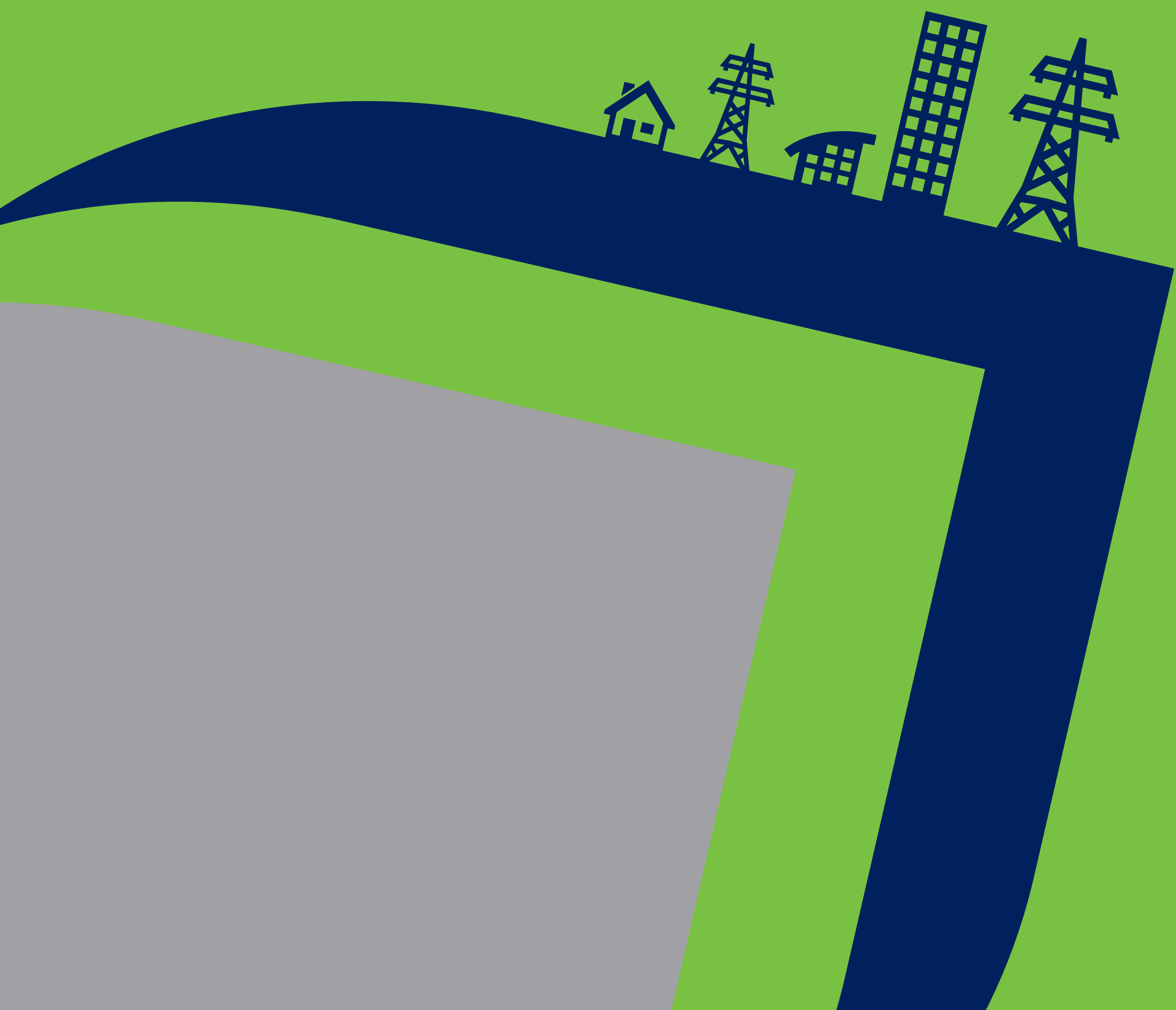
electricity north west

Bringing energy to your door

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2016

Electricity North West Limited
Registered number 02366949



INTRODUCTION

Introduction

Electricity North West Limited ('Electricity North West' 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 carry electricity from the national grid to 2.4 million premises and five million customers. Our job is to keep electricity flowing safely to our customers' homes and businesses, keeping the lights on 24 hours a day, seven days a week.

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 2016. Further information on our Company can also be found by visiting our website: www.enwl.co.uk.

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 of Electricity North West Limited ('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 2016

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 2016 are not due for submission to Ofgem until July 2016, and will be reviewed by Ofgem after their submission.

Website and investor relations

Electricity North West's website, 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 either contacting the Head of Strategic Planning and Investor Relations, or by registering for the Investor Relations Secure Area on the Investor Relations page of the website.

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Chairman's Statement

I am pleased to introduce the Group's results for the year ended 31 March 2016 and confirm that the Group started this first year of the eight-year regulatory price control with some major achievements, notably in the handling of Storm Desmond.

Dr John Roberts CBE
Chairman

This performance has been driven by a consistent focus on the needs of our customers which are central to achieving our goal to be the leading energy delivery business.

As in previous years, we continue to commit to a high standard of corporate governance, as detailed in our Corporate Governance Report on page 23. Central to good governance is an experienced and skilled Board that is able to provide leadership and appropriate challenge.

It was announced during the year that Steve Johnson, who has been Chief Executive Officer for seven years, would be stepping down from the Board. Since its separation from United Utilities, Steve has successfully ensured that Electricity North West is recognised and valued by customers and other stakeholders for the benefits it provides to the region. The Board thanks him for his exceptional service.

I am delighted to welcome Peter Emery to Electricity North West as Chief Executive Officer. Throughout his career, Peter has demonstrated a clear focus on achieving the highest levels of customer service delivered through colleagues working in a safe operating environment. His appointment will enable the Company to improve in these important areas.

