors have complied with s414 of the Companies Act 2006. The Strategic Report has been prepared for the Electricity North West Group as a whole comprising Electricity North West Ltd ('the Company') and its non-trading subsidiaries ('the Group').

**Cautionary statement regarding forward-looking statements**

The Chairman's Statement, Chief Executive Officer's Statement and Strategic Report section of the Annual Report and Consolidated Financial Statements ('the annual report') have been prepared solely to provide additional information to the shareholders to assess the Group strategies and the potential for those to succeed. These sections and other sections of the annual report 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 Group does not undertake any obligation to update or revise these forward-looking statements, except as may be required by law or regulation.

**Regulatory reporting and regulatory audits for the year ended 31 March 2018**

Certain regulatory performance data contained in this annual report remain subject to regulatory audit by the Office of Gas and Electricity Markets ('Ofgem'). The final regulatory reporting pack and regulatory financial statements for the year ended 31 March 2018 are not due for submission to Ofgem until July 2018, and will be reviewed by Ofgem after their submission.

**Website and investor relations**

Electricity North West Ltd's website, [www.enwl.co.uk](http://www.enwl.co.uk), gives additional information on the Company and Group. Notwithstanding the references we make in this annual report to Electricity North West's website, none of the information made available on the website constitutes part of this annual report or shall be deemed to be incorporated by reference herein. Interested institutional debt investors can also gain access to additional financial information by visiting our website [www.enwl.co.uk/about-us/investor-relations](http://www.enwl.co.uk/about-us/investor-relations).

# Introduction

Electricity North West Ltd (ENWL or the Company) is the electricity distributor for the North West of England. We own, invest in, operate and maintain the network of poles, wires, transformers and cables which now carry electricity both from the national grid to 2.4 million premises and five million customers and, as generation becomes more local and widespread, around the network. Our job is to keep electricity flowing safely to our customers' homes and businesses, keeping the power on 24 hours a day, seven days a week.

We are proud of who we are, the essential role we play for our customers and the investment we make locally.

## **North West**

We are champions of the North West and proud that it is our network that connects communities and will support the success of the Northern Powerhouse.

## **Service**

We invest in our people and they are experts who ensure we provide exceptional service.

## **Innovation**

We believe in continuous improvement, leading in energy innovation.

We are pleased to present the Annual Report and Consolidated Financial Statements of the Company and its subsidiaries (together referred to as 'the Group') to shareholders for the year ended 31 March 2018. Further information on our Company can also be found by visiting our website: [www.enwl.co.uk](http://www.enwl.co.uk). The Company is limited by shares and incorporated in the United Kingdom under the Companies Act 2006.





Electricity  
from wind

www.enwl.co.uk

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# Chairman's statement

I am pleased to present the Annual Report and Consolidated Financial Statements of the Electricity North West Limited Group for the year ended 31 March 2018, the third year of the current eight year regulatory period.



**Dr John Roberts CBE**  
Chairman

This has been a successful year, with significant progress made across a number of areas.

The first two priority challenges that Peter Emery set when he took up his post as Chief Executive Officer in May 2016 were in the critical areas of safety and customer satisfaction.

I am pleased to report that we have made significant progress in both of these areas.

In safety this progress is most apparent in the reduction in lost time injuries in the year, noting, in particular, that we went ten months without a single lost time injury.

In customer satisfaction, as measured by the Ofgem customer satisfaction survey, performance has also improved, with the overall measure increasing to 84.7% for the year, from 83.2% in the previous year.

## Overall Performance

The legitimacy of the returns made in the energy networks sector is currently an area of focus. To put this into context, we charge to a typical domestic customer £1.52 per week, or £79 for the full year out of a typical total electricity bill of £517.

The financial statements presented today comply with International Accounting Standards. Given the nature of the regulatory framework, these financial statements do not reflect the actual returns made by a distribution network.

We are in support of clear and transparent reporting of returns and are working with Ofgem, other network operators and consumer groups to develop the regulatory reporting regime to present fair and comparable views of regulatory returns across the sector.

Ofgem presents the results of the networks as a Return on Regulated Equity (RoRE). The Company is allowed to make a return of 6% p.a. real across the RIIO-ED1 period.

Returns above this rate are delivered through above target performance. This may be, for example, through efficiencies in the delivery of our services (which are shared at a rate of 42% with customers). It may also be through better than planned service to customers. For example, Ofgem has incentivised the network operators to make investments to improve network reliability and allow them to recover their investment by charging 50% of the value to customers (as calculated by Ofgem) of the improvement in reliability.

After taking into account the timing of expenditures against the timing of allowances and outputs, we have estimated our average RoRE for the first three years of RIIO-ED1 at an annual rate of 5.5 % on an actual equity basis.

In broad terms, this figure reflects the 6% allowed return, with incentives for improved performance adding an additional 2.2 %. Our debt costs reflect the market prices in the debt markets at the time of issuance. These costs are higher than Ofgem allows us to pass on to our customers. This is the principal element reducing our performance to the overall 5.5%.

We continue to strive to maintain the balance in reducing costs to customers, whilst improving the service quality that they value.

I would like to thank my Board colleagues for their support and contribution during the year and, finally, I would like to extend the Board's thanks to all Electricity North West employees and contractors for their continued commitment to keeping the power on for our customers.

# Chief Executive Officer's statement

I am pleased to introduce my second annual report as Chief Executive Officer of Electricity North West. In 2017/18 we have made real progress in improving our performance in the key areas of safety, customer service and reliability. These improvements provide us with a strong foundation to build momentum going into 2018/19.



**Peter Emery**  
Chief Executive Officer

Our operating environment is changing rapidly and as a distribution network operator, we play a fundamental role in supporting our communities as we transition to a low-carbon economy. In response to this changing environment, we recognised that our vision and values needed to change to better reflect the crucial role we play and engage our colleagues in delivering this role.

Working with over 400 of our colleagues, we developed a new Purpose statement. Our new Purpose states that 'Together we have the energy to transform our communities'. Accompanied by new Principles of 'We are switched on,' 'We are adaptable' and 'We take pride', these statements provide clarity and ambition for our business and clear direction for our colleagues.

During the year, we have continued to focus on our safety and customer service performance. We embarked on a company-wide initiative to create an enhanced safety culture. I'm pleased with the way our colleagues have responded to this and with the progress we have made. At the end of January, we were able to report that we went nine months without a lost time injury, the Company's longest period without a lost time injury to either our employees or our contractors. We will continue to strengthen our safety culture and the safety of our network to protect our colleagues, our customers and our communities.

Our customer satisfaction performance has continued to improve, with performance now closer to that of comparable companies. We have strong plans in place to continue this progress and secure further improvements next year.

The reliability of the network remains a priority for our customers and investment in both technological and process changes have helped us to maintain our leading customer interruptions performance. We remain committed to continuous improvement in this area with further investment already underway. This will secure a quality and resilience of supply that is amongst the best in the UK for our customers here in the North West.

We remain conscious of the impact of our costs on customer bills and are committed to delivering our service efficiently, with a particular focus on innovation to lower costs to customers. This is essential in our region with high levels of fuel poverty and where the nature of such poverty is varied. To respond to this we have created three Fuel Poverty Referral Networks designed to directly meet these varying needs and the networks have already delivered a £357,000 benefit to the customers helped.

Sustainability runs through every element of our business and we continue to outperform targets set for carbon emission reductions at the beginning of R110-ED1. We are also embracing new challenges and developing responses and solutions in collaboration with regional and national stakeholders.



## Future Outlook

The transition to Distribution System Operator (DSO) is a fundamental enabler of high levels of renewable generation. It will change our industry significantly and is central to our thinking. The Open Networks Project is a joint initiative by the UK network companies, Ofgem and the Department of Business, Energy and Industry Strategy to develop the systems and processes which will underpin this change. We hold several leading positions on the Project, which is providing us with early visibility of the opportunities this will bring. During the year, we held a consultation event attended by almost 50 regional stakeholders to help inform our approach.

Offering non-domestic customers flexible connections, successfully transitioning the CLASS Project from innovation to business as usual and the call for capacity from our customers all demonstrate the Company's understanding of, and ability to successfully operate in, the new and changing environment. The implementation of our new Network Management system in 2018/19 will consolidate this position. This new system will drive higher levels of network performance as well as support the transition to Distribution System Operator.

Community energy has in the last few years emerged as a rapidly developing trend in continental Europe and latterly the UK. Community energy is the collaboration of customers to collectively generate, purchase, store, sell and consume their own energy. We have started to engage with leading community energy groups, developing potential strategies to address both customer issues of fuel poverty and energy efficiency and help manage capacity challenges in the network as demand increases.

Our commitment to innovation continues to improve our business and provide leadership to the sector. We are proud that our partnership with Kelvatek on the development of smart fuse technology has been recognised by the award to Kelvatek of a Queen's Award for Innovation and that we have been able to utilise this technology in new ways. Application of smart fuse technology in multi-occupancy buildings in the North West means we have been able to provide an improved level of risk management to these properties. This is an important innovation in a post-Grenfell Tower world.

This is a challenging time for distribution network operators. External stakeholders are subjecting the sector to robust criticism and scrutiny. Legitimacy in the eyes of all our stakeholders is important to us and we will continue to demonstrate our commitment to our customers and to the communities we serve.

We will continue to be open and transparent about our business and to engage in the debate about the sector. As we prepare for RIIO-ED2, we understand the importance of building strong relationships with those in the communities we serve and to build our business plan in partnership with them. We will continue to develop our approach to this in 2018/19.

Our Purpose commits that 'Together we have the energy to transform our communities'. In 2017/18 we improved our performance and created momentum in key business performance areas. We are well placed to build on these improvements as we move in to 2018/19.

# Company background

Electricity North West Limited is the electricity distributor for the North West of England. We are based here and we invest here.

The Company serves approximately 5 million customers at 2.4 million domestic and industrial locations, has circa 1,800 employees and provides a safe and reliable electricity supply, 24 hours a day, seven days a week.

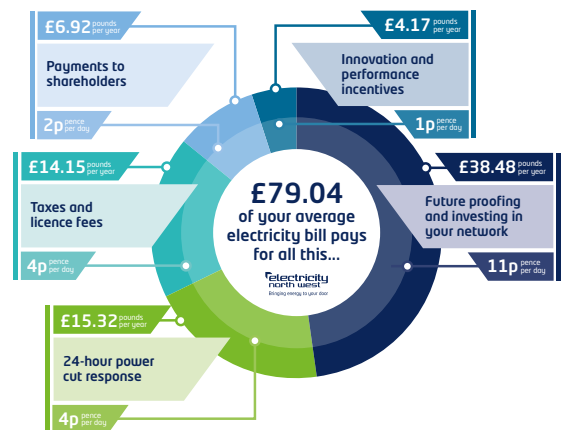


We own, invest in, operate and maintain the network of poles, wires, transformers and cables which carry electricity from the national grid to homes and business across the North West, and, as generation becomes more distributed, between homes, business and the generation and storage facilities connected to our network.

## How we charge customers

We charge our customers through their electricity suppliers in the case of domestic and small customers, or directly for larger customers.

The prices that we charge our customers for distributing electricity are regulated by the Gas and Electricity Markets Authority which operates through Ofgem, but ultimately it is our customers that fund the business. Electricity North West's costs are around 16% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £79 per home last year. The graphic below illustrates how this money is used.



## Regulatory framework

From April 2015 charges have been regulated by Ofgem through the RIIO model, which stands for Revenue = Incentives + Innovation + Outputs. This model determines how much the Company 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. Ofgem has started consulting on RIIO-2 which will govern the next price control period.

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

## Regulatory framework (continued)

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.

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

The Company 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.

## Company ownership

Electricity North West is a private limited company registered in England and Wales, ultimately owned by two shareholders each being long-term infrastructure funds as shown in Note 29.

## Purpose, principles and corporate goals

Electricity North West is operating in a dynamic, rapidly changing environment. Customers in the North West rely on the services we provide to keep them connected with friends, family and the wider world, keep their electric cars running, ensure their homes are heated and enable them to work smarter and more flexibly.

During 2017/18, the Company reviewed its Purpose to better articulate the vital role Electricity North West plays for the region during this period of radical change in the industry. Working with stakeholders, including the Board and around 400 colleagues a new purpose was launched.

### “Together we have the energy to transform our communities”

The culture of the Company is essential to support delivery of this purpose, with three core principles:

- **We are switched on** to our colleagues, customers and the world around us.
- **We are adaptable**, always looking for better ways to get things done.
- **We take pride** in all we do because it matters to people’s lives.



The Company aims to provide customers with an excellent service at a competitive price through a safe and reliable electricity network. The Company constantly has to make decisions that balance the conflicting priorities of maintaining a **reliable** network in the near term, investing to ensure this is **sustainable** in the long term, whilst keeping costs as low as reasonably practicable to meet the **affordability** challenge for our customers.



# Company background (continued)

## Purpose, principles and corporate goals (continued)

We report on our performance against 6 corporate goals that span these multiple priorities:

- **Safety** – safety has to be a key priority every day.
- **Customer** – to provide excellent customer service.
- **Affordability** – to keep costs down for customers.
- **Reliability** – to keep power flowing to customers, 24 hours a day, seven days a week.
- **Sustainability** – to maintain the network now and for future generations.
- **People** – to ensure the best working climate possible.

## Safety and environment

The Company operates in a high hazard industry and the safety of its people and customers and protection of the environment will always be a priority for us.

### Operational safety

The safety of the Company's people, contractors and customers is a fundamental cornerstone of the business. The Company ensures that all people are well trained and able to operate safely, backed by policy driven procedures and compliance assurance, alongside a behavioural approach that seeks to ensure that all staff and contractors approach any task with a strong behavioural attitude to safety.

Our safety management system is continually reviewed and changes are continually introduced to improve safety performance in our day-to-day operations. In the past year we have focused in particular on improving the safety culture of the Company to embed "chronic unease" and encourage defensive behaviours at all levels of the business, with an emphasis on peer-to-peer challenge of unsafe behaviours. This has required changes that are structural, leadership-led or assurance-driven in nature and which improve clarity and drive simplification.

As a result of these interventions, 2017/18 saw an improvement in the key measures of operational safety performance. We achieved our lowest year end lost time incident frequency rate of 0.036 (2017: 0.10) having had 3 lost time injuries in the year (compared to 7 in the previous year).

In 2018/19 we will continue to embed the changes introduced as well as improving our arrangements for the selection and management of contractors.

There is a continued focus on the valuable learning obtained through near miss reports, a leading indicator of safety performance with an increase in near miss reports recorded to 14,293 in the year March 2018 (2017:12,199).

### Asset safety

The safety of the Company's employees, contractors and the public from the inherent risks of electrical assets is assured through the Company's ongoing asset safety investment programmes.

In 2017/18 the Company made significant progress in further reducing the risks associated with link boxes, site security and asbestos remediation as well as developing approaches for the management of rising and lateral mains in multi occupancy premises.

### Environmental performance

The Company is dedicated to achieving the highest standards of environmental performance, not only by minimising the risks created by our activities, but also through targeted investment in outputs that deliver a positive environmental impact, including the removal of fluid filled cables and the undergrounding of overhead lines.

In terms of our own direct impact on the environment, our principal performance indicator is the level of carbon dioxide emissions equivalent. This measure covers the environmental impact both from the use of fossil fuels in vehicles and generators and of energy in buildings, as well as the impact of Sulphur Hexafluoride (SF<sub>6</sub>), which is a strong greenhouse gas historically used as insulation in electrical equipment.

We made a commitment to our customers to reduce carbon emissions, in tonnes of CO<sub>2</sub> equivalent, by 10% from a 2014/15 base year by 2020. Through targeted investment in the efficiency of our buildings and other efficiency measures, the level of emissions has been reduced by 16% from 2014/15 levels to 20,599 tCO<sub>2</sub>e in the year ended 31 March 2018.

The Company undergrounded and connected 4.9km of overhead lines in the year through the completion of three schemes. It remains on plan to complete the 80km planned in the RIIO-ED1 period.

## Customer

The Company aims to deliver excellent customer service, constantly balancing the conflicting priorities of maintaining a reliable network in the near term, investing to ensure this is sustainable in the long term, whilst keeping costs as low as reasonably practicable and at the same time providing excellent customer service.

### Reliability

Customers say that “keeping the lights on” is their top priority: this is achieved by targeted investment in the network both to limit the number of faults and also to limit the number of customers affected by those faults that do occur.

Performance is tracked using a variety of metrics including: delivery of the capital programme outputs, delivery against guaranteed standards of performance and network reliability measures including customer interruptions (CIs) and customer minutes lost (CMLs).

In the year ended 31 March 2018, the average number of interruptions per 100 customers was 32.8, (2017: 32.1) outperforming the target of 47.4 set by Ofgem.

The average number of minutes for which customers were without supply during the year to 31 March 2018 was 34.4 (2017: 33.1), which outperformed the target of 44.2 set by Ofgem.

The reliability of the network has been sustained through proactive investment in the use of network automation and innovative solutions, and an ongoing focus on operational response when incidents do occur. Network reliability continued to be high with a network availability of 99.993%. Customer Interruptions and Customer Minutes lost performance was marginally behind the prior year, with a larger impact from planned supply interruptions which allow the capital investment programme to be delivered. We continue to focus on improving network reliability and this is an area in which we have committed additional funds to further increase the level of automation and thereby reliability of the network.

Most customers enjoy excellent levels of reliability but we recognise that there is variability in the level of service experienced. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. We have continued to invest in the year in schemes to reduce the numbers of worst served customers, with the number of customers meeting this definition being 48 in the year ended 31 March 2018 (2017: 46).

Key to delivering reliability to customers is proactive investment to improve the resilience of the network to storm and flood conditions. We're proud of the network resilience demonstrated during the storm conditions experienced in the year including the snow and sub zero conditions experienced during Storm Emma and the “Beast from the East” in early March 2018. In addition to the resilience of the network, our engineers worked tirelessly to restore supplies to all of the 23,000 customers affected within 48 hours in very challenging conditions.

We continue to invest significantly in flood defences and interconnectivity and key sites to provide protection to a 1 in 1,000 year flood risk.

### Investment in an affordable and sustainable network

In the year ended 31 March 2018, a total network investment programme of £97.3m was delivered (2017: £89.7m). The current network has been installed over many decades and a significant proportion of the programme relates to replacing existing equipment at, or approaching, the end of its life with modern equivalents. Innovation is vital to the future success and sustainability of the organisation, recognising the increasing reliance on electricity for not only light and power but for electric cars and heat. The Company is a leading network operator for innovation as recognised by a discretionary award of £1.8m in the year by Ofgem, reflecting the success of some of our past innovation projects, and a testament to the ability of the Company to deliver these projects.

### Customer service

Delivering excellent customer service is a priority for Electricity North West. Customer satisfaction levels have improved during the year, achieving an overall score of 84.7% for the year ended 31 March 2018 (31 March 2017: 83.2%). The relative ranking among the Distribution Network Operators was 13th out of 14 DNOs (2017: 14th position). The improvements made during the year are reflected in the score in the second half of the year of 86.2%, much closer to our targeted levels.

The Company is committed to further improve customer satisfaction levels, with clear actions in place that are monitored regularly by the Executive Leadership team. The actions focus around simplification, compliance with the customer journey, improvement in IT systems and resourcing strategies.

# Company background (continued)

## Customer (continued)

We maintain a Priority Service Register (PSR) to identify those customers who are most dependent on our services. In 2017/18 we have continued to promote our PSR and have developed our strategy to offer more targeted services to higher risk customers, for example those who are medically dependant on electricity. Investment in staff training has also been a focus in order to help facilitate this.

In delivering for our priority customers we have managed to reach out to over 187,000 customers this year which exceeds our target by 10,000. The communications were carried out through various channels including letters, email and telephony.