After six years as an Independent Non-Executive Director, John Gittins stepped down from the Board on the 20 July 2015. The Nominations Committee undertook a recruitment process and I am delighted that Rob Holden joined us as an Independent Non-Executive Director in January 2016. I am also pleased to report that David Brocksom was appointed to the role of Chief Financial Officer in May 2015 and joined the Board in October 2015.

I would also like to take this opportunity to thank my Board colleagues for their continued commitment and valued contribution throughout the year and also to thank the Executive Leadership Team and all of our employees for their hard work and commitment.

This last year saw some unprecedented weather conditions which created enormous challenges in maintaining and restoring power to the homes and businesses in our region. I would particularly like to thank our employees and our contractors who work tirelessly to maintain and invest in the network for our customers.

Chief Executive Officer's Statement

The winter of 2015/16 was a challenging one for the Company. The region we serve was devastated by flooding and the Christmas and New Year plans of many of our customers and communities were left in tatters as they contended with the most challenging of conditions.

Above all, the safety of customers and of our colleagues and contractors remained our key concern. I am pleased to note that during the operational response to the floods we maintained the safety of our colleagues and customers in these challenging conditions, with no accidents or safety incidents occurring.

I am also proud to say that throughout these unprecedented events, we were able to demonstrate responsiveness and resilience in the service of our customers. Our colleagues gave up their own Christmas preparations and worked alongside colleagues from our supply chain partners and from other Distribution Network Operators to mobilise the resources required to keep many of our customers on supply and to restore power to those that lost power supplies. Many of our own staff worked hard to restore supplies to their communities despite their own properties being flooded and their own families being directly affected.

The mobilisation in response to Storm Desmond included everything from the largest ever single deployment of generators to maintain supplies, to the provision of over 30,000 hot meals for those directly affected by the floods. We proactively contacted those Priority Services Registered customers that were affected and used all media channels to reassure and engage with as many people as possible throughout the region. Working effectively with local, regional and national stakeholders, we created a shared understanding of the issues and delivered focussed and responsive plans and updates.

Our performance during the storms demonstrates our commitment to delivering the very highest levels of service to our customers, a commitment which informs and defines everything we do.

Customers tell us they want their distribution service to be affordable, reliable and sustainable. We have arranged our business activities and our decision making to align to these, necessarily conflicting, demands.

Good progress has been made against the 40 commitments we made to our customers for this price review, although progress was hampered in some areas as a consequence of the storms. The storms impacted both our short term priorities, for example to focus on restoration of damage, as well as delaying long term investment activities for example as a result of saturated ground conditions.

A comprehensive report of our performance against our regulatory incentives and our business plan commitments will be published later in the summer. We have plans in place to address those areas where performance was impacted by the storms event and expect overall performance to be back in line with expectations during 2016.

In November 2014, Ofgem confirmed that the Electricity North West price cut for the RIIO-ED1 period is the largest for any region in Great Britain. We are committed to demonstrating value to customers in the choices we make every day as a company. In a region where fuel poverty is higher than the national average, delivering prices that are fair to customers is a key driver for Electricity North West.

Steve Johnson
Chief Executive Officer

In addition to these considerations, it is important to us and to our customers that, in the long term, the shareholders and other financiers of the Company continue to receive a level of return on their investments that supports the necessity of their continued investment in the network.

We achieve the lowest prices through a determined focus on finding more efficient and effective ways of providing a reliable power supply. Changes range from small marginal operational gains through to significant network investment decisions.

Ofgem not only confirmed that our price cut at the start of the regulatory period was the largest in the sector but they also rated Electricity North West as the industry leader in the price review league table. The table combined efficiency during the previous price review period with efficiencies promised in the RIIO-ED1 business plan. Such performance demonstrates significant progress towards our vision of being 'the leading energy delivery business'.

Our customers continue to benefit from year on year improvements in the reliability of our network evidenced by a fall in the number of interruptions and a fall in the length of time they are without supply. Our performance in each of these areas (excluding the major storms) exceeded Ofgem-set targets and this year saw our best ever performance in customer minutes lost and our second best ever performance in customer interruptions.

We also continue to focus on our Customer Service League Table Performance. Our performance against this measure is below our targeted levels. We have developed a three-year plan which we believe will enable us to deliver leading customer service performance by 2019. We have also played a full role in the development of the Single Emergency Number; a sector-wide initiative which will deliver significant benefit to our customers.

Over the 8 year regulatory period, we will invest around £2.6 billion in the network, providing critical infrastructure investment in the region and continue to provide the reliable and sustainable network to our customers. We carefully plan and manage this investment and invest in new technologies to drive performance and value in both the short and long term.

We deliver through partnership and collaboration with key regional stakeholders. The North West is an ambitious region and by developing effective dialogue with these stakeholders we can ensure that we are fully and appropriately playing our part to support the ambitions of the region whilst maintaining the efficiency needed to match the customer affordability challenge.

Our Future Networks team continue to develop smart solutions that benefit our customers and the wider industry whilst delivering or enhancing our performance and safety. As part of our commitment to sustainability we continue to successfully develop and deliver Low Carbon Network Fund and Network Innovation Competition projects. Electricity North West is a leader in delivering the innovations which will enable the energy sector to help meet global and national climate change targets and we will continue to build on this successful record.

This is my last report as Chief Executive Officer of Electricity North West. I am pleased to report that the Company is well placed. It is powered daily by the determination of our colleagues to deliver the very highest levels of service to our customers at a price they can afford.

I am grateful for the support I have received over the last seven years and I am very proud of what has been achieved. I leave you with some sadness but also with my very best wishes for a successful future.

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 over 1,600 employees and provides a safe and reliable electricity supply, keeping the lights on 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.

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

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. Approximately 17p from every pound of a standard domestic electricity bill comes to Electricity North West to provide our services equivalent to £79 per home per year.

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.

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 will increase or decrease depending on performance against the outputs we deliver through a number of incentive mechanisms.

These mechanisms aim to ensure to level of customer service and to minimise both the number of interruptions that customers suffer and the average length of those interruptions. Performance is assessed each year and any positive or negative adjustments are fed annually into a process which will modify revenues for subsequent years.

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

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 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 28.

Vision and goals

The Company is driven by a vision to be the leading energy delivery business, aiming to provide customers with a good service and a safe and reliable electricity network now and in the future.

Electricity North West has set itself an overarching Company Goal to improve its Customer Satisfaction performance score to be the best in the electricity distribution sector. It is a goal that resonates with our employees who live and work in their local communities.

Our corporate goals

- Safety – safety is the number one 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.

Recognising that the Company operates in a high hazard environment, Safety is the key goal. There is a twin approach to safety.

The Company seeks to ensure that well trained people are able to operate safely within policy driven procedures backed by compliance, alongside a behavioural approach that seeks to ensure that all staff and contractors approach any task with a strong behavioural attitude to safety.

At the heart of these goals, alongside the key Customer goal, are the three Customer priorities which were identified through Customer engagement. These recognise that the Company has constantly 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.

The People goal is also a key priority. The Company recognises that the best results are obtained from highly motivated staff, and seeks to ensure constant improvement in the organisational 'climate', through improved communication and engagement with colleagues.

Performance in these areas is reviewed in this Strategic Report and through Key Performance Indicators shown on page 15.

Safety

The safety of the Company's people and customers is a fundamental cornerstone of the business.

Safety considerations are an integral part of the organisational structure with ownership and accountability integrated into every role. Operational leaders have a clear responsibility for delivering safety performance and they are supported in this with learning and development activities including pursuing the Institute of Occupational Safety and Health 'Managing Safely' qualification.

The health, safety and environment strategy sets out the objectives and plans for delivering exceptional performance in the management of risks and challenges faced and maximising the opportunities to support the wellbeing of the Company's people. The strategy covers the key areas of leadership, competence, systems and processes, communication, ownership and accountability, support, learning and continuous improvement as well as the need to choose safety.

In line with the plans for each of these areas, during the year ended 31 March 2016, health and safety was integrated into the organisation's leadership programmes and the Company provided specific training for inclusion in the Institute of Occupational Safety and Health 'Managing Safely' and National Construction Certificate qualifications.

Behavioural safety 'Think Safety' training continued to be provided to all employees along with task specific training in areas such as plant operation, asbestos awareness and ladder safety systems.

The Company has continued to work closely with contractors and other network operators to ensure that it remains at the forefront of innovation in health and safety management.

Through leadership and communication there was continued promotion of the benefits of identifying and dealing with hazards (near misses). This was supported with the introduction of a new user-friendly system for reporting actions taken and tracking additional actions as well as providing feedback and management information.

On wellbeing, the business embarked on a support programme for employees with a focus on mental health and wellbeing. Included in this was the successful delivery of awareness sessions by the mental health charity MIND.

The key performance measures used to track the impact of the health, safety and environment strategy are the leading indicator of the number of near misses reported coupled with logging indicators of the lost time accident frequency rate and the total number of accidents reportable under RIDDOR.

Near miss reporting is actively encouraged to promote a safety culture. In the year ended 31 March 2016, the number of near misses reported by Electricity North West employees was 9,240 reported, this compared with 4,800 in the previous year and significantly outperforming the target of 5,000. This significant increase in reported incidents was due to the leadership focus in this vital learning process, encouraging not just the raising of near miss reports (and enabling corrective and preventative action to be taken) but also encouraging a constant safety focus and dialogue.

Company Background (continued)

The total number of lost time accidents involving employees and contractor employees for the year ended 31 March 2016 was four (2015: ten), the lowest ever annual total. Of the total number of accidents in the year, the number reportable under RIDDOR was also four (2015: ten). The corresponding lost time accident frequency rate for the year ended 31 March 2016 was 0.06 (2015: 0.23).

In regard to safety related training, employee attendance was as planned.

Safety will continue to be the Company's main priority moving into the next financial year, maintaining the momentum in implementing the health, safety and environment strategy and in the delivery of next generation of behavioural based safety training. Continued development of near miss reporting will remain an area of focus along with shared learning and the provision of appropriate training.

Customer

The aim of Electricity North West is to put customers at the heart of everything the Company does.

During the year, Electricity North West introduced a number of improvements to deliver enhanced customer service including the installation of a new Customer Relationship Management ('CRM') system and telephony improvements to introduce queuing for all customers.

The CRM tool supports improvements in customer experience and a simplified process for the automatic payment, in line with guaranteed standards.

The implementation in 2016/17 of a new high volume call handling system will enhance the customer experience when contacting the Company during high impact events, for example during storms.

At the centre of improving communications with customers are real time updates from the field. These will provide the ability for both automated communications and customer service representatives to deliver an improved service to our customers.

During the year ended 31 March 2015 we undertook surveys to understand in more depth the requirements of vulnerable customers. The vulnerable customer strategy based on this feedback as well as engagement with various stakeholders drove change during the year ended 31 March 2016. For example, we provided training for all our field-based colleagues, to give them the skills to recognise signs of vulnerability and the confidence to engage these customers. More than 1,100 colleagues have now taken part in the training sessions, including jointers, engineers, excavation teams and reinstatement teams.

During the year ended 31 March 2016 a reduction was seen in the customer satisfaction results measured through the Ofgem survey. The Company's overall satisfaction rating was 80% and the ranking among the Distribution Network Operators fell to 14th position. This is disappointing for the Company and colleagues and has prompted a cross-business focus on this area.

The overall complaints performance within the year continued to outperform the Ofgem penalty incentive, despite the increased volume following Storms Desmond and Eva. The Ombudsman praised our proactive engagement with them and other stakeholders. Zero Ombudsman cases have been found against Electricity North West during the year.

A three year plan has been developed to deliver the commitment to be a leader in customer service by the mid-point of the eight year regulatory period. The roadmap has cross-business commitment and clearly defines the changes and improvements which will be delivered over this period to secure both a relative and absolute leadership position on the Customer Service League Table.