During the year we have engaged with a variety of partners in a bid to offer extra support to the customers in our region who are impacted by fuel poverty. Through the introduction of referral partnerships, we are now helping to provide our customers with advice on issues such as energy saving and income maximisation, as well as offering installation of free energy efficiency measures and referral to other relevant services.

We track the time taken to resolve complaints when we do receive them. The overall complaints performance within the year continued to outperform the Ofgem penalty incentive. 82.4% (2017: 76.8%) of complaints were resolved in 24 hours, with a complaint metric of 2.45 (2017: 3.45), forecasting us to be 5th position in the DNO league table. The complaint metric reflects the percentage of complaints unresolved within 24 hours, combined with the percentage of complaints unresolved within 31 days.

We have continued to focus on our Guaranteed Standards of Performance for connections during the year. Whilst we have reduced the numbers of failures this year we are still not at the level of service that we want to give to our customers and will be continuing to focus on making improvements next year.

## People

The Company is a major employer in the North West of England and employs circa 1,800 people in the region. The Company 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 new purpose and principles were developed with our employees and set out the required behaviours to deliver our purpose and achieve sustained high performance.

These principles are underpinned by a continued commitment to our management philosophy encompassing fundamentals, leadership, ethical standards and securing competitive advantage.

Together, the 'Purpose and Principles' and the 'Management Philosophy' produce our corporate culture.

Climate is the measure the Company uses to quantify how people feel about working for the business and, in turn, makes the link between this 'feeling' and how the Company performs.

The Company continues to make significant investment in training and developing employees and in developing managers into leaders to achieve the desired culture. Half yearly surveys are undertaken to measure both colleague engagement and levels of agreement with the Company's identified climate priorities. Time is provided between each survey to allow leadership teams to reflect on what they've learnt through the survey and then act to address issues identified.

Levels of colleague engagement are high, with a survey completion rate of almost 1,600 colleagues. The last survey in February 2018 had an overall agreement rate of 72.2%, a marginal increase from the 72.0% in January 2017. We have set a target of 75% employee agreement.

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.

We are committed to rewarding our colleagues equally, regardless of gender. During the year we published our gender pay gap information. More information is available at [www.enwl.co.uk](http://www.enwl.co.uk).

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.



# Corporate social responsibility

## Our approach

The nature of our operations means that our activities can have an enormous impact on our people, customers and communities. It is important that we operate in a responsible manner now and for the future.

Our industry, along with society, is changing, and we are seeing a significant shift towards a low carbon economy and the consequent future increase in demand on electricity distribution as the use of electric vehicles and heating increases. This puts additional reliance on our operations, but also highlights our responsibilities to the environment and to the growing social aspects of fuel poverty and the attraction and retention of skilled employees and partners to deliver these future opportunities.

The review of our Purpose and Principles in 2017 reinforced our commitment to being a responsible and sustainable business.

### “Together we have the energy to transform our communities”

It reinforced our support for our people and partners, our role in the low carbon future and the interconnected role that we have with the communities of the North West.

For many years our corporate social responsibility approach has focused on: community, workplace, marketplace and environment.

Following the work done this year to define our Purpose and Principles, we are currently reviewing this approach towards a Purpose-led Responsibility Framework which will be launched in 2018.

The corporate social responsibility activity is informed and shaped by the Business in the Community (BITC) Corporate Responsibility Index. This is the sixth year that the Company has participated in the Index and has increased performance to 85% (2017: 79%). The aim is to achieve 90% by September 2018.

## Stakeholder engagement

Electricity North West is committed to ongoing stakeholder engagement and recognises that such engagement enhances the Company's ability to achieve its aims and objectives and to provide the highest level of service at a price customers can afford.

The Company has a number of Stakeholder Advisory Panels, each aligning to the Company goals of affordability, reliability, sustainability and customer service, together with

an overarching Strategic Stakeholder Advisory Panel. All work is overseen by an Executive-level Internal Stakeholder Advisory Panel.

Following Panel recommendations, this year the Company has:

- supported Community and Local Energy groups to assist with the expansion of renewable energy generation
- undertaken research and invested in referral networks to support customers in fuel poverty in the North West
- improved welfare services to vulnerable customers and small businesses during power interruptions.

We are also an active partner in the Mayor of Greater Manchester's Green Summit, leading the future energy demand workstream.

To support adherence to these initiatives, for the 7th year running the Company has engaged auditors for a non-financial assurance of its Stakeholder Engagement and Customer Vulnerability Submission and its commitment to AA1000APS.

## Human rights

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

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

This year the Company has strengthened our approach to Modern Slavery, working with suppliers and charities to raise awareness and provide solutions if it is identified in the course of our operations. The Company's Modern Slavery Act statement is available on its website:

[www.enwl.co.uk/misc/modern-slavery-act-compliance-statement/](http://www.enwl.co.uk/misc/modern-slavery-act-compliance-statement/)

# Corporate social responsibility (continued)

## Anti-corruption and anti-bribery

At Electricity North West we are proud of our strong commitment to high ethical standards in the way that we work. The business takes a zero-tolerance approach to bribery and corruption, and is committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, implementing and enforcing effective systems to counter bribery. It is important that our regulator and other stakeholders have confidence in the arrangements and integrity of the organisation.

The Company operates a number of policies governing the anti-bribery and anti-corruption matters: Anti-Corruption and Bribery policy, Disclosure (Whistleblowing) policy, Ethics policy and Conflict of Interest policy.

These policies apply to all employees and officers of Electricity North West and form part of the employee Code of Conduct. Other individuals performing functions for the Company, such as agency workers and contractors, are also required to adhere to our anti-bribery and anti-corruption policies.

To support our whistleblowing policy we have in place a confidential independent reporting line called Safecall.

## Environment

The protection and enhancement of the natural environment impacted by our activities is a core value of the Company. The Company is dedicated to achieving the highest standards of environmental performance. This is achieved by minimising the risk of adverse impacts such as emissions, as well as investing in outputs that enhance the environment such as the undergrounding of overhead cables and supporting the UK in its move to a low carbon economy.

The RIIO-ED1 business plan and the supporting health, safety and environment strategy, set out the objectives and plans for delivering exceptional performance in environmental management, delivered through an environmental management system that is certified to ISO 14001 standard and an energy management system certified to ISO 50001.

During the year, 10km of oil filled cable was removed although our overall leakage of oil from underground cables was 65,788 litres which was significantly above our target of 30,000 litres per year. This increase was due to a leak on a 33kV cable running from Lancaster Grid substation. The leak was caused by a fault in the cable which could not be de-energised until late 2017 due to a combination of abnormal running arrangements of the circuits at Lancaster and ongoing flood protection work both of which were a direct result of the devastation caused by Storm Desmond in December 2015.

## Gender and diversity

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



\*These figures include e-learning courses and operational and non-operational training.

## Workforce composition

	2018 Males	2018 Females	2017 Males	2017 Females
<b>Total employees</b>	<b>1,400</b>	<b>480</b>	1,287	415
<b>Senior managers</b>	<b>32</b>	<b>15</b>	30	10
<b>Executive leadership team*</b>	<b>7</b>	<b>1</b>	7	1
<b>Directors</b>	<b>9</b>	<b>-</b>	9	-

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

## Business carbon footprint

The Company's business carbon footprint (excluding losses) for the year was 20,599 tCO<sub>2</sub>e (tonnes of CO<sub>2</sub> equivalent), a 2% reduction on the year ended 31st March 2017 of 21,012 tCO<sub>2</sub>e.

The Company continued during the year to implement energy efficiency measures through the refurbishment of its buildings and the replacement of fleet vehicles and company cars with more efficient vehicles.

Electricity losses are measured as the difference between energy entering the network (generation) and energy exiting the network (demand). Whilst it is impossible to eliminate these losses, we do take steps to minimise them. This is done through installing more efficient assets in our network, particularly low loss transformers and cables and through our revenue protection unit, addressing the issue of theft.

	2018 tCO <sub>2</sub> e	2017 tCO <sub>2</sub> e
<b>Scope 1</b>		
Operational transport	6,977	7,151
Business transport - road	1,254	1,231
Fugitive emissions	1,254	1,276
Fuel combustion	3,763	2,657
	13,248	12,315
<b>Scope 2</b>		
Buildings energy usage	7,262	8,595
<b>Scope 3</b>		
Business transport - rail	21	19
Business transport - air	68	83
	89	102
<b>Business Carbon Footprint (excl. losses)</b>		
	20,599	21,012
Electrical Losses	520,176	580,352
<b>Business Carbon Footprint (incl. losses)</b>		
	540,775	601,364

\*The reported electrical losses figure is a snapshot of received data as of the date of this report and will change as further settlement reconciliation runs are carried out (up to 28 months after each relevant settlement date).



# Key performance indicators

## Safety

### Lost time incident frequency rate

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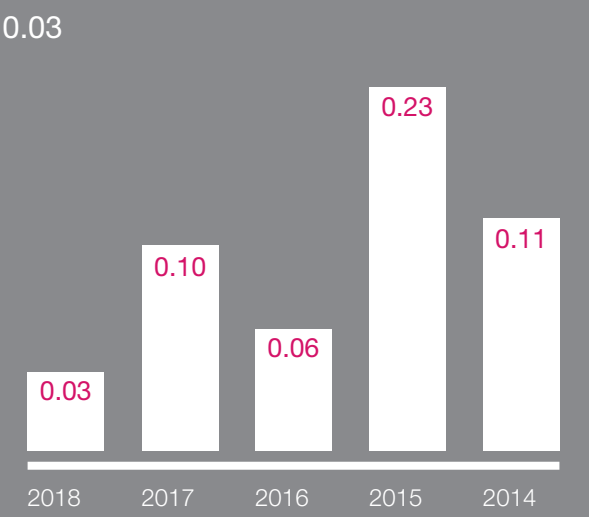
#### Definition and comment

The total number of reportable incidents in the period divided by the number of hours worked in that period by employees and contractors' employees, multiplied by 100,000 hours.

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#### Performance

This year saw the lowest ever level of lost time injuries, with a total of three lost time incidents involving employees and contractor employees (year ended 31 March 2017: seven). The corresponding lost time incident frequency rate for the year ended 31 March 2018 was 0.03 (2017:0.10).



Year	Lost time incident frequency rate
2018	0.03
2017	0.10
2016	0.06
2015	0.23
2014	0.11

## Safety

### Near miss reporting

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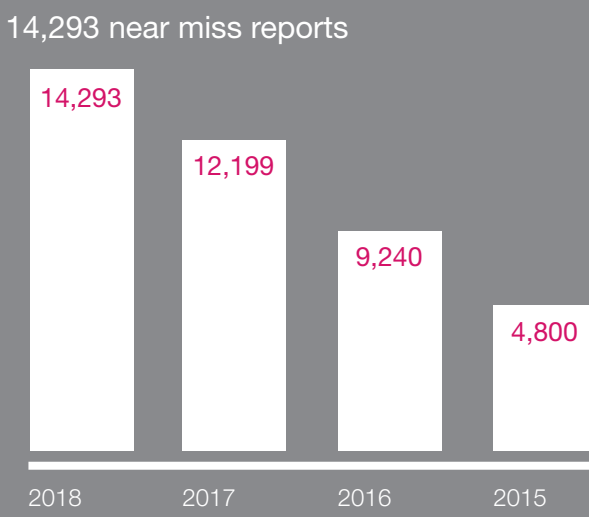
#### Definition and comment

Near miss reports are collected to provide valuable information on hazards and behavioural attitude. Near miss reporting is actively encouraged to promote a safety culture.

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#### Performance

In the year ended 31 March 2018 the number of near misses reported by Electricity North West employees was 14,293 compared with 12,199 in the previous year and also above the target of 8,000. Having seen an increase in the volume of near misses over the last two years, the intention is now to focus on improving the quality and level of 'behavioural challenge'.



Year	Near miss reporting
2018	14,293
2017	12,199
2016	9,240
2015	4,800

## Customer

### Overall customer satisfaction

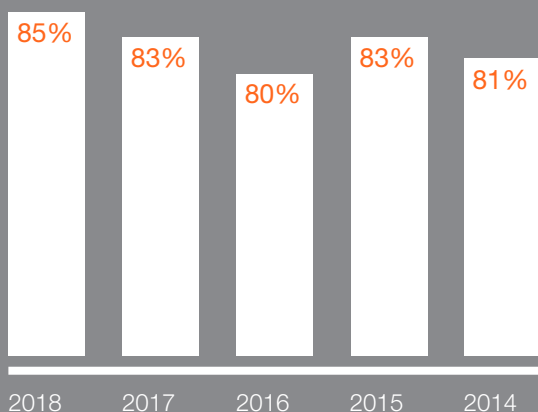
#### Definition and comment

The overall customer satisfaction score is a composite score from an Ofgem survey, assessing levels of customer satisfaction for connections quotations and delivery, interruptions and general enquiries.

#### Performance

Performance this year has improved to 84.7%, from 83.2% in the prior year and reflects the ongoing focus on improvement actions. Performance in this area remains a key focus area with improvement actions in place.

84.7%



## People

### Employee engagement

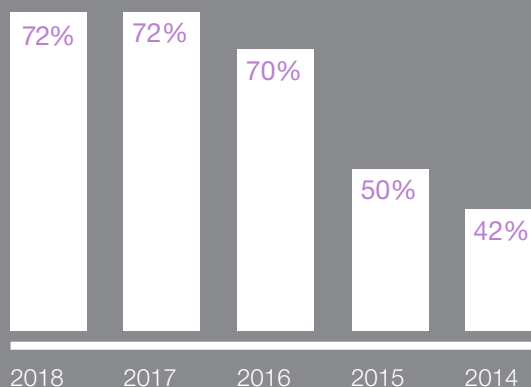
#### Definition and comment

Climate is measured through an employee survey which through a series of questions provides details of overall employee engagement and how employees feel about the 'working climate'.

#### Performance

Overall employee engagement remains consistent with prior year at 72%.

72.2% Climate score



# Key performance indicators (continued)

## Reliability

### Customer interruptions <sup>2</sup>

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#### Definition and comment

Customer interruptions (CIs) represents the number of interruptions our customers experience. It is calculated by taking the total number of customers affected divided by the total number of customers connected to the network, multiplied by 100, adjusted for exceptional events.

---

#### Performance

The result of 32.75 for the year outperforms the Ofgem target of 47.45. The performance is ahead of our internal targets and reflects the ongoing investment in network automation and interconnection, to secure supplies to our customers.

### 32.8 CIs

Year	Customer Interruptions (CIs)
2018	32.8
2017	32.1
2016	37.2
2015	36.6
2014	44.9

## Reliability

### Customer minutes lost <sup>2</sup>

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#### Definition and comment

Customer minutes lost (CMLs) represents the time customers are without power in the event of an interruption. It is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents, excluding exceptional events, and dividing by the number of connected customers as at 30 September each year.

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#### Performance

The result of 34.35 for the year outperforms the Ofgem target of 44.23. This was negatively impacted by the storms in the second half of the year and higher levels of planned supply interruptions to allow for necessary improvement work on the network.

### 34.4 CMLs

Year	Customer Minutes Lost (CMLs)
2018	34.4
2017	33.1
2016	32.7
2015	34.8
2014	43.1

<sup>2</sup> The year ended 31 March 2018 figure includes assumptions for exclusion of exceptional events and is yet to be audited by Ofgem.

## Sustainability

### Carbon footprint excluding electrical losses

#### Definition and comment

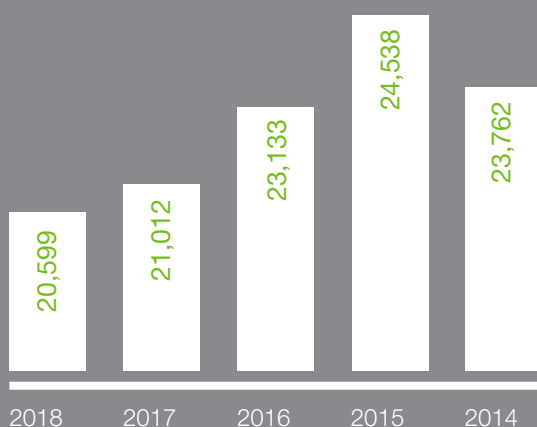
Carbon footprint measures the impact of our operations on the environment and is calculated in line with Ofgem guidance. The calculation excludes electrical losses arising from the operation of the network which cannot be directly controlled or accurately measured.

#### Performance

We are aware of the environmental impacts we can have and are committed to manage the impact of our operations. Our carbon footprint has reduced by 2% from the prior year reflecting the ongoing focus in energy usage.

There may be some year-on-year volatility in emissions dependant on levels of generation deployed on the network as a result of interruptions or exceptional events.

20,599 tCO<sub>2</sub>e



## Affordability

### Total expenditure <sup>3</sup>

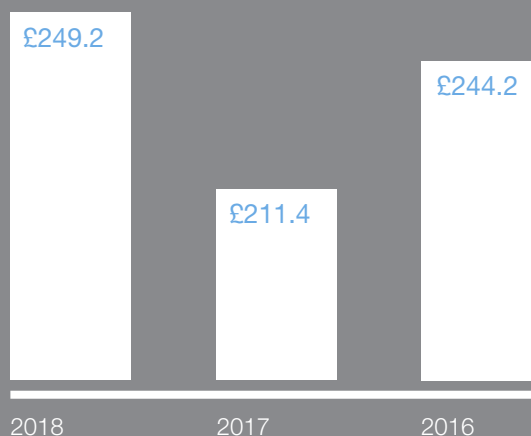
#### Definition and comment

Totex is a key financial measure for the business. It is an abbreviation which stands for total expenditure. It includes the money we spend on running our business day-to-day, and the amount we invest in new assets through our network investment programme. We aim to deliver efficiencies in Totex which we share with our customers and that helps reduce customers' bills.

#### Performance

Totex for the year ending 31 March 2018 was £249.2m compared to an Ofgem allowance of £253.6m in outturn prices. Expenditure was higher than the previous year as the network investment programme was progressed and the prior year being suppressed by a one-off insurance recovery of £10m.

£249.2m



<sup>3</sup> Totex is calculated on a regulatory basis and reported to Ofgem annually on 31 July. For management reporting purposes an approximate calculation of totex is prepared to track performance. The final regulatory totex figure will differ from this approximation when detailed cost allocations are performed. The number for 2017 has been updated to reflect the Ofgem annual submission.



# Key performance indicators (continued)

## Financial KPIs

### Revenue

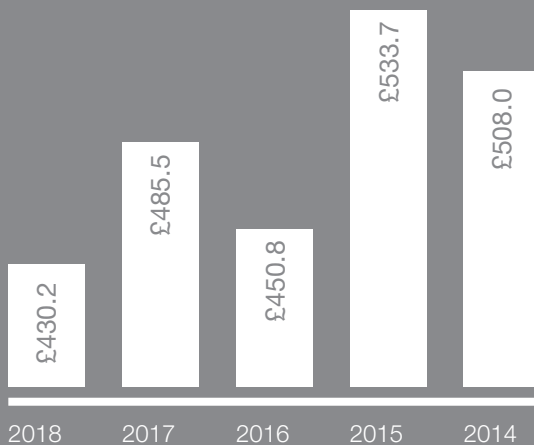
#### Definition and comment

Revenue is largely fixed over time, but can vary through over/under recovery as demand varies against the forecasts used to set tariffs, and other adjustments, for example, incentive revenues. It is determined by Ofgem to allow recovery of efficient costs to maintain the network. This revenue is profiled over the price review period to 2023. Additional revenue is generated through charges for new connections to the network, along with an opportunity to earn incentive revenue for delivering improved performance.

#### Performance

Revenues have decreased from the prior year in line with the average price reduction as efficiencies are shared with customers. The revenue under recovery for the year was £3.7m (2017: £3.7m over recovery) and it will be corrected through adjustments in pricing in two years' time.

£430.2m



## Financial KPIs

### Profit before tax and fair value movements (PBTFV)

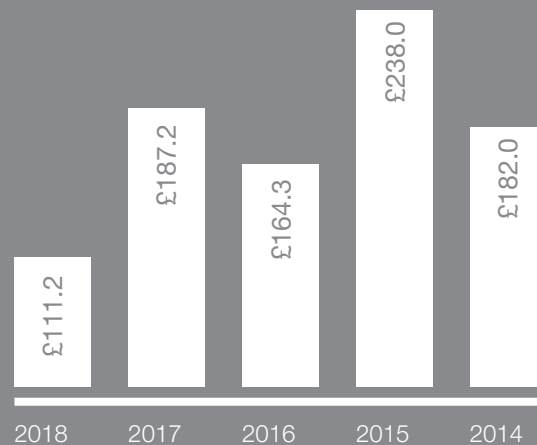
#### Definition and comment

PBTFV is the profit before tax of £141m (2017: £81m) adding back the £30m FV gain (2017: £106m loss), per Note 9.

#### Performance

PBTFV has decreased to £111m (2017: £187m), mainly as a result of the lower revenue and higher operating costs. As the timings of revenues can be largely independent of the work performed in any given year, the resultant profit figures in any year can be unrelated to earnings in that year.

£111.2m



## Financial KPIs

### Net debt

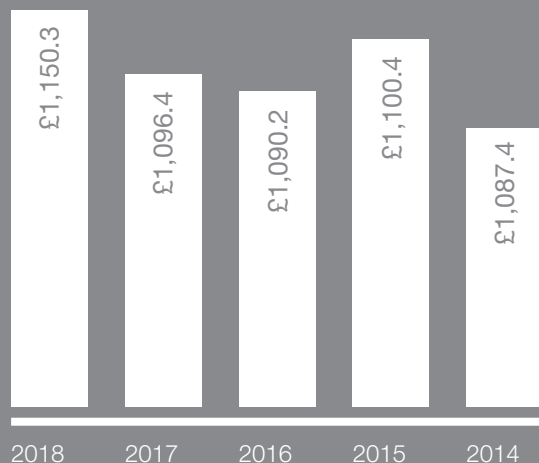
#### Definition and comment

Net debt includes the total borrowings of £1,237m (2017: £1,249m) per Note 19, net of cash and cash equivalents and money market deposits of £87m (2017: £153m) per Note 17.

#### Performance

Net debt has increased over the year by £54m, the net effect of £12m lower debt and £66m reduction in cash balances. The decrease in debt is primarily due to the decreased fair value of the £250m 8.875% 2026 bond.

£1,150.3m



## Financial KPIs

### RAV gearing

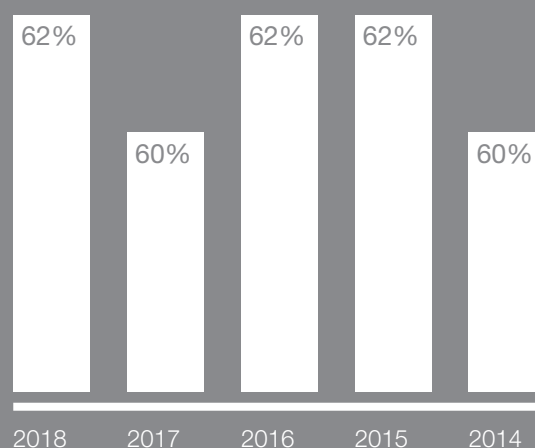
#### Definition and comment

Regulatory Asset Value (RAV) gearing is measured as borrowings at nominal value, plus accretion where applicable, net of cash and short-term deposits divided by the estimated RAV of £1,758m as at March 2018 (2017: £1,696m), as defined by the Financing Agreements.

#### Performance

The RAV gearing is within the required maximum level of 65% and the internal target of 63%.

62%



# Key performance indicators (continued)

## Financial KPIs

### Interest cover

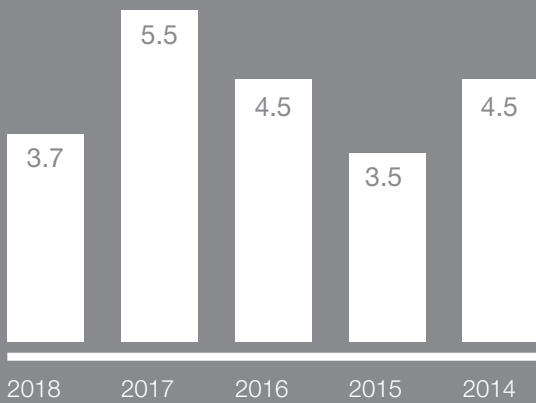
#### Definition and comment

Interest cover is the number of times the net interest expense, adjusted for indexation and capitalisation of borrowing costs, is covered by operating profit from continuing operations, as defined by the Financing Agreements.

#### Performance

Interest cover has decreased due to the £76m decrease in Operating Profit, with the interest expense (excluding inflation movements on inflation-linked instruments and FV movements) remaining in line with the prior year.

3.7 times



## Financial KPIs

### Capital expenditure

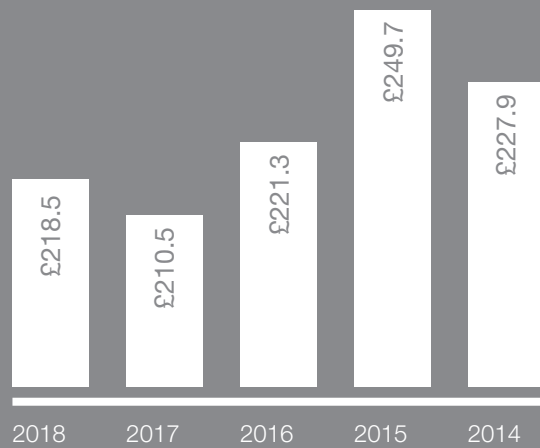
#### Definition and comment

This represents investment in the network to maintain its reliability and resilience for future customers. The figure includes total additions to property, plant and equipment and software.

#### Performance

We continue to invest to improve the quality and reliability of the network. During the year we invested £8m more than the previous year.

£218.5m



# Financial performance

## Overall performance reporting

Revenue is largely fixed across a price review period. It is set at a level that should meet our efficient operating costs and expenses over that period, as well as funding efficient investment, interest on necessary loan funding and, taxes. In order to encourage investment, it also allows for a return to shareholders at a level that regulates the return and encourages future investment, which has been set by Ofgem at 6% pa real for the current regulatory period.

Actual expenditures, both capital and operating (referred to by Ofgem as 'Totex'), vary in any given year from the original regulatory settlement agreed to be funded by Ofgem, as changes in customer needs, new innovations, and changes in network investment delivery priorities change over time. Allowed revenues are a function of the original allowance and expenditure plans, adjusted for under and over expenditures against allowances in earlier years. Actual revenues in any given year reflect these allowed revenues, although as these are collected based upon forecasts of demand over the network set two years earlier, demand experience means actual revenues vary from allowed revenues based upon demand in the year, and the impact of forecast variations in earlier years.

Actual revenues are allowed by Ofgem, not on the profiles of Totex in the period, but based on the long term cash requirements of the business.

In these financial statements, operating profit is therefore the combination of revenues that are only partly related to actual activity during the year, less those operating costs actually incurred and excluding and excluding capital expenditure.

Consequently the profit earned in any given period does not reflect the return to shareholders.

Whilst the statutory measure that is most closely aligned to this result is cash flow before financing activities (see page 23), this has a limited correlation to actual returns as a result of the factors noted above.

## Return on Regulated Equity

Ofgem has therefore been working with the network operators that it regulates, and other consumer and other interested stakeholders, to develop performance reporting measures that more accurately reflect the returns to investors.

Ofgem presents the results of the networks as a Return on Regulated Equity (RoRE).

The Regulated Equity that they use is a percentage of the Regulated Asset Value (RAV), which is essentially equivalent to the net book value of the fixed assets of the business, only calculated in regulatory terms. Ofgem assume that this RAV is financed, 65% by debt and 35% by shareholders in the Company, hence they calculate the return to shareholders based upon 35% of the RAV.

The Company is allowed to make a return of 6% pa real (ie after RPI inflation) across the RIIO-ED1 period, on this element.

Returns above this rate are delivered through above target performance, in line with the incentive structure set out within RIIO. This may be, for example, through efficiencies in the delivery of our services which result in lower Totex (which savings are shared at a rate of 42% with Customers).

Returns may also be above this rate through better than target service to customers. For example, Ofgem has incentivised the networks to make investments to improve network reliability, and allow the networks to recover their investments by charging 50% of the value to customers (as calculated by Ofgem) of the improvement in reliability.

After taking into account the timing of expenditures against the timing of allowances and outputs (enduring value calculation), we have estimated our average post financing RoRE for the first three years of RIIO-ED1 is at an annual rate of 5.5 % on an actual equity basis.

In broad terms, this figure reflects the 6% allowed return, with incentives for improved performance adding an additional 2.2%. However, the costs of servicing our debt are higher than Ofgem allow us, with these actual debt service costs reflecting the prices in the debt markets at the time our debt was issued. This is the principal element reducing our performance to the overall 5.5% per annum, real, after tax and interest.

We continue to work with Ofgem to develop simple, clear, but comprehensive, performance reporting measures that reflect the actual financial performance of the networks compared to allowances.



## Financial performance (continued)

### Reconciliation of statutory profit to regulatory performance

The alternative financial performance calculation used to derive Return on Regulatory Equity provides a measure of the performance of operations within the price control, including the impacts of interest and taxation but excludes operations outside the price control. It adjusts reported profit under IFRS to reflect the impact of the regulatory framework, outlined above, when presenting financial performance. The post financing return generated reflects the actual regulatory return made in each year and is used to derive RoRE.

	2016 £m	2017 £m	2018 £m
<b>Profit for the year per statutory financial statements</b>	<b>117.0</b>	<b>71.0</b>	<b>116.3</b>
Adjustments:			
RAV Adjustment	(82.0)	(77.3)	(58.9)
Deferred Taxation Adjustment	(29.0)	(23.3)	4.7
Indexation and Fair Value Movements	51.7	143.9	-
Movement in Other Regulatory Balances	(26.9)	(73.5)	(19.4)
<b>Post - financing return</b>	<b>30.7</b>	<b>40.9</b>	<b>42.7</b>
<b>Average return for the RIIO-ED1 period</b>			<b>38.1</b>
Average RAV balance			1,645.8
Average debt balance			959.2
<b>RoRE (actual regulatory equity)</b>			<b>5.5%</b>

### Adjustments in calculating regulatory financial performance

The principal adjustments from reported operating profit to regulated financial performance are:

**RAV adjustment:** The regulatory composition of costs incurred is split between in-year revenue allowances and the creation of additional RAV (slow money). This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles. This adjustment reflects the impact of the fast and slow money concept in the regulatory settlement and the impact of regulatory depreciation which does not form part of the statutory profit.

**Deferred taxation adjustment:** Future revenues are expected to recover cash taxation costs, including the unwinding of deferred taxation balances created in the current year (Note 10).

**Indexation and fair value movements:** Fair value movements on debt and derivative financial instruments included within statutory profit are excluded from the regulatory performance calculation and an adjustment made to remove the inflation component of actual interest costs.

**Movement in other regulatory balances:** Regulatory performance reflects performance on an "earned" basis, with revenue being adjusted for this performance in future years. IFRS recognises these revenues when they flow through invoices to customers and not in the period to which they relate. The principle adjustments are for incentive revenues earned in the year, under or over recoveries of allowed revenue in the period, differences in timing of the funding of pension deficit repair payments and the adjustments for enduring value. Enduring value adjusts regulatory performance for the impact of timing differences between the receipt of allowed revenue and actual expenditure incurred i.e. timing differences that will unwind over the regulatory period.

<sup>4</sup>Regulatory adjustments for the year ended 31 March 2018 have been presented on a draft basis. Regulatory performance is reported to Ofgem on 31 July and final reported figures may differ from the reconciliation as detailed cost allocations are prepared.

## Adjustments in calculating regulatory financial performance (continued)

The enduring value adjustment has been calculated by considering the cumulative expenditure variance by regulatory category and uses approved Company business plans to assess the extent to which these timing differences will unwind. The enduring value adjustment requires a high level of management judgement. Methodologies for calculating enduring value are evolving as we work with Ofgem and other network operators to develop a standardised approach.

**Equity component:** RoRE performance has been presented on a real equity basis, representing the balance of the RAV that is not debt funded. Average equity for the period is 41%, higher than the assumed 35% “notional” equity funding. The difference between the actual and notional equity has the effect of reducing the allowed equity return from 6% to an actual equity return of 5%.

## Financial reporting measures

### Revenue

Revenue has decreased to £430m (2017: £486m) during the year, in line with the allowed Distribution Use of System (DUoS) revenue under the RIIO price control.

As noted above, the allowed revenue is recovered against an estimated level of electricity demand across the network. Given the difficulty of predicting this demand two years in advance we generate either an over or an under recovery against planned revenue. These over or under recoveries are included in the profit and loss account for the period and will be corrected in future periods through the Ofgem price setting mechanism.

For the year 31 March 2018 there was an under recovery of DUoS revenue of £3.7m against plan, before adjustment for RPI indexation (2017: £3.7m over-recovery), reflecting variability against forecast in consumption volumes year on year. This under recovery will be corrected through adjustments in pricing in two years’ time, in accordance with Ofgem’s methodology.

## Operating profit

Operating profit has decreased to £183m (2017: £260m) as a result of the reduction in revenue detailed above and higher operating costs in the period.

## Profit before tax and fair value movements

Profit before tax and fair value movements has decreased to £111m (2017: £187m), mainly as a result of the reduction in revenue detailed above and higher operating costs.

## Taxation

Corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the period. The rate will be reduced to 17% on 1 April 2020. The deferred tax is calculated based on the expected future tax rates.

The overall taxation for the year has increased from a charge of £10m in 2017 to a charge of £25m in 2018 mainly as a result of the prior year reflecting the impact of the changes in future tax rates on deferred tax.

## Dividends and dividend policy

The Group’s dividend policy is to distribute the maximum amount of available cash, in each financial year at semi-annual intervals, with reference to the forecast business needs, the Group’s treasury policy on liquidity, financing restrictions, applicable law in any given financial year and the Company’s licence obligations.

In the year ended 31 March 2018 the Company declared a final dividend for the year ended 31 March 2017 of £12m, paid in June 2017, and an interim dividend of £63.6m that was paid in December 2017. In the year ended 31 March 2017 the Company declared a final dividend for the year ended 31 March 2016 of £18m, paid in June 2016, and an interim dividend of £63m that was paid in December 2016.

# Financial performance (continued)

## Property, plant and equipment and software

The Group's business is asset-intensive. The Group allocates significant financial resources in the renewal of its network to maintain services, improve reliability and customer service and to invest to meet the changing demands of the UK energy sector.

The total original cost of the Group's property, plant and equipment at 31 March 2018 was £4,788m (2017: £4,586m), with a net book value of £3,138m (2017: £3,037m). In the year ended 31 March 2018, the Group invested £209m (2017: £200m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £10m (2017: £10m) on new computer software platforms. New investment is financed through a combination of operating cash flows and increased borrowing capacity against the Regulatory Asset Value.

## Pension obligations

The valuation of the Group's Pension Scheme under IAS 19 has resulted in a net pension deficit at 31 March 2018 of £18m (2017: £58m). The main reason for the decrease in the deficit is due to an increase in the discount rate from 2.5% to 2.6%, and the payment of deficit repair contributions by the Company.

The most recent triennial valuation of the Group's Pension Scheme 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 eliminate the shortfall by paying additional annual contributions from April 2016 to December 2023.

## Cash flow before financing activities

Cash generated before financing in the year was £12m (2017: £112m), reflecting the reduction in operating profit and increased asset investment.

## Net debt

Net debt 31 March	2018 £m	2017 £m
Cash and deposits	87	153
Borrowings	(1,237)	(1,249)
Net debt	(1,150)	(1,096)

Included within the total borrowings figure are £74m of loans from the parent company North West Electricity Networks plc, due to mature in March 2023 (2017: £71m) and £198m loans from an affiliated company ENW Finance plc, maturing in 2021 (2017: £198m).

Of the borrowings, £6.6m (2017: £6.4m) is due to be repaid within the next year, under European Investment Bank (EIB) loans that have an amortising repayment profile.

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £706m (2017: £724m) and EIB loans of £253m (2017: £249m). Note 19 provides more details on the borrowings.

## Liquidity

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

## Short-term liquidity

Short-term liquidity requirements are met from the Group's operating cash flows. Further liquidity is provided from short-term deposit balances and unutilised committed borrowing facilities.

As at 31 March 2018, the unutilised committed facilities were £25m (2017: £25m) and together with £87m (2017: £153m) of cash and short-term deposits these provide short-term liquidity for the Group.

Utilisation of undrawn facilities remains subject to limits based on gearing levels determined against the Regulatory Asset Value.

## Long-term liquidity

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

The Group issues debt in the public bond markets and maintains credit ratings with a number of leading credit rating agencies. During the period, the Group's credit ratings have been formally reviewed and affirmed on a stable outlook basis. Long-term debt ratings have also remained stable. Currently the Group is rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and BBB+ with stable outlook by Fitch Ratings. Our short-term debt ratings are A-2 and F2 with Standard and Poor's and Fitch Ratings respectively. Further details are available to credit investors on the Companies' website [www.enwl.co.uk](http://www.enwl.co.uk).

## Treasury policy

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Board. The treasury function does not undertake any speculative trading activity and 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 mainly at fixed rates to provide certainty or are indexed to inflation to match the Group's inflation-linked (RPI) cash flows.

The Group's use of derivative instruments relates directly to underlying indebtedness. The proportion of borrowings at effective fixed rates of interest for a period greater than one year is set in conjunction with the level of floating rate borrowings and projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

## 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:

- The Company'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 2019 and forecasts covering the period to the end of the current price review in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period.
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash and short-term deposit balances. A further £25m of committed undrawn bank facilities are available from lenders; these have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, 12 month projections to 31 May 2019 indicate there is significant headroom on these covenants.



# Financial performance (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 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 – which is referenced for best practice and there are some limited areas of non-compliance, as explained on pages 35 and 36 – the Directors have assessed viability over a period longer than that required for going concern and have chosen the duration to the end of the regulatory period in 2023.

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 period to 31 March 2023. The Board has considered whether it is aware of any specific relevant factors and notes, in particular, the Ofgem's RIIO2 consultation document, which indicates lower equity returns and possibly a changed incentive environment for RIIO2. Whilst it is impractical to assess the viability in any meaningful way, beyond the current regulatory period, given the nature of the regulatory cycle, we continue to note Ofgem's "financeability duty".

The Directors have conducted a robust assessment of the principal risks facing the Company and believe that the Company 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 viability period to 2023. 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 five year period of their assessment.

## 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, Control and Assurance, senior managers and the Chief Financial Officer;
- Formal sign-offs from the business area senior managers, the finance managers and Chief Financial Officer;
- 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 and the in-depth reporting required by Ofgem, both the Audit Committee 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 2018.

# Risk management

The Board is responsible for the alignment of strategy and risk, and for maintaining a sound system of risk management and internal controls. Our processes and systems are always evolving with the needs of our business and have been developed in accordance with the Financial Reporting Council's (FRC's) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Our Corporate Risk Register currently details a wide range of risks. These risks are considered in the context of the corporate goals – Safety, Customer, Affordability, Reliability, Sustainability and People and monitored by a business wide network of Risk Co-ordinators.

The electricity industry is undergoing unprecedented change as we transition to the low carbon economy and demand increases. As with any business, the achievement of our goals necessitates a certain level of risk being taken. The key is ensuring that such a scale of change is managed with a good understanding of the risks involved, in a manner consistent with our strategy, and importantly making sure that these risks are managed within our agreed risk appetite. Risks should only be accepted where appropriate reward is achievable given the level of resources employed to manage them.