The Company is partnering with all other Distribution Network Operators (including independents) to deliver a Single Emergency Number for customers to contact in the event of a fault. This ambitious project, which is supported by the Department for Energy and Climate Change ('DECC') and Ofgem, will be delivered in the summer of 2016 and Electricity North West is fully playing its part in supporting the development, implementation and operation of this new customer service.

We have also commenced the development of an improved website which will continue into the year to March 2017.

The procurement process for this project is well advanced and the focus for development will be to enhance the digital customer journey for both network and connections customers.

Reliability

Customers say that "keeping the lights on" is their top priority. This is achieved by investing 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. Incidents are responded to quickly and there has been extensive investment in additional technology to enable the finding and fixing of faults more quickly.

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').

This year saw our best ever performance in customer minutes lost, which measures the speed with which we restore supply after a fault occurs.

The average number of minutes for which customers were without supply during the year to 31 March 2016 was 32.7 (2015: 34.8), which outperformed the target of 47.4 set by Ofgem.

In the year ended 31 March 2016, the average number of interruptions per 100 customers was 37.2 (2015: 36.6) outperforming the target set by Ofgem. It was our second best ever performance, marginally behind the 2015 result.

During the last price review period, £43.3m was invested in installing remote control and automation to the network to minimise the effects of any faults that do occur. A further £2.5m was invested in the year ended 31 March 2016. This is part of the Company's declared target to improve both customer interruptions and customer minutes lost by 20% by 2019 compared to the 2012 baseline.

Most customers enjoy excellent service from us 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. These are described as Worst Served Customers. Ofgem has changed this definition of a Worst Served Customer, and 1,972 of our customers now fall within the new definition.

We already have the lowest percentage of Worst Served Customers of any DNO outside of London and we plan to reduce this to zero by the end of the RIIO-ED1 period.

During the year ended 31 March 2016, a range of projects have been completed that improves network resilience for 246 of these Worst Served Customers.

Following the significant storm events that occurred in December 2015, the focus for the coming year is on a strategic programme of increasing network resilience during extreme weather events. Next year also sees an increase in switchgear and transformer replacement programmes. These programmes will help to ensure the long term reliability of the network.

Affordability

Customers are increasingly worried by rising energy prices and we work hard to improve our efficiency and innovation to minimise our costs and therefore reduce customer bills. We remain cognisant of the fact that a greater number of our customers are in 'fuel poverty' than the national average. Our operating costs for the year ended 31 March 2016, excluding depreciation, amortisation and restructuring costs, decreased by £1.1m from the prior year which helps to keep prices low.

Investment in the network is a key part of delivering a reliable and sustainable network that gives excellent customer service and we seek to do this at an affordable price.

We have a targeted initiative programme that focuses on innovative ways of achieving network resilience and sustainability at a reduced cost to customers. Examples of this include utilising Demand Side Response rather than traditional network reinforcement techniques to improve the performance of overloaded circuits resulting in a lower whole life cost to customers. Demand Side Response aims to save customers money by agreeing with particular customers to reduce demand in certain conditions (for example during faults) thereby saving all customers the significant cost of network reinforcement.

In the year ended 31 March 2016, the first year of RIIO-ED1, a total network investment programme of £91.2m was delivered (2015: £122.0m) Investment levels were below plan reflecting in part the impact of the floods on our planned delivery.

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. We continue to deliver this replacement programme and to meet changing customer needs, using innovation to also ensure the Affordability challenge is met.

Sustainability

Electricity Distribution Network Operators face significant challenges from the UK's ongoing decarbonisation of heat and transport. Ensuring the sustainability of our network by finding affordable solutions is important not just for customers but for the environment and the sustainability of the business.

We plan our activities with regard to the changing demands of our customers. As the UK Smart Meter programme gains momentum we are responding to the increased demands that this imposes. Similarly, as the prospect of the new nuclear power station on the Cumbrian coast gradually gets closer we are working closely with colleagues at National Grid in planning the route, in planning to minimise the risk and disruption to customers that this project imposes.

Innovation is vital to the future success and sustainability of the organisation. The Company is a leading network operator for innovation with a well established track record that the Company will continue to build on into the future.

The innovation strategy forms an integral part of the business plan and sets out why innovation is important for customers and how value is delivered through a series of innovative projects, including the rollout of smart grids and smart metering.

In the first year of RIIO-ED1 we have successfully delivered our innovation programme. This aims to meet the future needs of customers and stakeholders in an increasingly uncertain energy future by maximising the opportunities provided by:

- New technologies,
- New business and commercial models,
- An appropriately supportive regulatory framework with associated incentives.

Company Background (continued)

In the last five years the Company has won over £42m of competitive research and development funding for five key innovation projects and successfully achieved all major milestones in their delivery. In the DPCR5 regulatory period funding was granted from Ofgem's Second Tier Low Carbon Networks Fund. In RIIO-ED1 this has been replaced by the Network Innovation Competition (NIC). The successful projects are:

- **Capacity to Customers (C2C) –** this combines new technology with innovative commercial contracts to increase the amount of electricity that can be transmitted through the existing network.
- **Customer Load Active System Services (CLASS) –** this demonstrates that electricity demand can be managed by controlling voltage without any discernible impact on customers.
- **Smart Street –** this trials cutting edge techniques to use voltage control to minimise the impact of low carbon technologies while maintaining voltage within statutory limits.
- **Respond –** this delivers an intelligent approach to managing fault current, the instantaneous surge of energy which occurs under fault conditions.
- **Celsius –** this co-ordinated approach to managing the temperature of electrical assets in distribution substations will release additional capacity, reduce long-term costs for customers and avoid early asset replacement.

In addition to these multi-million pound projects we also lead numerous smaller-scale projects funded under the Network Innovation Allowance (NIA).

Each of these projects has clearly defined successful delivery reward criteria and we have consistently demonstrated the highest levels of performance against these criteria.

During the next seven years of RIIO-ED1 and beyond, options to secure funding for innovation projects will continue to be explored. The C2C and CLASS projects will also be incorporated into business as usual.