Our appetite for risk is defined using a framework which is reviewed annually by the Board, framing the risks within the business plan. The framework enables our Board to demonstrate its risk appetite for the overall strategic direction of the business, and maps appetite for risk taking in the pursuit of each of our company goals at a tactical and operational level.

In line with the framework which provides descriptors on a scale of 'averse' to 'bold', the Company generally operates within a 'cautious' risk range, given that the achievement of the stretching business plan would not be possible without a level of measured risk taking. The areas where a 'very cautious' risk appetite is adopted relate to Sustainability, given our desire to ensure that the Company maintains its reputation for compliance and an ethical way of doing business, and most notably our Safety goal, on the basis that sound working practices that protect our employees and the general public are the number one priority for the business.

## The key features of the risk management system include:

- Clear risk management strategy approved by the Board.
- Risk appetite framework, approved annually by the Board, in place that forms a key driver of the strategic business plan.
- Board oversight in identifying and understanding significant risks (and opportunities) to the Group in achieving strategic objectives.
- Dedicated Board and Executive Committees to oversee the management of risks for the Group.
- Appropriate operational and non-operational risks being managed within a corporate risk system.
- Target risk scores are in place for corporate risks, forming the basis for the production of work plans by risk owners to show how the target risk scores will be achieved.
- The underpinning of the corporate register by a number of "local" risk registers across the business with a network of Risk Co-ordinators which enhance the local monitoring process.



# Risk management (continued)

## Principal risks and uncertainties

The Group considers the following to be the principal risks that it faces.

	Risk	Mitigations
Safety	<p><b>Health safety and the environment:</b></p> <p>Risk associated with unsafe working practices, man-made or naturally occurring hazards that could cause harm to people or the environment.</p>	<ul style="list-style-type: none"> <li>• Board Health, Safety and Environment Committee oversee this area.</li> <li>• Extensive policy and procedures to ensure a safe system of work and environmental management.</li> <li>• Behavioural safety training programme across all areas of the organisation.</li> <li>• Simple "Golden Rules" to ensure strong safety approach throughout the Company's operations.</li> <li>• Robust lessons learned exercises conducted to identify root causes when safety or environmental issues occur.</li> <li>• Robust authorisation process to control who works on the network and the activities that they can perform.</li> <li>• Annual programme of audits and an inspection regime.</li> <li>• Well established hazard and near miss reporting in place.</li> </ul>
Customer	<p><b>Meeting our customers' expectations:</b></p> <p>Failure to meet the required level of customer satisfaction performance and to achieve costs and efficiencies against the commitments made to our customers in the RIIO-ED1 period.</p>	<ul style="list-style-type: none"> <li>• A programme of improvement activities described in more detail on pages 8 to 9 is being co-ordinated by the Executive Leadership Team to optimise the Company's position against all elements of the customer satisfaction measure.</li> <li>• Robust plans in place to achieve other commitment targets, or outperform where possible.</li> <li>• Controls in place regarding the ongoing reporting of performance against targets.</li> </ul>
People	<p><b>Developing our people:</b></p> <p>Resource and succession planning for the business.</p>	<ul style="list-style-type: none"> <li>• Succession plans are in place, that are subject to periodic executive level review.</li> <li>• Training delivered throughout the Company to ensure employees are equipped to do their roles competently and effectively.</li> </ul>
Reliability	<p><b>Cyber and physical security threat:</b></p> <p>Breach of our security regime and access to key network security systems by an internal/ external party.</p>	<ul style="list-style-type: none"> <li>• Dedicated qualified personnel allocated to Cyber and IT security.</li> <li>• A training programme in place to inform all users of the risks of e mail and social engineering attacks.</li> <li>• A cyber risk assessment methodology implemented within the Group.</li> <li>• Pre-employment screening for critical roles such as System Administrators.</li> <li>• A strong governance and inspection regime to protect infrastructure assets and operational capacity.</li> <li>• Physical and technological security measures, including encryption of key laptops, preventing the loss of data.</li> <li>• Data Centre infrastructure providing enhanced security monitoring and management tools, 'next generation' firewalls and network traffic analysis.</li> <li>• Ongoing security patching of critical systems.</li> <li>• Periodic internal and external security reviews.</li> <li>• Key systems IT disaster recovery testing.</li> <li>• Physical security measures are in place to limit access to sites.</li> </ul>
	<p><b>Personal data:</b></p> <p>Breach of regulations relating to data protection and privacy.</p>	<p>We continue to review and enhance the mitigations in this area. In particular to do with the General Data Protection Regulation (GDPR) requirements. Mitigations include:</p> <ul style="list-style-type: none"> <li>• Appropriate technological controls as noted above.</li> <li>• Identification of all Personal Information assets (both computer-based and paper records) to ensure appropriate controls in place.</li> <li>• Appointment of dedicated manager to drive programme to achieve compliance with GDPR.</li> </ul>



Sustainability

**Risk**

**Government and regulator policy:**

The Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RII0-ED1 period, and the settlement for ED2. The legal and compliance framework can change leading to additional compliance obligations, market conditions, and reporting requirements. A changing political focus on the sector can have a significant effect on profitability.

**Mitigations**

- The Company has dedicated Regulation, Legal and Compliance departments that provide advice and guidance regarding the interpretation of political, regulatory and legislative change.
- There is ongoing engagement by the Company with the Regulator and Government.
- There is regular engagement with the Board on political and regulatory developments which may impact the Company.

**Business resilience:**

Events outside of our control, for example extreme weather or medical emergencies, affecting large areas, may negatively impact the business.

- The Company has comprehensive contingency plans for network emergencies, including key contract resources such as mobile generators and overhead line teams.
- Business continuity testing on a regular basis.
- Reciprocal arrangements with other network operators.

**Regulation and compliance risk:**

Compliance failure leading to an adverse effect on the business.

- Overall governance and control framework in place, including established compliance routines and accountabilities, owned by the Executive Leadership Team and ultimately the Board.
- Specialist teams in place to ensure compliance and assurance is carried out.
- An internal audit programme focussing on the Group's key risk area, including fraud, regulatory compliance and business processes.
- Established controls in place, including segregation of duties and restricted access to systems.

Affordability

**Financial risks:**

The business is unduly subject to treasury, tax and liquidity risk exposures. Under performance of the Pension Scheme investments, market impacts and/ or an increase in the scheme liabilities giving rise to higher contributions.

- A formal treasury policy in place to manage exposure to counterparty, liquidity and market risk, overseen by the Audit Committee.
- A well established monthly banking covenant monitoring process.
- Tax risk scoring.
- Active monitoring of the Scheme's investments carried out on a quarterly basis.
- The Trustee engages professional legal, actuarial and investment advice for all decisions taken and regularly consults with the Company.

**Programme delivery including change programmes:**

Delays in the investment programme or major business change activity leading to an adverse impact on the company, particularly relating to customer interruptions and customer minutes lost performance.

- Established governance controls in place to oversee the delivery of business change.
  - Processes in place to support delivery of change programmes, management of risks and achievement of business benefits.
- For activity impacting customer interruptions and customer minutes lost performance, the following mitigation measures are in place:
- Fault response times and team performance are closely monitored.
  - Supply interruptions planned to minimise customer impact.
  - Network automation to minimise the effect of faults.
  - Significant expenditure on routine maintenance to reduce the causes of network interruption.
  - Initiatives to improve dispatch and mobilisation of response teams.

**Macro economic factors:**

Factors, such as Retail Price Index (RPI), may impact negatively on the business.

- Monitoring the potential exposure to fluctuating factors through forecasts from a range of financial institutions.
- Inflation sensitivities reported quarterly through the business valuation process.
- A significant proportion of our Group debt is RPI-linked to provide an economic hedge between allowed revenues and some of our financing costs.

# Corporate governance report

As is required by the Company's Regulator, Ofgem, the Company reports on how the principles and provisions of the UK Corporate Governance Code (the Code) have been applied during the year. There are some limited areas of non-compliance, all of which are considered appropriate to the privately owned status of the Company and are explained on pages 35 and 36.

## The Board

### Board members at 31 March 2018

#### John Roberts

Independent Non-Executive Chairman

Appointed on 1 March 2014

John Roberts was Chief Executive of United Utilities plc from 1999 to 2006. He has a wealth of experience and knowledge, particularly in the utilities sector, having also been Chief Executive of Manweb in 1995. He has also sat on Ofgem's Environmental Advisory Panel and has chaired the North West Energy Council. He is currently a Chairman of the Halite Energy Group.

#### Chris Dowling

Independent Non-Executive Director

Appointed on 1 May 2014

Chris Dowling was, until December 2013, Chairman of Challenger - Europe with particular responsibility for Challenger's European Infrastructure investments. Prior to that, he was Managing Partner of Rutland Partners LLP, the Private Equity fund, and a founding director of Rutland Trust plc. He has a degree in Economics and qualified as a Chartered Accountant with Deloitte Haskins & Sells (now PricewaterhouseCoopers LLP). Chris has recently been appointed as a non-executive director of Stirling Industries plc.

#### Rob Holden

Independent Non-Executive Director

Appointed on 1 January 2016

Rob Holden combines a portfolio of Non-Executive Directorships with consultancy roles. He has board roles with HS1, the Submarine Delivery Authority, EDF and the Nuclear Decommissioning Authority. His advisory assignments in the UK include work with HS2, Thames Tideway Tunnel, the Type 26 Frigate and the QE Carrier programmes. Overseas he has worked in the USA and Singapore on High Speed Rail projects and in Australia on a regional rail project.

#### Niall Mills

Non-Executive Director

Appointed on 12 June 2009

Niall Mills is employed by First State Investments Management (UK) Ltd where he is a Partner in the Direct Infrastructure Investment business. He has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports. He is also a director of several other fund investments across Europe. He has been a Non-Executive Director of Anglian Water Group plc since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Masters of Business Administration from the London Business School and an Institute of Directors' Diploma in Company Directorship.

## Hamish Lea-Wilson

Non-Executive Director

Appointed on 23 November 2015

Hamish Lea-Wilson is employed by First State Investments Management (UK) Ltd where he is a Director in the Direct Infrastructure Investment business. He is also a director of several other fund investments across Europe including New Finerge SA (Portuguese operator of wind farms with gross installed capacity of 843MW) and HH Ferries AB (high frequency ferry route operator, operating between Denmark and Sweden). He holds a B.Sc. (Hons) Economics degree from Durham University.

## Mike Nagle

Non-Executive Director

Appointed on 28 January 2011

Mike Nagle was the Group Company Secretary and Solicitor of SEEBOARD plc and Senior Vice President, Legal Services at Metronet Rail. Now retired as a solicitor, he remains involved in consultancy work and is also a Non-Executive Director of the JP Morgan Infrastructure Investments Fund and of Greensands Holdings Ltd (the parent company of Southern Water).

## John Lynch

Non-Executive Director

Appointed on 31 January 2017

John Lynch is an investment principal in the Infrastructure Investments Fund of J.P. Morgan Asset Management, based in London. Prior to joining the firm, he had a twenty year global career in investment banking, including the role of head of EMEA Power at Bank of America Merrill Lynch where he led the bank's advisory and lending efforts in utilities, conventional power generation, renewables and energy/utility related infrastructure. He is a dual citizen of the United States and Ireland. He graduated from Dartmouth College and holds an MBA from the University of Chicago Booth School of Business.

## David Brocksom

Chief Finance Officer

Appointed on 5 October 2015

David Brocksom joined the Company as interim Chief Financial Officer in September 2013 and has, with a short break at the start of 2015, been with the Company since then, becoming a Director in October 2015. Previously he has held a number of CFO roles including at UK Coal plc and Pace plc. He qualified as a chartered accountant with Price Waterhouse (now PricewaterhouseCoopers LLP) and is also a member of the Institute for Turnaround.

## Peter Emery

Chief Executive Officer

Appointed on 27 May 2016

Peter Emery has over thirty years' experience in the Energy Sector. He spent twenty years working for ExxonMobil in corporate planning, distribution operations, refining and supply with experience in Europe, North America and the Far East. His final assignment was as Operations Manager for Fawley Refinery having full operational responsibility for the UK's largest refinery. On leaving ExxonMobil, he became the Executive Director of Production at Drax Power Ltd and was a member of the executive team which completed the IPO of Drax Group plc in 2005, working with the Group until 2016, in which year he joined the Company. He is also a Non-Executive Director of N.G. Bailey Ltd, having been appointed in September 2012 and a Board member of the York, North Yorkshire and East Riding Local Enterprise Partnership and the Sheffield University 2050 Advisory Board. He is a fellow of the Institute of Materials Minerals and Mining.

Niall Mills, Hamish Lea-Wilson and John Lynch are shareholder appointed directors and have appointed alternate Directors during their time as Board members. Hamish and Niall's alternate was Tomas Pedraza. John's alternate was Andrew Truscott until he resigned on 6 October 2017 and was replaced by Mark Scarsella.

## Attendance at Board meetings

The Company Secretary attended all Board meetings during the year.

At the discretion of the Board, senior management were invited to attend meetings when appropriate to specific items subject to discussions.

Where a Director was unable to attend a Board meeting, their views were canvassed by the Chairman prior to the meeting.

## The Board (continued)

The table below shows Board and Board Committee attendance during the year, for committee members only. Informal meetings to discuss board member replacements are not included nor are attendances by Directors at committee meetings where they are not formal members.

### Attended / Scheduled

Board member	ENWL Board	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety & Environment Committee
John Roberts	6/6	3/3	2/2	1/1	-
Chris Dowling	6/6	3/3	-	1/1	-
Rob Holden	6/6	-	-	1/1	4/4
Niall Mills*	6/6	-	2/2	1/1	4/4
Hamish Lea-Wilson	6/6	3/3	2/2	-	-
Mike Nagle	6/6	2/3	2/2	-	4/4
John Lynch	6/6	3/3	2/2	1/1	-
Peter Emery	6/6	-	-	-	4/4
David Brocksom	6/6	-	-	-	-

\*At three Health, Safety and Environment Committee meetings Hamish Lea-Wilson attended as an alternate Director in place of Niall Mills.

\*At the 24th October 2017 Health, Safety and Environment Committee meeting David Brocksom attended as an alternate Director in place of Peter Emery.

## Diversity

The Board supports diversity in its broadest sense and accordingly aims to ensure that its number is made up of a diverse range of experience, independence and expertise appropriate to the industry in which it operates, its operational business model and the extensive financial, governance, risk management and legal expertise required.

Diversity of the Board continues to be assessed on a case by case basis as vacancies arise. This is principally a matter for the Nominations Committee.

## Composition

The Board comprises three Non-Executive Directors considered under the Code to be independent, one of whom is the Chairman, four Non-Executive Directors representing the two shareholders and two Executive Directors. The Directors' biographies are on pages 31 and 29.

Two of the Independent Non-Executive Directors, Chris Dowling and John Roberts have been named to Ofgem as fulfilling the role of Sufficiently Independent Directors as required by Ofgem. The role of the Sufficiently Independent Director was introduced from 1 April 2014 as part of a range of enhancements made to the ring-fence conditions in the Company's licence to protect consumers, should a distribution operator experience financial distress.

## Leadership

The Board provides leadership of the Company, ensuring it continues to balance the needs of stakeholders while delivering the Company's strategy. Individually the Directors act in a way that they consider will promote the long-term success of the Company.

The role of the Chairman and the Chief Executive Officer is separate, defined by clear role descriptions set out in writing and agreed by the Board.

The Chairman is responsible for the leadership and governance of the Board and the Chief Executive Officer for the operational management of the Company and implementation of the strategy on the Board's behalf. The Chief Executive Officer is assisted by his Executive Leadership Team that comprises the operation unit directors.

## Advice

All Directors are able to consult with the Company Secretary and the appointment and removal of the Company Secretary is a matter reserved for the Board.

Any individual Director, or the Board as a whole, may take independent professional advice relating to any aspect of their duties at the Company's expense. This is clearly stated in the Terms of Reference of the Board and of its Committees.

## How the Board operates

The Board's role is to promote the long-term success of the Company and provide leadership within a framework of effective controls. The Board is responsible for approving the strategy and for ensuring that there are suitable resources to achieve it. In doing so, the Board takes into account all stakeholders, including its shareholders, employees, suppliers and the communities in which it operates.

The Board has Terms of Reference that detail matters specifically reserved for its decision, including the approval of budgets and financial results, assessment of new Board appointments, dividend decisions, litigation which is material to the Group and Directors' remuneration.

## Evaluation

In September 2017, the Board undertook an internal questionnaire based evaluation process to which there was a 100% response.

The evaluation focused on ensuring that the Board reporting is succinct and focused and that the Board should continue to be cognisant of the Board diversity.

During March 2018, an externally facilitated evaluation has been undertaken by Lintstock Ltd, who have no previous connection with the Company, with findings to be delivered to the Board in May 2018. Lintstock Ltd have been engaged to undertake a second evaluation during 2018/19.

## Training

The Chairman is responsible for ensuring that all Directors update their skills, knowledge and familiarity of the Company. Following feedback from the recent internally facilitated Board evaluation, each member of the Board has been enrolled as a member of the Non-Executive Directors Association who provide regular training to the directors on a range of topics.



# The Board (continued)

## Training (continued)

Directors regularly receive reports facilitating greater awareness and understanding of the Company, its regulatory environment and the industry. The Board held two workshops and a strategy meeting during the year aimed at developing a greater understanding of the Company's operations and to explore strategic matters in detail.

Committee members received detailed presentations at meetings focussing on areas of relevance to the Committee and Board members are invited to workshops with shareholder representatives which are able to delve into areas of interest in greater detail.

The Chairman is also responsible for ensuring that all new Directors receive a tailored induction programme that reflects their experience and position as either an Executive or Non-Executive Director. This involves meetings with the Board, the Company Secretary, other members of the Executive and Senior Leadership Teams and site visits. Additional documentation is provided as appropriate.

## Appointments

The three independent Non-Executive Directors (are provided with a detailed letter of appointment) and are appointed for an initial three-year term, to be reviewed every three years thereafter if they are reappointed.

The four other Non-Executive Directors are appointed by the Company's shareholders as their representatives. The minimum expected time commitment required from Non-Executive Directors is six to ten days per year and is detailed in their letter of appointment.

On his appointment, Peter Emery was a Non-Executive Director of NG Bailey Group Ltd, the Board agreed to his remaining a Non-Executive Director with the proviso that when he is due for re-election, this is again discussed with the Electricity North West Board. Peter Emery is due for re-election in August 2018.

## Conflicts of interest

The Board has appropriate processes in place to assess and manage any potential conflicts of interest. As part of these procedures the Board:

- Considers conflicts of interest as part of the agenda for all meetings.

- Asks Directors annually if there are any changes to their conflict of interest declarations, including appointments to the Boards of other entities.
- Keeps records and Board minutes regarding any decisions made.
- Maintains a companywide conflicts of interest register.

## Areas of non-compliance with the UK Corporate Governance Code

There are some areas where the Company does not comply with the UK Corporate Governance Code, all of which are due to its privately owned status and are discussed below. The Company has endeavoured to comply with the spirit of the Code throughout the accounts; there are areas where compliance with the provision is either impractical or inappropriate, outlined below.

## Senior independent director

The Board has not appointed a Non-Executive Director as a Senior Independent Director under the Code. The Board meets the objectives behind this requirement through its shareholder representation on the Board (A.4.1).

## Details of remuneration to executive directors, released to serve as non-executive directors

The Company does not disclose the remuneration to those Executive Directors who are released to serve as non-executive directors elsewhere. This information is made available to the shareholders through their representation on the Board (D.1.2).

## Constitution of the Board

The Code states that half the Board should be Independent Non-Executive Directors. As the Company is privately owned and both shareholders are represented on the Board, it is felt that the needs of shareholders are met through their presence on the Board (B.1.2).

In addition to the two Sufficiently Independent Directors required by Ofgem, there is a further Independent Non-Executive Director. The Board considers that the three Independent Non-Executives offer an appropriate perspective, allowing for the refreshment of its Committees while allowing meaningful individual participation and effective collective decision making.

## Annual election of Directors

The Board does not subject its Directors to annual elections as the shareholder representation on the Board allows the opportunity to challenge a Director's performance directly rather than an Annual General Meeting (B.7.1).

## Publication of the terms and conditions of Non-Executive Directors

As a privately owned company Electricity North West is not required to provide a remuneration report in line with the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (B.3.2).

The purpose of the remuneration report is to enable shareholders to exercise judgement over directors' remuneration. With the presence of shareholder representatives on the Remuneration Committee, this purpose is directly met.

## Engagement with stakeholders

As a privately owned company, Electricity North West does not have a large or dispersed shareholder base with which to formally communicate, nor are there any minority shareholders. Therefore Annual General Meetings are not held (E.2.1 and E.2.4).

### Shareholders:

In addition to formal Board meetings and workshop sessions, the meeting cycle includes quarterly valuation workshops to focus on financial and treasury matters and detailed periodic workshops to meet the requirements of strategic planning and more detailed performance reviews. Board members are invited to attend these meetings.

The Company works closely with its shareholders and both shareholders endorse the UK Stewardship Code and see their stewardship commitments as a key feature of their investment philosophy. They are committed to maintaining the integrity and quality of the markets in which they operate and allocate investment capital to productive purposes, while protecting and enhancing their clients' capital over the longer term.

### Stakeholders:

The Company has strong and open relationships with stakeholders, including Ofgem, local government, schools, emergency services, MPs and central government. There are a number of key relationships and a vast range of public sector stakeholders. The Company also engages across the industry with electricity suppliers, employees, contractors and other utilities.

Our stakeholder engagement strategy is outlined on page 10.

## Board Committees

The Board has an extensive workload and therefore has delegated the detailed oversight of certain items to six standing Committees and two ad-hoc Committees:

### Standing Committees, meeting on a regular pre-planned cycle:

Audit Committee

Remuneration Committee

Nominations Committee

Health, Safety and Environment Committee

Use of Systems Pricing Committee

Financing Committee

### Ad-hoc Committees, meeting as required to deal with their specific areas of business:

Banking Committee

Retail Property Committee

The minutes of each Committee are made available to the Board.

The Use of Systems Pricing Committee and the Financing Committee meet as required to approve detail about system pricing contained in Licence Condition 14 and financing transactions respectively.

The Banking and Retail Property Committees meet on an ad hoc basis to review bank mandates and the Company's residual retail property portfolio as necessary.

The terms of reference and membership of all those Committees in green were reviewed and amended during the year to ensure effective operation.

The minutes of each Committee meeting are made available to the entire Board.

# Report of the Audit Committee

The role and responsibilities of the Committee are set out in its Terms of Reference which are reviewed by the Committee and approved by the Board annually. The Terms of Reference are available on the Electricity North West website.

## Membership and meetings

The Committee members are all Non-Executive Directors. The Board is satisfied that the committee chair, Chris Dowling, as a Chartered Accountant, has relevant financial experience. Attendance by individual members is detailed in the table on page 33.

There were a number of regular attendees by invitation at appropriate Committee meetings in whole in part, including the Chief Executive Officer, the Chief Financial Officer, the Head of Risk, Control and Assurance and the external auditor.

Over the course of the year, the Committee Chairman held separate meetings with both the lead external audit partner at Deloitte LLP and with the Head of Risk, Control and Assurance.

The Committee also met as a whole with the external auditor without management present.

## The role of the Committee

The key responsibilities of the Audit Committee are to:

- Monitor the integrity of the financial statements, including its annual and half-yearly reports and to report the Board on significant financial reporting issues and judgements which they contain.
- Monitor the independence, effectiveness and remuneration of the external auditor.
- Review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems and compliance with the UK Corporate Governance Code, including an annual review of the Company's risk register.
- Monitor the effectiveness of the Company's internal audit function.
- Ensure that the Group's treasury function is effective and approve treasury transactions in line with banking activity.

The significant matters considered by the Committee during the year included:

- Review of the 31 March 2017 Annual Report and Consolidated Financial Statements and the September 2017 half year-report.
- Evaluation of the effectiveness and scope of the internal audit plan including management response to audit reports.
- Review of the scope and methodology of the audit work to be undertaken by the external auditor, their terms of engagement and fees.

In accordance with UK regulations, the Company's auditor adheres to a rotation policy based on best practice and a new Group lead engagement partner is appointed once their predecessors have completed a term of five years. A new lead engagement partner was appointed this year due to his predecessor completing her five year term.

The significant issues considered by the Committee during the approval of the 2017/18 financial statements were:

- Capital and revenue allocations and ensuring the appropriate treatment of fixed asset expenditure. The Committee considered the management's key controls and assumptions applied to the capitalisation of overheads costs. The assumptions, policies and procedures in this area were considered reasonable.
- Accounting for the Electricity North West Group of the Electricity Supply Pension Scheme. This is a complex area where small changes in assumptions can have a significant effect on the valuation of liabilities and therefore on the financial statements. The Committee considered the evaluation by external actuaries, benchmarking data and the disclosure requirement of IAS19. The calculations and assumptions were considered appropriate.
- Treasury accounting, particularly fair value calculations and ensuring appropriate disclosures. There is a risk, due to the complexity of the financial instruments that they are incorrectly valued, accounted for or disclosed, resulting in a material error in the financial statements or a material disclosure deficiency. The Committee noted the specialist advice received in the area and compliance with appropriate accounting standards in valuation and disclosure.
- Compliance with the FRC guidance and licence condition with regard to the going concern assessment. Consideration was given to operational performance against budget, financing arrangements, banking facility covenants and the application of appropriate sensitivities and compliance with Licence Condition 30.
- The risk of fraud in revenue recognition where considerations included specific testing on unbilled income and analytical review.

## External audit

The external auditor is engaged to express an opinion on the Company's and Group's financial statements. The audit includes the review and testing of the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements. This year's audit is the seventeenth conducted by Deloitte LLP.

To assess the effectiveness of the previous year's external audit, the Committee reviewed the audit approach and strategy and received a report of Deloitte LLP's performance from the Board and Executives. The performance evaluation was conducted via a questionnaire circulated to the Committee, the Chief Financial Officer, the Chief Executive Officer and the Company's senior financial leadership for completion.

The result of this evaluation was that the audit was appropriately scoped, was well planned and executed and provided appropriate challenge across the Company.

## Auditor independence and the provision of non-audit services

The Company has a formal policy on the use of the auditor for non-audit work and the awarding of such work is managed in order to ensure that the auditor is able to conduct an independent audit and is perceived to be independent by our stakeholders.

In keeping with professional ethical standards, Deloitte LLP also confirmed their independence to the Committee and set out the supporting evidence in their report to the Committee prior to the publication of the Annual Report and Financial Statements.

The non-audit services provided by Deloitte LLP during the year were in connection to Ofgem regulatory requirements.

# Report of the Audit Committee (continued)

## Internal control framework

The Committee, on behalf of the Board, is responsible for reviewing the Company's internal control framework. This review is consistent with the Code and covers all material areas of the Group, including risk management and compliance with controls. Further details of risk management and internal controls are set out on pages 27 to 30.

## Whistleblowing arrangements

The Committee is responsible for reviewing the Company's Disclosure (Whistleblowing) policy and any concerns raised through these channels and management actions taken in response. A revised policy was approved by the Committee in January 2018. A confidential service is provided by an external company whereby employees can raise concerns by e mail or telephone in confidence. Any matters reported are investigated and escalated as appropriate.

## Committee effectiveness

The Committee formally reviewed its Terms of Reference and its membership during the year to ensure both remain fit for purpose and were considered effective by the Board.

## Fair, balanced and understandable

The Audit Committee was requested to assist the Board in confirming that the Annual Report is fair, balanced and understandable. As part of its review, the Audit Committee took into account the preparation process for the Annual Report and Consolidated Financial Statements:

- Different sections of the Annual Report are drafted by appropriate senior management who have visibility of the Company's performance in these areas.
- Reviews of the drafts are carried out by the Executive Directors and other members of the Executive Leadership Team.

Feedback is received from the external auditor on the content of the Annual Report. A final draft is reviewed by the Audit Committee before being recommended to the Board for approval.

The Directors' statement on a fair, balanced and understandable Annual Report and Consolidated Financial Statements is set out on page 47.



# Report of the Nominations Committee

The role and responsibilities of the Committee are set out in its Terms of Reference and these are available on the Electricity North West website. The Committee's responsibilities include keeping under review the composition of the Board and senior executive, identifying and nominating candidates for approval by the Board to fill any vacancies and succession planning for Directors and other senior executives.

## Membership and meetings

Composition of the Committee and attendance by individual members at meetings is detailed on page 33.

The Chief Executive Officer and external advisors attend meetings at the invitation of the Chairman of the Committee.

## Diversity

As described in the Corporate Governance report on page 34, the Board is committed to diversity in its broadest sense and the Nominations Committee ensures this remains central to recruitment and succession planning.

# Report of the Remuneration Committee

The Committee's role is to determine the remuneration structure for the Executive Directors to ensure that it balances appropriate reward with the creation of long-term value and sustainability of the network. The Terms of Reference for the Committee are available on the Electricity North West website.

It is also responsible for the review of the remuneration of other members of the Executive Leadership Team to ensure the structure and levels of remuneration appropriately incentivise these individuals to achieve the Company's strategic objectives.

The Committee has been joined by invitation during the year by the Chief Executive Officer and the Chief Financial Officer. They do not attend for any discussions in which they are individually discussed.

## Membership and meetings

Composition of the Committee and attendance by individual members is detailed on page 33.

## Role of the Committee

The Committee reviews and approves the overall remuneration levels of employees below senior management level, but does not set remuneration for these individuals. This oversight role allows the Committee to take into account pay policies and employment conditions across the Group.

The Committee is of the opinion that the remuneration structure, designed for the RIIO period, reflects the strategic direction of the business and will promote the long-term success of the Company.

Share options are not offered as an incentive to either Executive or Non-Executive Directors as the Company is privately owned.

The table below set out the nature of the remuneration of the Executive Directors:

Element	Purpose and link to strategy	Framework
Basic salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked and will also reflect the Director's experience and time at Director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, Directors are provided with a car allowance and private medical insurance.
Executive Incentive Plan (EIP)	Executive Directors are members of the Executive Incentive Plan which was introduced in April 2015 to reward both in-year performance and incentivise strategic and innovative behaviours over the longer term, aligned to shareholder objectives.	<p>The EIP works on a balanced scorecard approach, containing short-term metrics to evaluate in-year performance and longer-term measures promoting a strategic focus and sustainable performance.</p> <p>Partial payments are made each year based on achievement against the balanced scorecard, with additional payments made in years 4 and 8 to ensure the balance of short and long-term incentivisation is retained.</p> <p>Following Health &amp; Safety best practice, Safety is considered to be an essential part of any role and Directors therefore receive no Health &amp; Safety related incentives. However a range of safety performance measures act as a gateway to earn bonuses.</p>
Pension	Directors are offered the same level of defined contribution benefits as all other employees, or a taxable payment in lieu.	No Director is a member of the defined benefit scheme which is now closed to new members.

# Report of the Health, Safety & Environment Committee

The Committee continues to develop the Company's health, safety and environment strategies, agrees targets and monitors Company performance in this area. It regularly challenges the executive and the health, safety and environment team to look at new initiatives and work with other organisations.

## Membership and meetings

Composition of the Committee and attendance by individual members is detailed on page 33.

The Committee's terms of reference and membership were revised in March 2018.

Meetings are also attended by executives in charge of operationally focussed directorates.

## The role of the Committee

The Committee has designated authority from the Board set out in its Terms of Reference which is published on the Electricity North West website.

The primary purpose of the Committee is to:

- Set the corporate health, safety and environment strategy, objectives, targets and programmes.
- Monitor performance in these areas with a view to:
  - Minimising risk;
  - Ensuring legal compliance;
  - Responding to significant events; and
  - Ensuring significant resources are allocated for the control of health, safety and environmental risks.
- Report to the Board developments, trends and / or forthcoming legislation in relation to the health, safety and environmental matters which may be relevant to the Company's operations, assets or employees.
- Review the Company's external reporting in this area and regulatory disclosures.

At every meeting the Committee receives and discusses in detail a Health, Safety and Environment performance report for the preceding period, prepared and presented by the Head of Health Safety and Environment who attends every meeting.

At each meeting the Committee reviews Health and Safety risks recorded on the Company's risk register.





# Directors' report

The Directors present their Annual Report and the audited Consolidated Financial Statements of Electricity North West Limited ("the Company") and its subsidiaries (together referred to as 'the Group') for the year ended 31 March 2018.

## Dividends

In the year ended 31 March 2018 the Company declared interim dividends of £64m, which were paid in December 2017 (31 March 2017: £63m). The final dividend for the year ended 31 March 2017 of £12m was paid in June 2017. At the Board meeting in May 2018 the Directors proposed a final dividend of £16m for the year ended 31 March 2018.

Details of the Group's dividend policy can be found in the Strategic Report.

## Directors

The Directors of the Company during the year ended 31 March 2018 are set out below. Directors served for the whole year except where otherwise indicated.

### Executive Directors

P Emery  
D G Brocksom

### Non-executive Directors

Dr J Roberts  
N P Mills  
M A Nagle  
J E Lynch  
C Dowling  
H Lea-Wilson  
R D Holden

### Alternate Directors during the year were:

T Pedraza  
A Truscott

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. 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.

## People

The Group's policies on employee consultation, the treatment of disabled employees and on equality and diversity across all areas of the business are contained within the People section of the Strategic Report.

## Corporate social responsibility

Details of the Group's approach to corporate social responsibility can be found in the Strategic Report.

## 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. During the year ended 31 March 2018 the Group incurred £3.4m of expenditure on research and developments (2017: £3.9m).

## 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.

## Future developments

Details of the future developments of the Group can be found in the Chief Executive Officer's Statement.

## 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

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

Electricity North West Limited  
304 Bridgewater Place  
Birchwood Park  
Warrington  
WA3 6XG

Registered number: 02366949

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 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 and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (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 30 May 2018 and is signed on its behalf by:

**D Brocksom**

Director

# Independent Auditor's Report to the Members of Electricity North West Limited

## Opinion on financial statements of Electricity North West Limited

### 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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

We have audited the financial statements of Electricity North West Ltd (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated and company statements of comprehensive income;
- the consolidated and company balance sheets;
- the consolidated and company statements of changes in equity;
- the consolidated and company cash flow statements;
- the statement of accounting policies; and
- the related Notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

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## 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 group and the parent 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 group or the parent 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, which are consistent with the prior year, were: <ul style="list-style-type: none"><li>• Treasury accounting</li><li>• Pensions – defined benefit scheme liability assumptions</li><li>• Inappropriate capitalisation of costs</li></ul>
Materiality	The materiality that we used for the group financial statements was £4.31m which was determined on the basis of 3.9% of adjusted profit before tax (see materiality section for more details).
Scoping	All audit work for the group was performed directly by the group engagement team.
Significant changes in our approach	Our approach is consistent with the previous year.

## 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 group's or the parent 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.

### Treasury accounting

#### Key audit matter description

Treasury is a complex area and includes the accounting for material financial instruments including index-linked swaps and bonds. Due to the complexity of the accounting there is a risk that these instruments are incorrectly valued, accounted for or disclosed in the financial statements which may result in a material error.

As at 31 March 2018 ENWL had £705.6m of bonds in issue (2017: £724.4m) as disclosed in Note 19 to the financial statements, and held derivative financial instruments, being a portfolio of index-linked swaps, with a fair value of £357.3m (2017: £363.5m) as disclosed in Note 20. Total fair value movements in the year were £30.1m gain (2017: £106.2m loss) as per Note 9 to the financial statements.

See also the Audit Committee's Report on page 38 where treasury accounting is discussed as a significant issue, the accounting policy on financial instruments in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3.

#### How the scope of our audit responded to the risk

Initially the design and implementation of the key control around the inputs used within the calculation of the fair value of derivatives was assessed.

Due to the complexity of the financial instruments held in the group our audit team includes financial instrument specialists.

We tested a sample of valuations in respect of the index-linked swaps held by the group, including an assessment of the application of credit risk under IFRS 13. In addition we recalculated the carrying value of the bonds held at both amortised cost and at fair value through profit and loss, along with the associated amortisation and interest charges as the bonds unwind to maturity.

We have challenged management by reviewing the inputs into the valuation model and agree that certain derivatives should be classified as Level 3. In addition our review of the financial statements assessed whether the disclosures made in Note 20 are consistent with the requirements of IFRS 13 and IFRS 7.

#### Key observations

From the work performed we are satisfied that the valuation of the Group's portfolio of bonds and index-linked swaps is materially correct. In addition we note that the index-linked swaps are appropriately disclosed as Level 2 and Level 3 in the financial statements.

## Pensions – defined benefit scheme liability assumptions

### Key audit matter description

The key audit matter concerns the appropriateness of the actuarial assumptions, for example assumptions around the discount rate, mortality and inflation, used in calculating the Group's defined benefit liability of £18.2m (2017: £58.0m) as shown in Note 21. The valuation of the Group's IAS 19 liability involves significant judgement, in particular in the choice of discount rate used. This is because a small movement in the discount rate can have a large impact on the funded status of the pension deficit.

See also the Audit Committee's Report on page 38 where pension accounting is discussed as a significant matter, the accounting policy on retirement benefit schemes in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3.

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

Initially the design and implementation of the key control around the assumptions used within the pension obligation was assessed, specifically around the discount rate assumption.

We have assessed the appropriateness of the assumptions underpinning the valuation of the schemes liabilities. Specifically we challenged the discount rate, and other key assumptions including inflation and mortality, by using our internal pension specialists to benchmark the assumptions applied against comparable third-party data and to assess the appropriateness of the assumptions in the context of the Group's own position.

### Key observations

From the work performed we are satisfied that the assumptions applied in respect of the valuation of the Group's IAS 19 liabilities are materially correct. The assumptions, when taken together as a whole, are in the middle of our benchmarked range.

## Inappropriate capitalisation of costs

### Key audit matter description

This key audit matter relates to the judgmental percentage rates applied to employee costs initially recorded as overhead expenditure and subsequently capitalised into fixed assets. In particular we focus on those judgmental areas, for example engineers and electricians whose time is split between capital projects and repair and maintenance on the network. Given the significant level of judgement involved, we considered this a potential fraud risk area. The effect of inappropriate capitalisation of costs from a financial statement perspective is that items which are capital in nature are expensed, whilst items which are expenditure in nature are, conversely, capitalised. Given the magnitude of overheads capitalised in the business the impact could be material. Total employee costs are £115.6m in the year (2017: £105.0m), of which £64.1m (2017: £58.1m) has been capitalised directly to fixed assets.

See also the Audit Committee's Report on page 38 where overhead absorption is discussed as a significant issue, the accounting policy for tangible fixed assets in Note 2 to the financial statements and the associated critical accounting judgement and key sources of estimation uncertainty in Note 3.

### How the scope of our audit responded to the risk

Initially, we have assessed the design and implementation of the key control around the input of the stated percentages used and the subsequent calculation was assessed.

We have reviewed the Company's assumptions, policies and procedures with regards to overhead absorption and compared these to the balances capitalised. In respect of overhead absorption we have considered the relative percentage capitalisation by function/operational area in the business and challenged the key assumptions made by management including testing on a sample basis to appropriate support.