People

The Company is a major employer in the North West of England and employs over 1,600 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 People goal remains focussed around "improving the 'working climate' of the company" (or how employees feel about coming to work); as this provides a measure of engagement for employees. We believe that there is a direct relationship between 'working climate' and business performance.

The embedding of new structure announced last year and ongoing behavioural leadership training continues to improve the climate and therefore improve the business performance.

The Company remains committed to ensuring that it invests in appropriate training and development to ensure that all employees have the right level of competence in the long term, whether they are a leader of people or someone providing a front line service to customers. For example all employees need a high level of awareness of health and safety and receive behavioural safety training.

The employee recognition scheme, 'Leading Lights', has been embedded in the business with over 300 recipients of the awards in the year. The Company remains committed to recognising when employees go the extra mile.

The overall approach to renewing our operational workforce has been revised, including refreshing all trainee and apprenticeship programmes. For example, there is a new Trailblazer programme for craft apprentices.

At a senior level the business continues to invest in its leaders, with members of its Executive Leadership Team attending the Institute of Directors (IoD) Diploma programme working towards Chartered Membership. During 2016 members of the Senior Leadership Team will continue to develop their skills as part of an internal coaching cohort. The Wider Leadership Team (240 people) continues to work on their management and leadership skills through a leadership development programme.

The Company remains conscious of the demographic profile of its employees retirement profile of employees to provide opportunities to up skill the existing workforce. There is a long plan of future workforce requirements which takes into account how technology and innovation will impact upon the skills required within the business.

The Company has embarked upon the 'Open Doors' programme, which provides focus on under-represented demographic groups. Initially the focus has been on the development of women within the business and a second group commences our development programme commenced in the spring of 2016.

Success against the People goal is measured through a Climate Survey that provides details of overall employee engagement and how employees feel about the 'working climate'. The first employee climate survey returned a score of 42% in July 2013; the latest 2016 survey, using a simplified question set, showed an improvement score of 70%.

In September 2016 delivery will begin of a new Higher Level Apprenticeship scheme for trainee engineers. The Company is chairing the development of a new apprenticeship standard for specialist engineers, the industry's first 'Power Engineering Masters Degree Apprenticeship'. Working closely with the Department of Business Innovation and Skills and colleagues in the wider power sector and interested universities, the first apprentice is anticipated to start in 2017.

Talent management and succession planning is high on the agenda and six monthly review discussions have been structured to discuss and consider options for succession planning and focussed personal development plans to support succession activity.

Corporate Social Responsibility

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 of service at a price customers can afford.

The Company refreshed its engagement approach this year to ensure that delivery of the RIIO-ED1 business plan commitments is subject to stakeholder scrutiny and underpinned by their support. The change was also prompted by Ofgem's decision to enhance Stakeholder Engagement Reporting to include a new section on Vulnerable Customers.

The Company continues to follow internationally-recognised best practice guidelines, the AA1000 AccountAbility Principles Standard (AA1000APS). This provides a framework to identify, prioritise and respond to material business challenges and align engagement activity to these challenges.

This strategic approach to stakeholder engagement provides structure to the activity undertaken by the business to support work reported in the RIIO-ED1 Stakeholder Engagement and Customer Vulnerability Incentive and the Connections Incentive as well as to the dissemination and learning work undertaken to support Low Carbon Network and Network Innovation Competition projects.

The Company has established a number of new Stakeholder Advisory Panels, each aligning to the company goals of Affordability, Reliability, Sustainability and customer service, together with an overarching Strategic Stakeholder Advisory Panel. This new approach has been welcomed by stakeholders who value the opportunities for the more effective collaboration that this focussed approach provides. All work is overseen by an Executive-level Internal Stakeholder Advisory Panel.

To support adherence to these initiatives, for the fourth 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.

Our Corporate Social Responsibility approach

On top of the engagement with its stakeholders the Company is committed to being a responsible and sustainable business and has set out Corporate Social Responsibility focus areas being; community, workplace, marketplace and environment.

The Corporate Social Responsibility activity is informed and shaped by the Business in the Community (BITC) Corporate Responsibility Index. This is the fourth year that the Company has participated in the Index and, in line with its plan, has maintained performance at 79%. The aim is to achieve 90% by March 2018.

Initiatives continue to be undertaken to improve performance under the Index, for example, engaging the supply chain in a range of social, environmental and economic issues and including sustainability within tender documents. In addition, the implementation of the 'Open Doors' programme contributes to the development of a diverse workforce, and continuing colleague engagement in recognition and innovation schemes.

Further information on these and other initiatives can be found under the Sustainability section of the Company's website: http://www.enwl.co.uk/sustainability

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.

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.

Corporate Social Responsibility (continued)

Gender and diversity

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

Turnover
2016 - 144 leavers (2015: 115 leavers)

Training courses delivered – Non operational
2016 - 1,239* (2015: 47)

Training course attendees – Non-operational employees
2016 – 4,445* (2015: 258)

*The Company introduced e-learning training courses in the year ending 31 March 2016; the figures for 2016 above include 1,024 e-learning training courses delivered, attracting 3,394 attendees.

Workforce composition

	2016 Males	2016 Females	2015 Males	2015 Females
Total employees Of which	1,274	367	1,286	360
Senior managers	29	12	29	10
Executive leadership team	8	1	8	1
Directors	9	–	8	–

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 though an environmental management system that is certified to ISO 14001 standard.

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. The Company also developed an energy management system in the year. This has been externally assessed against ISO 50001 Energy Management Standard with certification expected in 2016.

Business Carbon footprint

The Company's business carbon footprint (excluding losses) for the year was 23,133 tCO2e (as per tonnes of CO2 equivalent), a 5% reduction on the year ended 31 March 2015 of 24,538 tCO2e. This reduction was in spite of a significant increase in fuel used to power emergency generators during the two major storm events that occurred in the year.

The Company undergrounded and connected 3.4km 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.

Further oil filled cable was replaced in the year as part of the M6 to Heysham Link Road diversion works. Overall leakage of oil from underground cables in the year was 31,220 litres, which although slightly above the target of 30,000 litres per year across the RIIO-ED1 period, was in line with the forecast. The 'oil' used to replace leaked oil is now formulated to biodegrade within days of exposure to the environment.

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.

Next year the Company will continue to implement the plans set out in the health, safety and environment strategy and the RIIO-ED1 business plan. In particular aiming to obtain certification to the ISO 50001 energy management standard.

	2016 tCO2e	2015 tCO2e
Scope 1		
Operational transport	7,419	9,212
Business transport - road	1,192	1,281
Fugitive emissions	352	877
Fuel combustion	4,113	2,847
	13,076	14,217
Scope 2		
Buildings energy usage	9,840	10,198
Scope 3		
Business transport - rail	29	27
Business transport - air	188	96
	217	123
Business Carbon Footprint (excl. losses)	23,133	**24,538**
Losses[1]	728,045	**728,045**
Business Carbon Footprint (incl. losses)	691,145	**752,583**

[1] The reported 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).

STRATEGIC REPORT

Key Performance Indicators

	KPI	DEFINITION AND COMMENT	PERFORMANCE
SAFETY	RIDDOR	Accidents involving employees or contractors of Electricity North West, reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation ('RIDDOR'). The fall in the RIDDOR reported accident rate and accident frequency rate reflects the increased focus on developing a safety culture.	4 RIDDOR accidents 2016: 4 2015: 10 2014: 5 2013: 5 2012: 7
SAFETY	Lost time accident frequency rate	The total number of reportable incidents in the period divided by the number of hours worked in that period by employees, multiplied by 100,000 hours.	0.06 2016: 0.06 2015: 0.23 2014: 0.11 2013: 0.11 2012: 0.10
SAFETY	Near miss reporting	Near miss reporting is actively encouraged to promote a safety culture. In the year ended 31 March 2016 the number of near misses reported by Electricity North West employees was 9,240 compared with 4,800 in the previous year, significantly outperforming the target of 5,000. This significant increase was due to the leadership focus, encouraging not just the raising of near miss reports (and enabling corrective and preventative action to be taken) but also encouraging a constant safety focus and dialogue.	9,240 near miss reports 2016: 9,240 2015: 4,800
CUSTOMER	Overall customer satisfaction	The customer satisfaction measure is aligned with the Ofgem survey results and assesses customer satisfaction in the key areas of interruptions, connections and general enquiries. Performance this year is below target of 85% and is a significant focus for management, with detailed action plans in place to improve performance.	80% 2016: 80% 2015: 83% 2014: 81% 2013: 76% 2012: 77%
PEOPLE	Employee engagement	We measure success through a Climate Survey which provides details of overall employee engagement and how employees feel about the 'working climate'. In 2016 the survey was simplified to encourage employee participation. The current engagement score is 70%.	70% climate score 2016: 70% 2015: 50% 2014: 42%
RELIABILITY	Customer minutes lost*	Customer minutes lost (CML) 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. The result of 32.7 for the year outperforms the Ofgem target of 47.4 and is the best ever performance in this area. The year ended 31 March 2016 figure is yet to be audited by Ofgem.	32.7 CML's 2016: 32.7 2015: 34.8 2014: 43.1 2013: 49.3 2012: 47.6
RELIABILITY	Customer interruptions*	Customer interruptions (CI) 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 networks, multiplied by 100, adjusted for exceptional events. The result of 37.2 for the year outperforms the Ofgem target of 48.4 and is our second best year ever. The year ended 31 March 2016 is yet to be audited by Ofgem.	37.2 CI's 2016: 37.2 2015: 36.6 2014: 44.9 2013: 46.6 2012: 45.9
SUSTAINABILITY	Carbon footprint excluding losses	We are aware of the environmental impacts we can have and are committed to manage the impact of our operations. The classification of carbon sources in the calculations follows the requirements of Ofgem and excludes losses arising from the operation of the network which cannot be directly controlled. Included in the figure is the impact of generators used on the network. In this regard, emissions fell in spite of the efforts to restore power during the storms using generators. For more information see page 14.	23,133 tCO2e 2016: 23,133 2015: 24,538 2014: 23,762 2013: 25,088

	KPI	DEFINITION AND COMMENT	PERFORMANCE
AFFORDABILITY	Average price	The average prices are calculated by assuming usage at the Ofgem September 2015 medium Typical Domestic Consumption Value (3100kWh) and applying this to the Domestic Unrestricted tariffs for each year. Prices are adjusted for inflation at the RPI rate reported by HM Treasury in line with the indexation applied to our allowed revenue. Our charges for the year ended 31 March 2015 included a reduction to the Domestic Unrestricted fixed rate equivalent to £5 per annum, which was recovered by increasing the fixed charge in the year ended 31 March 2016. As this reduction was a brought forward benefit of our RIIO business plan, the impact of this fixed charge adjustment has been excluded from this calculation.	2016: £79 2018: £71 2017: £85 2016: £79 2015: £102 2014: £99
FINANCIAL KPIs	Revenue	Our revenue is largely fixed and is determined by Ofgem to allow recovery of efficient costs to maintain the network, along with an opportunity to earn incentive revenue for delivering our outputs. This revenue is profiled over a price review period with the year to 31 March 2016 representing the first year of the RIIO ED1 price review. Revenues have declined from the prior year back in line with our commitment to customers as we strive to deliver operating efficiencies and innovation in our network investment strategy. It also reflects the impact of the comparative DPCR5 revenue profile. Other revenues arise from work directly performed for connections customers for example connections.	£450.8m 2016: £450.8 2015: £533.7 2014: £508.0 2013: £468.0 2012: £404.6
FINANCIAL KPIs	Profit before tax and fair value movements	Profit before tax and fair value is the operating profit after interest charges. This has reduced as a result of the reduction in charges to customers.	£122.6m 2016: £122.6 2015: £238.0 2014: £182.0 2013: £168.9 2012: £136.0
FINANCIAL KPIs	Net Debt	Net debt includes the total borrowings, current and non-current, net of cash and cash equivalents and money market deposits.	£1,090.2m 2016: £1,090.2 2015: £1,100.4 2014: £1,087.4 2013: £1,044.3 2012: £1,003.0
FINANCIAL KPIs	RAV Gearing	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 £1,643m as at March 2016 (2015: £1,609m). There is a requirement to keep our gearing below 65%, with an internal target of 63%.	62% 2016: 62% 2015: 62% 2014: 60% 2013: 58% 2012: 61%
FINANCIAL KPIs	Interest cover	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.	4.5 times 2016: 4.5 2015: 3.5 2014: 4.5 2013: 6.0 2012: 4.5
FINANCIAL KPIs	Capital expenditure	This represents investment in the network to maintain its reliability and resilience for future customers. Capital expenditure represents the total additions to property, plant and equipment and software. Expenditure is less than the prior year reflecting the investment programme for RIIO ED1 and the impact of the December 2015 storms causing delays in delivery.	£221.3m 2016: £221.3 2015: £249.7 2014: £227.9 2013: £217.3 2012: £221.1