As part of our audit of tangible fixed assets we tested a sample of additions to consider whether those items are capital in nature. A sample of capital projects were reviewed in detail, with discussions and supporting documentation obtained from project managers in order to better understand those projects and determine the specific nature of the spend and method of overhead absorption.

### Key observations

From the work performed we are satisfied that the assumptions made in respect of the rates of overhead absorption applied in the business are reasonable.

## 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	Group materiality £4.31m, Parent Company-only materiality £4.3m
Basis for determining materiality	3.9% of adjusted profit before tax for the group and parent company financial statements. We adjusted profit before tax to add back the volatile fair value movements on derivatives and the mark to market bond which the group do not formally apply hedge accounting to. This removes any volatility from fair value movements and allows a more stable basis for the determination of our materiality.
Rationale for the benchmark applied	Adjusted profit before tax is determined to be a key metric used by users of the financial statements of regulated utilities.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £82,000 (2017: £82,000) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Given the nature of the group's corporate structure where all evidence relating to each entity is compiled at the group's head office and statutory audits are required for the non-dormant entity within the group, we performed an audit covering 100% of the group's companies and accordingly our audit work achieved coverage of 100% of the group's total assets, revenue and profit.

Component materiality level was £4.3m.

We have also tested the consolidation process.

## 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.

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.

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

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## 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

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## 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 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

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### 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 group and of the parent company and their 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

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### 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 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.

**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 these matters.**



## Other matters

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### 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

## Consolidated and Company Income Statement

for the year ended 31 March 2018

	<i>Note</i>	<b>Group and Company 2018 £m</b>	Group and Company 2017 £m
<b>Revenue</b>	4	<b>430.2</b>	485.5
Employee costs	5,6	<b>(51.5)</b>	(46.9)
Depreciation and amortisation expense (net)	5	<b>(103.3)</b>	(99.3)
Other operating costs		<b>(92.1)</b>	(79.9)
<b>Total operating expenses</b>		<b>(246.9)</b>	(226.1)
<b>Operating profit</b>	5	<b>183.3</b>	259.4
Investment income	8	<b>1.0</b>	0.7
Finance expense (net)	9	<b>(43.0)</b>	(179.1)
<b>Profit before taxation</b>		<b>141.3</b>	81.0
Taxation	10	<b>(25.0)</b>	(10.0)
<b>Profit for the year attributable to equity shareholders</b>	27	<b>116.3</b>	71.0

The results shown in the Consolidated and Company 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 2018

	<i>Note</i>	<b>Group and Company 2018 £m</b>	Group and Company 2017 £m
<b>Profit for the year</b>		<b>116.3</b>	71.0
<hr/>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Re-measurement of defined benefit pension schemes	21	<b>27.1</b>	(52.1)
Deferred tax on re-measurement of defined benefit pension schemes taken directly to equity	23	<b>(4.6)</b>	8.9
Adjustment due to change in future tax rates of brought forward deferred tax taken directly to equity	23	-	(1.0)
<hr/>			
<b>Other comprehensive income/ (expense) for the year</b>		<b>22.5</b>	(44.2)
<hr/>			
<b>Total comprehensive income for the year attributable to equity holders</b>		<b>138.8</b>	26.8
<hr/>			

## Consolidated and Company Statement of Financial Position

as at 31 March 2018

	Note	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets and goodwill	12	49.6	49.6	45.5	45.5
Property, plant and equipment	13	3,137.9	3,137.9	3,037.3	3,037.3
Investments	14	-	15.4	-	15.4
		<b>3,187.5</b>	<b>3,202.9</b>	3,082.8	3,098.2
<b>Current assets</b>					
Inventories	15	10.5	10.5	9.6	9.6
Trade and other receivables	16	63.4	63.4	60.5	60.5
Money market deposits	17,20	-	-	10.0	10.0
Cash and cash equivalents	17,20	87.0	87.0	142.7	142.7
		<b>160.9</b>	<b>160.9</b>	222.8	222.8
<b>Total assets</b>		<b>3,348.4</b>	<b>3,363.8</b>	3,305.6	3,321.0
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	18	(142.6)	(158.3)	(142.7)	(158.4)
Current income tax liabilities		(13.5)	(13.5)	(8.2)	(8.2)
Borrowings	19	(6.6)	(6.6)	(6.4)	(6.4)
Provisions	22	(0.8)	(0.8)	(1.1)	(1.1)
		<b>(163.5)</b>	<b>(179.2)</b>	(158.4)	(174.1)
<b>Net current assets/ (liabilities)</b>		<b>(2.6)</b>	<b>(18.3)</b>	64.4	48.7
<b>Non-current liabilities</b>					
Borrowings	19	(1,230.7)	(1,230.7)	(1,242.7)	(1,242.7)
Derivative financial instruments	20	(357.3)	(357.3)	(363.5)	(363.5)
Provisions	22	(2.3)	(2.3)	(2.9)	(2.9)
Retirement benefit obligations	21	(18.2)	(18.2)	(58.0)	(58.0)
Deferred tax	23	(136.0)	(136.0)	(126.7)	(126.7)
Customer contributions	24	(612.6)	(612.6)	(588.8)	(588.8)
		<b>(2,357.1)</b>	<b>(2,357.1)</b>	(2,382.6)	(2,382.6)
<b>Total liabilities</b>		<b>(2,520.6)</b>	<b>(2,536.3)</b>	(2,541.0)	(2,556.7)
<b>Total net assets</b>		<b>827.8</b>	<b>827.5</b>	764.6	764.3
<b>Equity</b>					
Called up share capital	26	238.4	238.4	238.4	238.4
Share premium account	27	4.4	4.4	4.4	4.4
Revaluation reserve	27	90.3	90.3	92.5	92.5
Capital redemption reserve	27	8.6	8.6	8.6	8.6
Retained earnings	27	486.1	485.8	420.7	420.4
<b>Total equity</b>		<b>827.8</b>	<b>827.5</b>	764.6	764.3

The financial statements of Electricity North West Limited (registered number 02366949) were authorised for issue and approved by the Board of Directors on 30 May 2018 and signed on its behalf by:

**D Brocksom**

Director

## Consolidated Statement of Changes in Equity

for the year ended 31 March 2018

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016	238.4	4.4	93.5	8.6	473.9	818.8
Profit for the year	-	-	-	-	71.0	71.0
Transfer from revaluation reserve	-	-	(1.0)	-	1.0	-
Other comprehensive income/ (expense) for the year	-	-	-	-	(44.2)	(44.2)
<b>Total comprehensive income/ (expense) for the year</b>	-	-	(1.0)	-	27.8	26.8
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends ( <i>Note 11,27</i> )	-	-	-	-	(81.0)	(81.0)
At 31 March 2017	<b>238.4</b>	<b>4.4</b>	<b>92.5</b>	<b>8.6</b>	<b>420.7</b>	<b>764.6</b>
Profit for the year	-	-	-	-	116.3	116.3
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Other comprehensive income/ (expense) for the year	-	-	-	-	22.5	22.5
<b>Total comprehensive income/ (expense) for the year</b>	-	-	(2.2)	-	141.0	138.8
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends ( <i>Note 11,27</i> )	-	-	-	-	(75.6)	(75.6)
At 31 March 2018	<b>238.4</b>	<b>4.4</b>	<b>90.3</b>	<b>8.6</b>	<b>486.1</b>	<b>827.8</b>

## Company Statement of Changes in Equity

for the year ended 31 March 2018

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016	238.4	4.4	93.5	8.6	473.6	818.5
Profit for the year	-	-	-	-	71.0	71.0
Transfer from revaluation reserve	-	-	(1.0)	-	1.0	-
Other comprehensive income/ (expense) for the year	-	-	-	-	(44.2)	(44.2)
<b>Total comprehensive income/ (expense) for the year</b>	-	-	(1.0)	-	27.8	26.8
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends ( <i>Note 11,27</i> )	-	-	-	-	(81.0)	(81.0)
At 31 March 2017	<b>238.4</b>	<b>4.4</b>	<b>92.5</b>	<b>8.6</b>	<b>420.4</b>	<b>764.3</b>
Profit for the year	-	-	-	-	<b>116.3</b>	<b>116.3</b>
Transfer from revaluation reserve	-	-	(2.2)	-	<b>2.2</b>	-
Other comprehensive income/ (expense) for the year	-	-	-	-	<b>22.5</b>	<b>22.5</b>
<b>Total comprehensive income/ (expense) for the year</b>	-	-	(2.2)	-	<b>141.0</b>	<b>138.8</b>
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends ( <i>Note 11,27</i> )	-	-	-	-	<b>(75.6)</b>	<b>(75.6)</b>
At 31 March 2018	<b>238.4</b>	<b>4.4</b>	<b>90.3</b>	<b>8.6</b>	<b>485.8</b>	<b>827.5</b>



## Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2018

	<i>Note</i>	<b>Group 2018 £m</b>	<b>Company 2018 £m</b>	Group 2017 £m	Company 2017 £m
<b>Operating activities</b>					
Cash generated from operations	31	239.0	239.0	348.1	348.1
Interest paid		(47.2)	(47.2)	(46.3)	(46.3)
Tax paid		(15.1)	(15.1)	(32.3)	(32.3)
<b>Net cash generated from operating activities</b>		<b>176.7</b>	<b>176.7</b>	269.5	269.5
<b>Investing activities</b>					
Interest received and similar income		1.0	1.0	0.8	0.8
Purchase of property, plant and equipment		(200.3)	(200.3)	(194.3)	(194.3)
Purchase of intangible assets		(9.5)	(9.5)	(10.1)	(10.1)
Customer contributions received		44.0	44.0	45.5	45.5
Proceeds from sale of property, plant and equipment		0.2	0.2	0.1	0.1
<b>Net cash used in investing activities</b>		<b>(164.6)</b>	<b>(164.6)</b>	(158.0)	(158.0)
<b>Net cash flow before financing activities</b>		<b>12.1</b>	<b>12.1</b>	111.5	111.5
<b>Financing activities</b>					
Proceeds from borrowings		2.5	2.5	0.4	0.4
Repayment of borrowings		(6.5)	(6.5)	(4.8)	(4.8)
Accretion on index linked swaps		(8.8)	(8.8)	(16.2)	(16.2)
Movement in cash collateral held		10.6	10.6	-	-
Transfer from money market deposits		10.0	10.0	13.5	13.5
Dividends paid to equity shareholders of the Company		(75.6)	(75.6)	(81.0)	(81.0)
<b>Net cash used in financing activities</b>		<b>(67.8)</b>	<b>(67.8)</b>	(88.1)	(88.1)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(55.7)</b>	<b>(55.7)</b>	23.4	23.4
<b>Cash and cash equivalents at the beginning of the year</b>	17	<b>142.7</b>	<b>142.7</b>	119.3	119.3
<b>Cash and cash equivalents at the end of the year</b>	17	<b>87.0</b>	<b>87.0</b>	142.7	142.7

# Notes to the financial statements

Electricity North West Limited 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**

The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2014-2016 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.

### **Amendments to IAS 7 Disclosure Initiative**

The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of borrowings (Note 19) and certain derivatives (Note 20). A reconciliation between the opening and closing balances of these items is provided in Note 20. Apart from the additional disclosure in Note 20, the application of these amendments has had no impact on the Group's consolidated financial statements.

### **Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses**

The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

### **Annual Improvements to IFRSs 2014-2016 Cycle**

The Group has adopted the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

## **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 16: Leases

IFRS 17: Insurance Contracts

IFRS 2 (amendments): Classification and Measurement of Share-based Payment Transactions

IFRS 4 (amendments): Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 40 (amendments): Transfers of Investment Property

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

Annual Improvements to IFRSs 2014-2016 Cycle:  
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 28 Investments in Associates and Joint Ventures

IFRIC 22: Foreign Currency Transactions and Advanced Consideration

IFRIC 23: Uncertainty over Income Tax Treatments

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. Detailed considerations of the effect of adopting IFRS 9 and IFRS 15, in particular, have been had by management and are summarised below.

## **IFRS 9: Financial Instruments**

The effective date of IFRS 9 is for accounting periods beginning on or after 1 January 2018; the Group will, therefore, apply IFRS 9 in the year ending 31 March 2019. The Group will elect not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group will have during the year ending 31 March 2019, as well as economic conditions and judgements made at that year end. The Group has performed a preliminary assessment of potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at 31 March 2018. The Group does not anticipate that the application of IFRS 9 will have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

## **IFRS 15: Revenue from Contracts with Customers**

The effective date of IFRS 15 is for accounting periods beginning on or after 1 January 2018; the Group will, therefore, apply IFRS 15 in the year ending 31 March 2019. The Group intends to adopt the modified retrospective approach without restatement of comparatives.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is transferred to the customer.

The main impact of IFRS 15 for the Group is with regards to the customer contributions in respect of connections contracts which are currently accounted for under IFRIC 18. We have reviewed the main characteristics of the connections contracts that we have with customers to evaluate the potential impact of IFRS 15. The impact of adopting IFRS 15 is not expected to be material for the Group.

## 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.

### 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 is 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.

### **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.

## 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.

### 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.



### 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	1-12 years
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Intangible assets under construction are not amortised. Amortisation commences from the date the intangible asset is available for use.

The Licence has an indefinite useful 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.

In 1997 the Company undertook a revaluation of certain assets due to a business combination. This resulted in the creation of a revaluation reserve of £234.9m. The additional depreciation, as result of the revaluation, is transferred from the revaluation reserve to retained earnings on an annual basis.

### 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.

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	2-40 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.

## 2. Significant accounting policies (continued)

### 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.

### 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'.

### 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.

## 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.

## 2. Significant accounting policies (continued)

### 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.

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% 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.

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.

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. In addition, the revenue includes estimates made for the number of units distributed over the period for which industry data is not yet available, which on average is between one and two months prior to the reporting date. The estimated units are based on historical consumption data profiles.

#### **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.

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.

## **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.

## **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.

## **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.

## 4. Revenue

Group and Company	2018 £m	2017 £m
<b>Revenue</b>	<b>430.2</b>	485.5

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 three customers (2017: two), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £189.5m (2017: £162.8m). No other customer represented more than 10% 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 and Company	2018 £m	2017 £m
<b>Employee costs (see Note 6)</b>	<b>51.5</b>	46.9
<b>Depreciation and amortisation expense (net)</b>		
Depreciation of property, plant and equipment		
Owned assets (see Note 13)	<b>108.3</b>	105.8
Amortisation of intangible assets and customer contributions		
Software (see Note 12)	<b>5.5</b>	4.1
Customer contributions <sup>1</sup> (see Note 24)	<b>(10.5)</b>	(10.6)
<b>Depreciation and amortisation expense (net)</b>	<b>103.3</b>	99.3
<b>Other income</b>		
Profit on disposal of property, plant and equipment	<b>(0.2)</b>	(0.1)
<b>Provision charge/ (credit) (see Note 22)</b>	<b>(0.2)</b>	1.9
<b>Other operating costs include:</b>		
Research and development	<b>3.4</b>	3.9
Write down of inventories to net realisable value	<b>0.1</b>	0.3
Operating leases:		
- land and buildings	<b>0.5</b>	0.7
- hire of plant and machinery	<b>1.7</b>	1.9

<sup>1</sup> In the current year £6.4m (2017: £5.5m) of customer contributions amortisation has been amortised through revenue in line with IFRIC 18.

Analysis of the auditor's remuneration is as follows:

<b>Group and Company</b>	<b>2018 £m</b>	<b>2017 £m</b>
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	<b>0.1</b>	0.1
<b>Total audit fees</b>	<b>0.1</b>	0.1
Audit-related assurance services	<b>0.1</b>	0.1
Taxation advisory services	-	0.1
<b>Total non-audit fees</b>	<b>0.1</b>	0.2
<b>Total fees</b>	<b>0.2</b>	0.3

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 of the Parent are required to disclose such fees on a consolidated basis.

## 6. Employee costs

<b>Group and Company</b>	<b>2018 £m</b>	<b>2017 £m</b>
Wages and salaries	<b>86.4</b>	80.6
Social security costs	<b>9.5</b>	8.8
Pension costs (see Note 21)	<b>19.7</b>	15.6
Employee costs (including Directors' remuneration)	<b>115.6</b>	105.0
Costs transferred directly to fixed assets	<b>(64.1)</b>	(58.1)
<b>Charged to operating expenses</b>	<b>51.5</b>	46.9

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

<b>Group and Company</b>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Electricity distribution</b>	<b>1,795</b>	1,666

## 7. Directors' remuneration

<b>Group and Company</b>	<b>2018</b> <b>£m</b>	2017 £m
Salaries and other short-term employee benefits	<b>1.1</b>	1.0
Accrued bonus	<b>0.4</b>	0.5
Amounts receivable under long-term incentive schemes	<b>0.4</b>	0.5
	<b>1.9</b>	2.0

The aggregate emoluments of the Directors in 2018 amounted to £1,934,000 (2017: £1,979,000). 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 2018 in respect of services to the Group amounted to £894,000 (2017: £865,000). 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 (2017: £nil). Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in Note 30.

As at 31 March 2018 the Directors have no interests in the ordinary shares of the Company (2017: same).

## 8. Investment income

<b>Group and Company</b>	<b>2018</b> <b>£m</b>	2017 £m
Interest receivable on short-term bank deposits held at amortised cost	<b>1.0</b>	0.7
<b>Total investment income</b>	<b>1.0</b>	0.7

## 9. Finance expense (net)

Group and Company	2018 £m	2017 £m
<b>Interest payable</b>		
Interest payable on Group borrowings	14.7	14.7
Interest payable on borrowings held at amortised cost	23.0	23.0
Interest payable on borrowings designated at fair value through profit or loss	22.2	22.2
Net receipts on derivatives held for trading	(11.0)	(12.0)
Other finance charges related to index-linked debt	15.3	9.5
Accretion on index-linked swaps	8.8	16.2
Interest cost on pension plan obligations (see Note 21)	1.1	0.1
Capitalisation of borrowing costs under IAS 23	(1.0)	(0.8)
<b>Total interest expense</b>	<b>73.1</b>	<b>72.9</b>
<b>Movements on financial instruments</b>		
Fair value movement on borrowings designated at fair value through profit or loss	(23.8)	10.3
Fair value movement on derivatives held for trading	(6.3)	95.9
<b>Total fair value movements</b>	<b>(30.1)</b>	<b>106.2</b>
<b>Total finance expense (net)</b>	<b>43.0</b>	<b>179.1</b>

Borrowing costs capitalised in the year under IAS 23 were £1.0m (2017: £0.8m), using an average annual capitalisation rate of 4.8% (2017: 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 have been £8.8m (2017: £16.2m) in 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 2019. No swaps have been closed out in the year (2017: same).

## 10. Taxation

Group and Company	2018 £m	2017 £m
<b>Current tax</b>		
Current year	21.1	34.4
Prior year	(0.8)	(1.1)
<b>Deferred tax</b>	20.3	33.3
Current year	5.6	(14.7)
Prior year	(0.9)	1.2
Impact of change in future tax rates	-	(9.8)
	4.7	(23.3)
<b>Tax charge for the year</b>	25.0	10.0

Corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year. The Government announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020. The legislation has been given effect by Finance Bill 2016 which was substantively enacted on 6 September 2016. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 17% rate. 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 and Company	2018 £m	2017 £m
<b>Profit before tax</b>	141.3	81.0
Tax at the UK corporation tax rate of 19% (2017: 20%)	26.9	16.2
Prior year tax adjustments	(1.7)	0.1
Reduction in current year deferred tax due to rate change	(0.7)	2.6
Non taxable expense	0.5	0.9
Impact of change in future tax rates	-	(9.8)
<b>Tax charge for the year</b>	25.0	10.0

## 11. Dividends

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

<b>Group and Company</b>	<b>2018 £m</b>	2017 £m
Final dividends for the year ended 31 March 2017 of 2.52 pence per share (31 March 2016 of 3.77 pence per share)	<b>12.0</b>	18.0
Interim dividends for the year ended 31 March 2018 of 13.34 pence per share (31 March 2017: 13.21 pence)	<b>63.6</b>	63.0
	<b>75.6</b>	81.0

In the year ended 31 March 2018, the Company declared interim dividends of £63.6m, which were paid in December 2017 (31 March 2017: £63.0m). The final dividend for the year ended 31 March 2017 of £12.0m was paid in June 2017.

At the Board meeting in May 2018 the Directors proposed a final dividend of £16m for the year ended 31 March 2018, subject to approval by equity holders of the Company; that is not a liability in the financial statements at 31 March 2018.



## 12. Intangible assets and goodwill

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
<b>Cost</b>				
At 1 April 2016	10.1	68.4	13.4	91.9
Additions	-	2.9	7.2	10.1
Transfers	-	3.4	(3.4)	-
Disposals	-	-	-	-
At 31 March 2017	<b>10.1</b>	<b>74.7</b>	<b>17.2</b>	<b>102.0</b>
Additions	-	1.9	7.7	9.6
Transfers	-	1.4	(1.4)	-
<b>At 31 March 2018</b>	<b>10.1</b>	<b>78.0</b>	<b>23.5</b>	<b>111.6</b>
<b>Amortisation</b>				
At 1 April 2016	-	52.4	-	52.4
Charge for the year	-	4.1	-	4.1
Disposals	-	-	-	-
At 31 March 2017	-	<b>56.5</b>	-	<b>56.5</b>
Charge for the year	-	5.5	-	5.5
Disposals	-	-	-	-
<b>At 31 March 2018</b>	<b>-</b>	<b>62.0</b>	<b>-</b>	<b>62.0</b>
<b>Net book value</b>				
<b>At 31 March 2018</b>	<b>10.1</b>	<b>16.0</b>	<b>23.5</b>	<b>49.6</b>
At 31 March 2017	10.1	18.2	17.2	45.5

In the Company, goodwill arose on the acquisition of assets and liabilities of Electricity North West Number 1 Company Ltd (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.

At 31 March 2018, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £5.6m (2017: £6.3m).

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 and Company	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
<b>Cost or valuation</b>					
At 1 April 2016	4,146.1	31.1	92.2	121.5	4,390.9
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	<b>4,330.8</b>	<b>32.1</b>	<b>103.4</b>	<b>119.3</b>	<b>4,585.6</b>
Additions	<b>146.2</b>	<b>0.9</b>	<b>12.5</b>	<b>49.3</b>	<b>208.9</b>
Transfers	<b>35.2</b>	<b>0.5</b>	<b>1.5</b>	<b>(37.2)</b>	<b>-</b>
Disposals	<b>(5.4)</b>	<b>-</b>	<b>(0.9)</b>	<b>-</b>	<b>(6.3)</b>
<b>At 31 March 2018</b>	<b>4,506.8</b>	<b>33.5</b>	<b>116.5</b>	<b>131.4</b>	<b>4,788.2</b>
<b>Accumulated depreciation and impairment</b>					
At 1 April 2016	1,381.5	7.2	59.5	-	1,448.2
Charge for the year	92.5	1.0	12.3	-	105.8
Disposals	(4.9)	-	(0.8)	-	(5.7)
At 31 March 2017	<b>1,469.1</b>	<b>8.2</b>	<b>71.0</b>	<b>-</b>	<b>1,548.3</b>
Charge for the year	<b>95.0</b>	<b>1.1</b>	<b>12.2</b>	<b>-</b>	<b>108.3</b>
Disposals	<b>(5.4)</b>	<b>-</b>	<b>(0.9)</b>	<b>-</b>	<b>(6.3)</b>
<b>At 31 March 2018</b>	<b>1,558.7</b>	<b>9.3</b>	<b>82.3</b>	<b>-</b>	<b>1,650.3</b>
<b>Net book value</b>					
<b>At 31 March 2018</b>	<b>2,948.1</b>	<b>24.2</b>	<b>34.2</b>	<b>131.4</b>	<b>3,137.9</b>
At 31 March 2017	2,861.7	23.9	32.4	119.3	3,037.3

At 31 March 2018, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £87.8m (2017: £69.7m).

At 31 March 2018, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £3,028.9m (2017: £2,925.7m). The revaluation reserve is disclosed in Note 27, net of deferred tax. The revaluation reserve arose following North West Water's acquisition of Norweb, in 1997.

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

### **Impairment testing of intangible assets and property plant and equipment**

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

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

For the purposes of impairment testing the Group have determined that there is only one 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 29 year period, including a terminal value, 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 6.37% (2017: 7.11%) reflecting an assumed level of risk associated with the cash flows generated from the licence. Cash flow projections for the five year period to 2023 are based on the Ofgem final determination and the Company's latest approved business plan (2017: 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.

## 14. Investments

	Group £m	Company £m
<b>Cost and carrying value</b>		
<b>At 31 March 2017 and 31 March 2018</b>	-	15.4

Details of the investments as at 31 March 2018, all of which were incorporated in the UK, and the principal place of business of each is in the UK, are as follows.

Company	Description of holding	Proportion held	Nature of business
<b>Subsidiary undertakings</b>			
Electricity North West Number 1 Company Ltd*	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Ltd	Ordinary shares of £1 each	100%	Dormant
<b>Joint venture</b>			
Nor.Web DPL Ltd	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.

## 15. Inventories

Group and Company	2018 £m	2017 £m
Raw materials and consumables	10.5	9.6

## 16. Trade and other receivables

Group and Company	2018 £m	2017 £m
Trade receivables	10.6	6.1
Amounts owed by affiliated undertakings	5.3	5.4
Prepayments and accrued income	47.5	49.0
<b>Balance at 31 March</b>	<b>63.4</b>	<b>60.5</b>

The average credit period taken on sales is 14 days (2017: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.9m (2017: £0.8m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

31% (2017: 16%) are past due but not impaired. A balance of £2.8m (2017: £0.7m) is less than 30 days past due; a balance of £1.5m is greater than 30 days past due at 31 March 2018 (2017: £1.0m), against which an allowance for doubtful debt of £0.9m (2017: £0.8m) has been made.

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

Group and Company	2018 £m	2017 £m
Balance at 1 April	0.8	0.7
Charged to the Income Statement	0.1	0.1
<b>Balance at 31 March</b>	<b>0.9</b>	<b>0.8</b>

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 2018 £1.7m (2017: £1.0m) 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 £1,758m (2017: £1,696m) for the year ended 31 March 2018 based on the actual retail price index (RPI) for March.

At 31 March 2018 £138.6m (2017: £129.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £13.9m (2017: £13.3m). 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.

## 17. Cash and cash equivalents and money market deposits

Group and Company	2018 £m	2017 £m
Cash and cash equivalents	87.0	142.7
Short-term money market deposits (maturity over 3 months)	-	10.0
<b>Balance at 31 March</b>	<b>87.0</b>	<b>152.7</b>

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 cash and cash equivalents amount is disclosed gross of any collateral held on derivatives. At 31 March 2018, the group held £10.6m (2017: £nil) as collateral in relation to derivative financial instruments (see Notes 18 & 20).

The effective interest rate on all short-term deposits was a weighted average of 0.65% (2017: 0.4%) and these deposits had an average maturity of 1 day (2017: 15 days).

## 18. Trade and other payables

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Trade payables	10.9	10.9	14.7	14.7
Refundable customer deposits (Note 25)	1.7	1.7	1.0	1.0
Other taxation and social security	10.5	10.5	15.1	15.1
Amounts owed to affiliated undertakings	3.4	3.4	3.6	3.6
Amounts owed to subsidiary undertakings	-	15.4	-	15.4
Customer contributions (Note 24)	28.7	28.7	25.4	25.4
Obligation to return cash collateral (Note 20)	10.6	10.6	-	-
Accruals and deferred income	76.8	77.1	82.9	83.2
<b>Balance at 31 March</b>	<b>142.6</b>	<b>158.3</b>	142.7	158.4

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 (2017: 15 days).

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

## 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 and Company	2018 £m	2017 £m
<b>Current liabilities</b>		
Bank and other term borrowings	6.6	6.4
<b>Non-current liabilities</b>		
Bonds	705.6	724.4
Bank and other term borrowings	253.2	249.4
Amounts owed to parent undertaking	73.7	71.2
Amounts owed to affiliated undertaking	198.2	197.7
	<b>1,230.7</b>	1,242.7
<b>Total borrowings</b>	<b>1,237.3</b>	1,249.1



### Carrying value by category

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

Group and Company	Normal value £m	Interest rate %	Maturity year	2018 Carrying value £m	2017 Carrying value £m
<b>Borrowings designated at fair value through profit or loss statement</b>					
Bond	250.0	8.875%	2026	<b>367.2</b>	391.0
<b>Borrowings measured at amortised cost</b>					
Bond	200.0	8.875%	2026	<b>196.8</b>	196.6
Index-linked bond	100.0	1.4746%+RPI	2046	<b>141.6</b>	136.8
Index-linked loan	135.0	1.5911%+RPI	2024	<b>164.4</b>	157.9
Index-linked loan	50.0	0.38% +RPI	2032	<b>46.3</b>	47.7
Index-linked loan	50.0	0%+RPI	2033	<b>49.1</b>	50.3
Amortising costs re: long-term loan		Libor+0.55%	2020	-	(0.1)
Amounts owed to parent undertaking			2023	<b>73.7</b>	71.2
Amounts owed to affiliated undertaking	200.0	6.125%	2021	<b>198.2</b>	197.7
<b>Other financial liabilities held at amortised cost</b>				<b>870.1</b>	858.1
<b>Total borrowings</b>				<b>1,237.3</b>	1,249.1

Affiliated companies are those owned by Companies under common ownership with Electricity North West Ltd in the North West Electricity Networks (Jersey) Ltd consolidation group.

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).

## 19. Borrowings (continued)

The following table provides a reconciliation of the opening and closing debt amounts.

Group and Company	2018 £m	2017 £m
<b>At 1 April</b>	<b>1,249.1</b>	1,233.0
Fair value movement on borrowings designated at fair value through profit or loss statement	<b>(23.8)</b>	10.3
Repayments	<b>(6.5)</b>	(4.8)
Increased inter-company borrowings	<b>2.5</b>	0.4
Indexation	<b>15.3</b>	9.5
Amortisation of transaction costs and bond discounts	<b>0.7</b>	0.7
<b>At 31 March</b>	<b>1,237.3</b>	1,249.1

As at 31 March 2017 and at 31 March 2018 all 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 2018. The fair values of the Group's financial instruments are shown in Note 20.

The loan from parent undertaking accrues interest at 2.70% (2017:2.74%). The loan from the affiliated undertaking accrues interest at 6.125% (2017: 6.125%).

### Borrowing facilities

The Group and Company had £25m (2017: £25m) in unutilised committed bank facilities at 31 March 2018 of which £nil (2017: £nil) expires within one year, £nil (2017: £nil) expires after one year but less than two years and £25m (2017: £25m) 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, that are managed by the pension scheme investment managers.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. 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 three (2017: two) 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 2018 there was £4.3m receivables past due (2017: £1.7m) against which an allowance for doubtful debts of £0.9m has been made (2017: £0.8m).

## 20. Financial instruments (continued)

### 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 2018, none (2017: 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.

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

Group and Company	2018 £m	2018 %	2017 £m	2017 %
<b>Credit Rating for cash and cash equivalents, including money market deposits, but excluding unrepresented cheques</b>				
AAA	32.7	26.4	73.2	48.2
AA	-	-	-	-
AA-	5.9	4.8	-	-
A+	26.4	21.2	29.3	19.3
A	59.0	47.6	49.3	32.5
	<b>124.0</b>	<b>100.0</b>	151.8	100.0

### 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).

Group and Company	2018 £m	2017 £m
<b>Credit risk by category</b>		
Trade receivables	10.7	6.1
Amounts owed by Group undertakings	5.2	5.4
Money market deposits (maturity over three months)	-	10.0
Cash and cash equivalents	87.0	142.7
<b>Balance at 31 March</b>	<b>102.9</b>	164.2

## 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 29 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:

Group and Company	2018 £m	2017 £m
Cash and cash equivalents	87.0	142.7
Short-term money market deposits (maturity over 3 months)	-	10.0
Committed undrawn bank facilities	25.0	25.0
<b>Balance at 31 March</b>	<b>112.0</b>	<b>177.7</b>

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 (2017: none).

The Group and Company had committed undrawn bank facilities including £nil (2017: £nil) of facilities that expire within one year, £25.0m (2017: £ nil) that expires after one year but less than two years and £nil (2017: £25m) that 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.

## 20. Financial instruments (continued)

### Group and Company at 31 March 2018

	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	(10.9)	-	-	-	-	-	(10.9)
Refundable customer deposits	(1.7)	-	-	-	-	-	(1.7)
Amounts owed to parent undertaking	-	(2.0)	(2.0)	(2.0)	(2.0)	(76.3)	(84.3)
Amounts owed to affiliated companies	-	(12.3)	(12.3)	(12.3)	(206.1)	-	(243.0)
Bonds	-	(42.1)	(42.1)	(42.1)	(42.1)	(806.3)	(974.7)
Borrowings and overdrafts	-	(9.4)	(9.4)	(9.4)	(9.4)	(239.9)	(277.5)
Derivative financial instruments - net	(10.6)	10.1	10.1	10.1	4.8	(134.6)	(110.1)
	(23.2)	(55.7)	(55.7)	(55.7)	(254.8)	(1,257.1)	(1,702.2)

### Group and 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
Trade payables	(14.7)	-	-	-	-	-	(14.7)
Refundable customer deposits	(1.0)	-	-	-	-	-	(1.0)
Amounts owed to parent undertaking	-	(1.9)	(1.9)	(1.9)	(1.9)	(75.7)	(83.3)
Amounts owed to affiliated companies	-	(12.2)	(12.2)	(12.2)	(12.2)	(206.1)	(254.9)
Bonds	-	(41.9)	(41.9)	(41.9)	(41.9)	(841.4)	(1,009.0)
Borrowings and overdrafts	-	(10.9)	(10.9)	(10.9)	(10.8)	(357.3)	(400.8)
Derivative financial instruments - net	-	6.5	11.8	11.8	11.8	(290.6)	(248.7)
	(15.7)	(60.4)	(55.1)	(55.1)	(55.0)	(1,771.1)	(2,012.4)

## Market risk

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

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

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

## Interest rate risk

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

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

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

## Sensitivity analysis on interest

The Group's 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.



## 20. Financial instruments (continued)

Group and Company	2018			2017		
	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Debt held at fair value	(11.9)	11.4	22.4	(14.1)	13.5	26.4
Inflation-linked swaps	(58.1)	51.9	98.6	(64.3)	56.9	92.4
<b>Total finance expense impact</b>	<b>(70.0)</b>	<b>63.3</b>	<b>121.0</b>	<b>(78.4)</b>	<b>70.4</b>	<b>118.8</b>

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. At 31 March 2018, the Group had no floating rate borrowings (2017: same).

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.

### 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.

<b>Group and Company</b>	<b>2018</b>			<b>2017</b>		
<b>Change in inflation rates</b>	<b>-0.5%</b>	<b>+0.5%</b>	<b>+1%</b>	<b>-0.5%</b>	<b>+0.5%</b>	<b>+1%</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Inflation-linked swaps	<b>70.5</b>	<b>(77.7)</b>	<b>(163.6)</b>	75.4	(83.7)	(176.7)
<b>Total finance expense impact</b>	<b>70.5</b>	<b>(77.7)</b>	<b>(163.6)</b>	75.4	(83.7)	(176.7)

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.

<b>Group and Company</b>	<b>2018</b>			<b>2017</b>		
<b>Change in inflation rates</b>	<b>-0.5%</b>	<b>+0.5%</b>	<b>+1%</b>	<b>-0.5%</b>	<b>+0.5%</b>	<b>+1%</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Debt held at amortised cost – inflation-linked interest basis	<b>2.0</b>	<b>(2.0)</b>	<b>(4.1)</b>	2.0	(2.0)	(4.0)
Inflation-linked swaps	<b>0.1</b>	<b>(0.1)</b>	<b>(0.1)</b>	-	-	(0.1)
<b>Total finance expense impact</b>	<b>2.1</b>	<b>(2.1)</b>	<b>(4.2)</b>	2.0	(2.0)	(4.1)

### 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 2018, the Group's derivatives are not designated in formal hedging relationships (2017: none), and instead are measured at fair value through the Income Statement.

## 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 99).

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 99) 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 2018, is £93.1m (2017: £74.4m), of which £91.6m (2017: £73.3m) 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 and Company	2018	2018	2017	2017
	-10bps	+10bps	-10bps	+10bps
	£m	£m	£m	£m
Inflation-linked swaps	(2.0)	1.9	(2.2)	2.0

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:

<b>Group and Company</b>	<b>2018 Carrying value £m</b>	<b>2018 Fair value £m</b>	2017 Carrying value £m	2017 Fair value £m
<b>Current assets</b>				
Trade receivables	10.7	10.7	6.1	6.1
Cash and cash equivalents	87.0	87.0	142.7	142.7
Short-term money market deposits (maturity over 3 months)	-	-	10.0	10.0
	<b>97.7</b>	<b>97.7</b>	158.8	158.8

<b>Group and Company</b>	<b>2018 Carrying value £m</b>	<b>2018 Fair value £m</b>	2017 Carrying value £m	2017 Fair value £m
<b>Non-current liabilities</b>				
Borrowings designated at fair value through profit and loss (FVTPL)	(367.2)	(367.2)	(391.0)	(391.0)
Borrowings measured at amortised cost	(591.6)	(766.0)	(582.8)	(777.6)
Amounts due to parent undertaking	(73.7)	(73.7)	(71.2)	(71.2)
Amounts due to affiliated companies	(198.2)	(229.2)	(197.7)	(240.0)
Derivative financial instruments	(357.3)	(357.3)	(363.5)	(363.5)
	<b>(1,588.0)</b>	<b>(1,793.4)</b>	(1,606.2)	(1,843.3)
<b>Current liabilities</b>				
Trade and other payables	(10.9)	(10.9)	(14.7)	(14.7)
Refundable customer deposits	(1.7)	(1.7)	(1.0)	(1.0)
Borrowings measured at amortised cost	(6.6)	(6.6)	(6.4)	(6.4)
	<b>(1,607.2)</b>	<b>(1,812.6)</b>	(1,628.3)	(1,865.4)

The value of derivatives is disclosed gross of any collateral held. At 31 March 2018, the group held £10.6m (2017: £nil) as collateral in relation to derivative financial instruments, included within current liabilities (see Note 18). The cash collateral does not meet the offsetting criteria in IAS 32:42, but it can be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

## 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 and Company at 31 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities				
- £300m notional inflation-linked swaps	-	(34.6)	(322.7)	(357.3)
Financial liabilities designated at FVTPL	(367.2)	-	-	(367.2)
	(367.2)	(34.6)	(322.7)	(724.5)

Group and Company at 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities				
- £300m notional inflation-linked swaps	-	(119.3)	(244.3)	(363.6)
Financial liabilities designated at FVTPL	(391.0)	-	-	(391.0)
	(391.0)	(119.3)	(244.3)	(754.6)

In November, inflation-linked swaps with fair values of £105.7m were restructured. Prior to restructure, all £105.7m was classified as Level 2; upon restructure £95.5m was transferred from Level 2 to Level 3 (2017: £8.7m), 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.

On restructure, there was no change in the fair values of the swaps, as evidenced by £nil cash exchange. The decrease in the fair values of the derivative portfolio was solely due to fair value movements; there were no additional swaps entered, nor any swaps closed out, during the year.