* The Customer Minutes Lost and Customer Interruptions figures exclude the effects of exceptional events.

Financial Performance

Given the nature of the business, traditional revenue and profitability measures are less meaningful than in other trading organisations. Our revenues are set largely by Ofgem to allow sufficient cash inflow to fund operating costs, capital expenditure to maintain and improve our network, and to service our debt. The level of efficiency then determines the overall result. The measure that is most closely aligned to this result is cash flow before financing activities (see section below).

Revenue

Revenue is largely fixed across a price review period, it is set at a level that meets our efficient operating costs and expenses, as well as funding efficient investment, interest on necessary loan funding, taxes so it allows for a return to shareholders at a level that regulates the return and encourages future investment.

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

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

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

Operating profit

Operating profit has decreased to £215m (2015: £301m) as a result of the reduction in revenue detailed above and higher operating costs caused by the December 2015 storms.

Profit before tax

Profit before tax has increased to £122m (2015: £92m), reflecting the lower operating profit, offset by the lower finance expenses, mainly as a result of the significant decrease in the fair value movements on the financial instruments. The profit before tax and fair value movements has reduced from prior year by £74m and at 31 March 2016 are £164m.

Taxation

Corporation tax is calculated at 20% (2015: 21%) of the estimated assessable profit for the period. The rate will be reduced to 19% on 1 April 2017 and 18% on 1 April 2020. The Finance Bill 2016 proposes a further rate reduction to 17% on 1 April 2020 but as the legislation is not substantially enacted at the Statement of Financial Position date, the tax disclosures reflect deferred tax measured at the 18% rate from 1 April 2020.

The overall taxation for the year has changed from charge of £20m in 2015 to £5m in 2016 mainly as a result of 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. Distribution decisions take into account the forecast business needs, the Group's treasury policy on liquidity, financing restrictions, applicable law in any given financial year and are subject to the Company's licence obligations.

In the year ended 31 March 2016 the Company declared interim dividends of £30m, which were paid in December 2015. In the year ended 31 March 2015 the Company declared and paid a final dividend for the year-ended 31 March 2014 of £37m.

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 2016 was £4,391m (2015: £4,187m), with a net book value of £2,943m (2015: £2,837m). In the year ended 31 March 2016, the Group invested £206m (2015: £239m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £15m (2015: £11m) 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 2016 of £16m (31 March 2015: £34m). The fall in the deficit is due to the increase in the discount rate from 3.3% (2014/15) to 3.5% (2015/16) which has reduced values placed on the liabilities, offset by the performance of the scheme's assets.

The most recent triennial valuation of the Group's Pensions scheme was carried out as at 31 March 2013 and identified a shortfall of £188m against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2013 Actuarial valuation the Group agreed to remove the shortfall by paying additional annual contributions from April 2015 to March 2025.

Cash flow before financing activities

Cash generated before financing in the year was £32m (31 March 2015: £60m), reflecting the fall in cash from operations offset by reduced investment.

Net Debt

Net Debt 31 March	2016 £m	2015 £m
Cash and deposits	143	161
Borrowing	(1,233)	(1,261)
Net debt	(1,090)	(1,100)

Included within the total borrowings figure are £70.9m of loans from the parent company North West Electricity Networks Plc, due to mature in March 2023 (2015: £90m) and £197m loans from an affiliated company ENW Finance Plc, maturing in 2021 (2015: £197m).

All other borrowings are repayable after more than one year and include bonds with long term maturities of £711m (2015: £722m) And European Investment Bank loans of £254m (2015: £253m). Note 18 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 2016, the unutilised committed facilities were £50m (2015: £50m) and together with £143m (2015: £161m) of cash and short-term deposits provide substantial 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 A- 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.

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 2017 and forecasts covering the period to the end of the current price review in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue.
  This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources are available to the Group within the forecast period.
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash and short-term deposit balances. A further £50m 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 2017 indicate there is significant headroom on these covenants.

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

Financial Performance (continued)

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

Viability statement

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

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken,
is the three-year period to 31 March 2019. Whilst this period is shorter than the forecast period the Board reviews, this three-year forecast period gives management and the Board sufficient, realistic visibility of the future. The Board has considered whether it is aware of any specific relevant factors beyond the three-year horizon and confirmed that there are none.

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

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

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

Fair, balanced and 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;
- 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 2016.

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 key features of the risk management system include:

- Clear risk management strategy approved by the Board.
- Board oversight in identifying and understanding significant risks to the Group.
- 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.
- 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.