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

Group and Company	2018 £m	2017 £m
<b>At 1 April</b>	<b>(244.3)</b>	(167.8)
Transfers into Level 3 from Level 2	(95.5)	(8.7)
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	1.5	4.4
- On new derivatives in the year	-	-
- On instruments carried forward in Level 3	15.6	(72.2)
<b>At 31 March</b>	<b>(322.7)</b>	(244.3)

#### Fair value measurements disclosed but not recognised in the Statement of Financial Position

Group and Company at 31 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial liabilities with fair value disclosed</b>				
Borrowings measured at amortised cost	(766.0)	-	-	(766.0)
	(766.0)	-	-	(766.0)

Group and Company at 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial liabilities with fair value disclosed</b>				
Borrowings measured at amortised cost	(777.6)	-	-	(777.6)
	(777.6)	-	-	(777.6)

## 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 Ltd, 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 £30.3m (2017: £23.6m) to the defined benefit section of the Scheme. This includes £17.3m of deficit contributions. The Group estimates that contributions for the year ending 31 March 2018 will amount to around £30.8m which includes £17.8m of expected deficit contribution payments. The total defined benefit pension expense for the year was £17.6m (2017: £13.3m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2018 contributions of £2.7m (2017: £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.

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 2018 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 £18.2m is included in the Statement of Financial Position at 31 March 2018 (2017: deficit of £58.0m).

The weighted average duration of the defined benefit obligation is approximately 18 years (2017: 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).

### 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 2018 was £4.0m (2017: £3.2m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2018 contributions of £nil (2017: £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 and Company	2018 £m	2017 £m
At 1 April	(58.0)	(16.2)
Expense recognised in the Income Statement	(17.6)	(13.3)
Contributions paid	30.3	23.6
Total re-measurement included in Other Comprehensive Income	27.1	(52.1)
<b>At 31 March</b>	<b>(18.2)</b>	<b>(58.0)</b>

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

Group and Company	2018 £m	2017 £m
At 1 April	(1,430.4)	(1,219.9)
Current service cost	(15.3)	(12.0)
Interest expense	(34.9)	(41.6)
Member contributions	(1.7)	(1.9)
Augmentation	(0.4)	(0.4)
Re-measurement:		
Effect of changes in demographic assumptions	-	(24.6)
Effect of changes in financial assumptions	25.0	(221.8)
Effect of experience adjustments	-	33.1
Benefits paid	69.5	58.7
<b>At 31 March</b>	<b>(1,388.2)</b>	<b>(1,430.4)</b>

## 21. Retirement benefit schemes (continued)

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

Group and Company	2018 £m	2017 £m
Liabilities owing to active members	453.8	439.7
Liabilities owing to deferred members	70.5	89.0
Liabilities owing to pensioner members	863.9	901.7
<b>At 31 March</b>	<b>1,388.2</b>	<b>1,430.4</b>

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

Group and Company	2018 £m	2017 £m
At 1 April	1,372.4	1,203.7
Interest income	33.8	41.5
Return on plan assets (net of interest income)	2.0	161.4
Company contributions	30.3	23.6
Member contributions	1.7	1.9
Benefits paid	(69.5)	(58.7)
Administration expenses	(0.7)	(1.0)
<b>At 31 March</b>	<b>1,370.0</b>	<b>1,372.4</b>

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

<b>Group and Company</b>	<b>2018</b>	2017
	<b>£m</b>	£m
Current service cost	<b>(15.3)</b>	(12.0)
Past service cost	<b>(0.4)</b>	(0.4)
Interest income on plan assets	<b>33.8</b>	41.5
Interest (expense) on Scheme obligations	<b>(34.9)</b>	(41.6)
Administration expenses and taxes	<b>(0.8)</b>	(0.8)
<b>Net pension expense before taxation</b>	<b>(17.6)</b>	(13.3)

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 2018 the past service cost includes £0.4m in respect of augmentations (2017: £0.4m).

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

<b>Group and Company</b>	<b>2018</b>	2017
	<b>£m</b>	£m
Discount rate	<b>2.60</b>	2.50
Pensionable salary increases	<b>3.10</b>	3.10
Pension increases	<b>3.05</b>	3.05
Price inflation	<b>3.10</b>	3.10

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 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.

## 21. Retirement benefit schemes (continued)

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

<b>Group and Company</b>	<b>2018</b>	2017
<b>Male life expectancy at age 60</b>	<b>Years</b>	Years
Retired member	<b>28.0</b>	27.9
Non-retired member (current age 45)	<b>28.8</b>	28.7

In valuing the liabilities of the Scheme at 31 March 2018 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.

<b>Group and Company</b>	<b>2018</b>	2017
<b>Increase in Defined Benefit Obligation</b>	<b>£m</b>	£m
Discount rate: decrease by 25 basis points	<b>66</b>	61
Price inflation: increase by 25 basis points	<b>62</b>	49
Life expectancy: increase longevity by 1 year	<b>46</b>	48

As at 31 March 2018, the fair value of the Scheme's assets and liabilities recognised in the Statement of Financial Position were as follows:

Group and Company	Scheme assets	Value	Scheme assets	Value
	2018	2018	2017	2017
	%	£m	%	£m
Cash and cash equivalents	3.7	51.3	6.7	92.6
Equity instruments	10.0	137.0	9.4	128.4
Debt instruments	74.0	1,013.2	68.6	942.1
Real estate	10.6	145.0	11.0	150.6
Distressed debt	1.6	21.9	2.5	34.7
Hedge funds	0.1	1.6	1.8	24.0
Total fair value of assets	100.0	1,370.0	100.0	1,372.4
Present value of liabilities		(1,388.2)		(1,430.4)
<b>Net retirement benefit obligation</b>		<b>(18.2)</b>		<b>(58.0)</b>

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

## 22. Provisions

Group and Company	2018 £m	2017 £m
At 1 April	4.0	2.5
Charged /(credited) to the income statement	(0.2)	1.9
Utilisation of provision	(0.7)	(0.4)
<b>At 31 March</b>	<b>3.1</b>	4.0

Group and Company	2018 £m	2017 £m
Current	0.8	1.1
Non current	2.3	2.9
<b>At 31 March</b>	<b>3.1</b>	4.0

During the year ended 31 March 2018 a provision was created in connection with a portfolio of retail properties for which the Company was liable under privity of contract. The combined closing provision of £1.5m at 31 March 2018 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 the Company's best estimate as at the Statement of Financial Position date of the amounts that could become payable by the Company, on a discounted basis. The estimate is a result of a detailed risk assessment process, which considers a number of variables including the location and size of the stores, expectations regarding the ability of the Company to both defend its position and also to re-let the properties, conditions in the local property markets, demand for retail warehousing, likely periods of vacant possession and the results of negotiations with individual landlords, letting agents and tenants, and is hence inherently judgemental.

The Company is part of a Covenanter Group (CG) which is party to a Deed of Covenant with EA Technology Ltd (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 the Company represents 6.7% of the liabilities, a provision of £1.6m on a discounted basis was recognised within the Company during the year ended 31 March 2018.

## 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.

<b>Group and Company</b>	<b>Accelerated tax depreciation £m</b>	<b>Retirement benefit obligations £m</b>	<b>Other £m</b>	<b>Total £m</b>
At 1 April 2016	203.4	(3.0)	(42.4)	158.0
Charged/(credited) to the Income Statement	(9.5)	0.9	(14.8)	(23.4)
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 1 April 2017	193.9	(10.0)	(57.2)	126.7
Charged/(credited) to the Income Statement	<b>0.4</b>	<b>2.2</b>	<b>2.1</b>	<b>4.7</b>
Deferred tax on re-measurement of defined benefit pension schemes	-	<b>4.6</b>	-	<b>4.6</b>
Adjustment due to change in future tax rates of brought forward deferred tax OCI	-	-	-	-
<b>At 31 March 2018</b>	<b>194.3</b>	<b>(3.2)</b>	<b>(55.1)</b>	<b>136.0</b>

There are no significant unrecognised deferred tax assets or liabilities for either the Group or Company in either the current or prior year. Other deferred tax relates primarily to derivative financial instruments.



## 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 and Company	2018 £m	2017 £m
At 1 April	614.2	584.9
Additions during the year	44.0	45.4
Amortisation	(10.5)	(10.6)
Amortised through revenue (IFRIC 18)	(6.4)	(5.5)
<b>At 31 March</b>	<b>641.3</b>	614.2

Group and Company	2018 £m	2017 £m
Amounts due in less than one year (see Note 18)	28.7	25.4
Amounts due after more than one year	612.6	588.8
<b>At 31 March</b>	<b>614.3</b>	614.2

## 25. Refundable customer deposits

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

Group and Company	2018 £m	2017 £m
Amounts due in less than one year (see Note 18)	1.7	1.0
Amounts due after more than one year	-	-
<b>At 31 March</b>	<b>1.7</b>	1.0

## 26. Called up share capital

Company	2018 £	2017 £
<b>Authorised:</b>		
569,999,996 (2017: same) ordinary shares of 50 pence each	<b>284,999,998</b>	284,999,998
4 'A' ordinary shares of 50 pence each	<b>2</b>	2
Special rights redeemable preference share of £1	<b>1</b>	1
<b>At 31 March</b>	<b>285,000,001</b>	285,000,001

Company	2018 £	2017 £
<b>Allotted, called up and fully paid:</b>		
476,821,341 (2017: same) ordinary shares of 50 pence each	<b>238,410,671</b>	238,410,671
4 'A' ordinary shares of 50 pence each	<b>2</b>	2
<b>At 31 March</b>	<b>238,410,673</b>	238,410,673

The 'A' ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

## 27. Shareholders' equity

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2017	238.4	4.4	92.5	8.6	420.6	764.5
Profit for the year	-	-	-	-	116.3	116.3
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Re-measurement of defined benefit schemes	-	-	-	-	27.1	27.1
Tax on components of comprehensive expense	-	-	-	-	(4.6)	(4.6)
Total comprehensive income for the year	-	-	(2.2)	-	141.0	138.8
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(75.6)	(75.6)
At 31 March 2018	238.4	4.4	90.3	8.6	486.1	827.8

In 1997 the Company undertook a revaluation of certain assets, following North West Water's acquisition of Norweb. This resulted in the creation of a revaluation reserve of £234.9m. The additional depreciation created as a result of the revaluation is transferred from the revaluation reserve to retained earnings on an annual basis.

Capital redemption reserve, is a non-distributable reserve specifically for the purchase of own shares.

Company	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2017	238.4	4.4	92.5	8.6	420.4	764.3
Profit for the year	-	-	-	-	116.3	116.3
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Re-measurement of defined benefit schemes	-	-	-	-	27.1	27.1
Tax on components of comprehensive expense	-	-	-	-	(4.6)	(4.6)
<b>Total comprehensive income for the year</b>	-	-	(2.2)	-	141.0	138.8
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(75.6)	(75.6)
<b>At 31 March 2018</b>	<b>238.4</b>	<b>4.4</b>	<b>90.3</b>	<b>8.6</b>	<b>485.8</b>	<b>827.5</b>

The profit after tax for the Company for the year ended 31 March 2018 was £116.3m (2017: £71.0m) and the revenue for the year was £430.2m (2017: £485.5m). As permitted by s408 of the Companies Act 2006, the Company has not presented its own Income Statement.

## 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. The Company also has 'A' ordinary shares which rank *pari passu* in all respects, save that dividends may be declared on one class of shares without being declared on the other.

There exists an unissued special rights redeemable preference share which does not carry any voting rights and can only be held by one of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of Her Majesty's Treasury or any other person acting on behalf of the Crown. This share is a legacy from the privatisation of the Company and was issued on 19 November 1990 and redeemed on 31 March 1995.

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; and in the Corporate Governance Report on pages 31 to 43.

## 29. Ultimate parent undertaking and controlling party

The immediate parent undertaking is North West Electricity Networks plc, a company incorporated and registered in the United Kingdom. The address of the immediate parent undertaking is 304 Bridgewater Place, Birchwood Park, Warrington, England WA3 6XG. 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 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
<b>Transactions with related parties</b>				
Recharges to Electricity North West (Construction and Maintenance) Ltd	0.6	0.6	1.0	1.0
Recharges from Electricity North West (Construction and Maintenance) Ltd	(0.1)	(0.1)	(0.1)	(0.1)
Recharges to Electricity North West Services Ltd	1.6	1.6	1.2	1.2
Recharges from Electricity North West Services Ltd	(4.8)	(4.8)	(0.6)	(0.6)
Directors' remuneration (Note 7)	(1.9)	(1.9)	(2.0)	(2.0)
Directors' services	(0.2)	(0.2)	(0.2)	(0.2)
Interest payable to North West Electricity Networks plc	(2.0)	(2.0)	(1.9)	(1.9)
Interest payable to ENW Finance plc	(12.4)	(12.4)	(12.8)	(12.8)
Dividends paid to North West Electricity Networks plc	(75.6)	(75.6)	(81.0)	(81.0)

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

### 30. Related party transactions (continued)

Amounts outstanding with related parties are as follows:

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
<b>Amounts owed to related parties</b>				
Group tax relief to North West Electricity Networks plc	(5.6)	(5.6)	(23.6)	(23.6)
Group tax relief to Electricity North West Services Ltd	(0.1)	(0.1)	-	-
Interest payable to North West Electricity Networks plc	(0.5)	(0.5)	(0.5)	(0.5)
Interest payable to ENW Finance plc	(2.5)	(2.5)	(2.5)	(2.5)
Amounts owed to Electricity North West Number 1 Company Ltd	-	(15.4)	-	(15.4)
Amounts owed to Electricity North West Services Ltd	(0.3)	(0.3)	(0.6)	(0.6)
Borrowings from North West Electricity Networks plc	(73.7)	(73.7)	(71.2)	(71.2)
Borrowings from ENW Finance plc	(198.2)	(198.2)	(197.7)	(197.7)
<b>Amounts owed by related parties</b>				
Amounts owed by North West Electricity Networks plc	3.3	3.3	3.3	3.3
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	0.2	0.2	0.4	0.4
Amounts owed by Electricity North West Services Ltd	1.3	1.3	1.4	1.4
Amounts owed by Electricity North West Property Ltd	0.1	0.1	-	-
Amounts owed by North West Electricity Networks (Jersey) Ltd	0.1	0.1	0.1	0.1
Amounts owed by North West Electricity Networks (Holdings) Ltd	0.2	0.2	0.2	0.2

The loan from North West Electricity Networks plc accrues weighted average interest at 2.70% (2017: 2.74%) and is repayable in March 2023. The loan from ENW Finance plc accrues interest at 6.125% (2017: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2017: £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 as per Note 29.

Fees of £0.1m (2017: £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 as per Note 29.

## 31. Cash generated from operations

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Operating profit	183.3	183.3	259.4	259.4
<b>Adjustments for:</b>				
Depreciation of property, plant and equipment	108.3	108.3	105.8	105.8
Amortisation of intangible assets	5.5	5.5	4.1	4.1
Amortisation of customer contributions	(16.9)	(16.9)	(16.1)	(16.1)
Profit on disposal of property, plant and equipment	(0.2)	(0.2)	(0.1)	(0.1)
Cash contributions in excess of pension charge to operating profit	(22.4)	(22.4)	(16.5)	(16.5)
Operating cash flows before movements in working capital	257.6	257.6	336.6	336.6
<b>Changes in working capital</b>				
(Increase)/ decrease in inventories	(0.9)	(0.9)	(1.1)	(1.1)
(Increase)/ decrease in trade and other receivables	(2.9)	(2.9)	6.3	6.3
Increase/ (decrease) in payables and provisions	(14.8)	(14.8)	6.3	6.3
<b>Cash generated from operations</b>	<b>239.0</b>	<b>239.0</b>	348.1	348.1



## 32. Operating leases

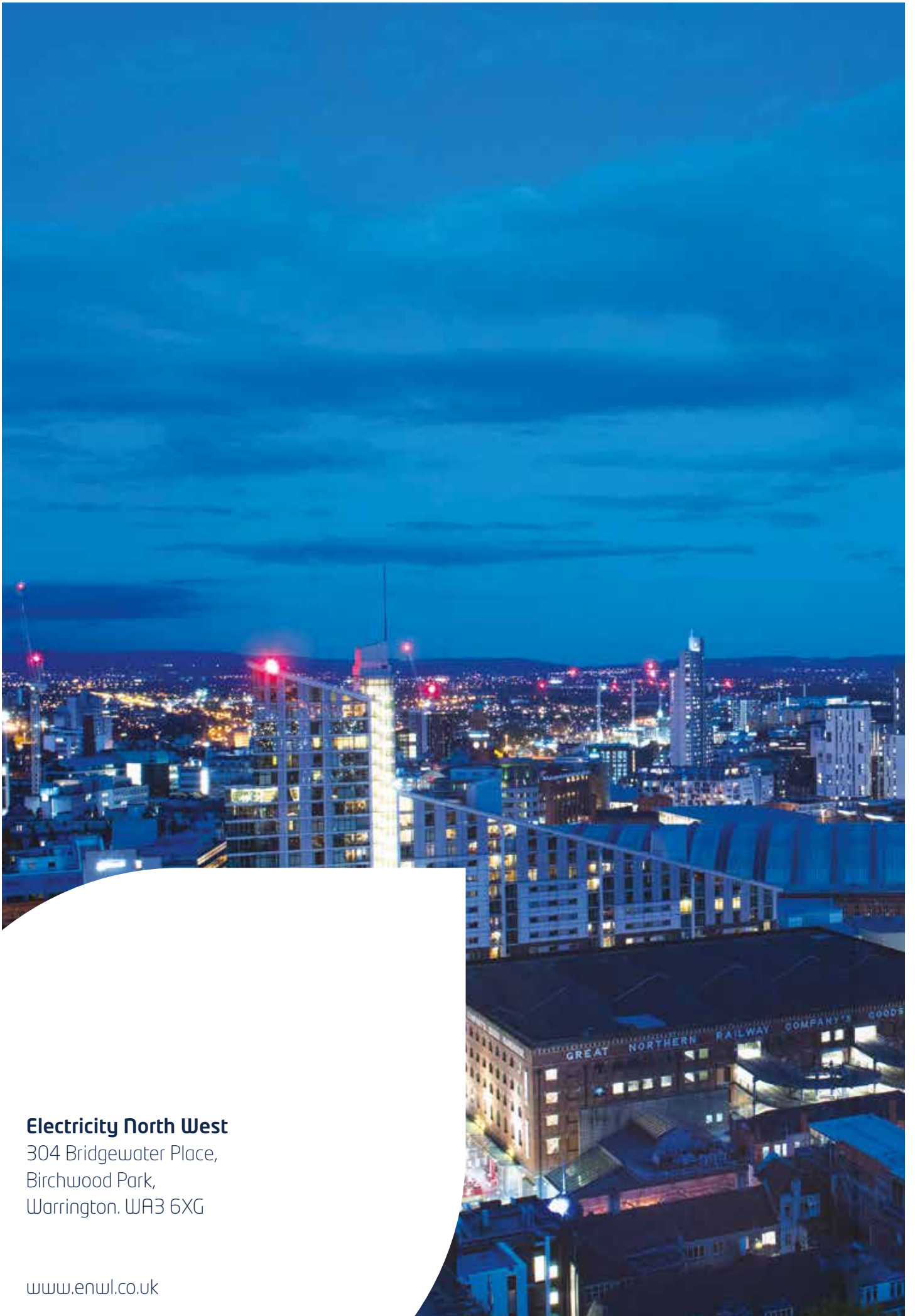
Future minimum rental payments under non-cancellable operating leases are as follows:

Group and Company	Land and buildings	Plant and machinery	Land and buildings	Plant and machinery
	2018 £m	2018 £m	2017 £m	2017 £m
Not later than one year	0.7	0.1	0.7	-
Later than one year and not later than five years	1.2	0.3	1.3	-
Later than five years	1.9	2.5	1.7	2.9
	<b>3.8</b>	<b>2.9</b>	3.7	2.9

## Glossary

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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



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