Principal risks and uncertainties

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

	RISK	MITIGATIONS
SAFETY	Risk associated with unsafe working practices, man-made or naturally occurring hazards which could cause harm to people or the environment.	• Board Health, Safety and Environment Committee to oversee this area. • Behavioural safety training programme across all areas of the organisation. • Robust authorisation process to control who works on the network and the activities that they can perform. • Annual programme of audits and an inspection regime. • Enhanced hazard and near miss reporting.
CUSTOMER	Not meeting the required target level of customer satisfaction performance.	• A programme of improvement activities described in more detail on page 9 is being co-ordinated by the Executive Leadership Team to optimise Electricity North West's position against all elements of the customer satisfaction measure.
PEOPLE	Not delivering required employee engagement and talent management.	• Employee 'working climate' survey. • Projects to gain feedback across the business and identify improvements. • Well-being and reward programmes. • Training delivered throughout the Company to ensure employees are equipped to do their roles competently and effectively.
RELIABILITY	Delays in the investment programme leading to an adverse impact on customer interruptions and customer minutes lost performance.	• Fault response times and team performance closely monitored. • Planned supply interruptions 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.
SUSTAINABILITY	Events outside of our control, for example environmental or medical emergencies, affecting large areas.	• As seen in action during the severe weather storms that hit the region in December 2015, the Group 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 DNO's. • Ongoing targets and monitoring of environmental performance
AFFORDABILITY	Under performance of the Pension Scheme investments, market impacts and/ or an increase in the scheme liabilities giving rise to higher contributions.	• 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.
	Failure to deliver performance costs and efficiencies against the commitments made to our customers in the RIIO-ED1 period (2015-2023).	• Robust plans in place to achieve or outperform where possible. • Controls in place regarding the ongoing reporting of performance against targets.
	Failure to identify and effectively manage treasury and tax exposures and to meet the Group's funding requirements and obligations.	• 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.
	Macro-economic factors, such as Retail Price Index (RPI), impacting 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.

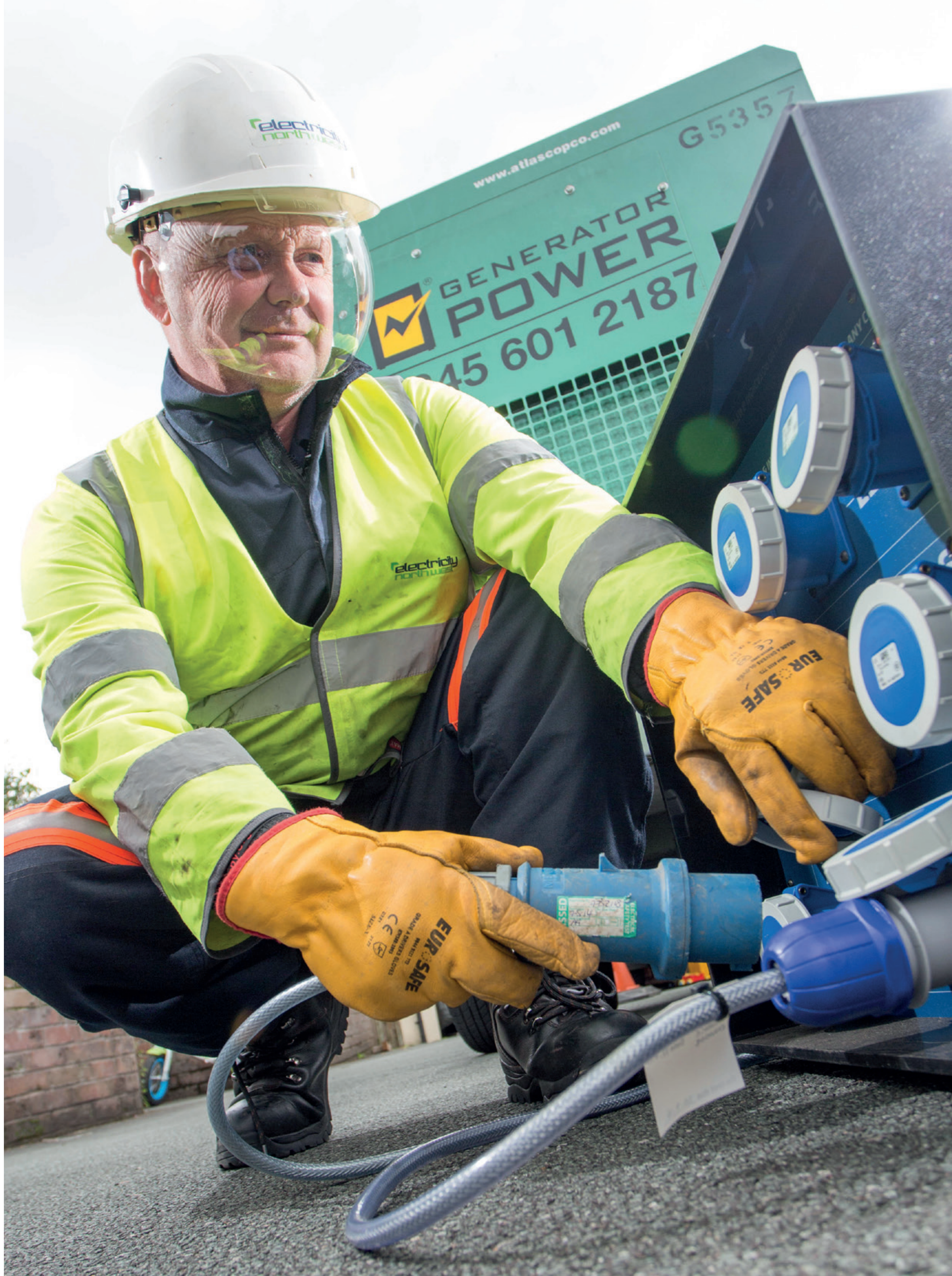
STRATEGIC REPORT

Risk Management (continued)

	RISK	MITIGATIONS
CYBER SECURITY	External / internal breach of our security regime and access to key systems.	• A training programme in place to inform all users of the risks of e mail and social engineering attacks. • A cyber risk assessment methodology implemented within the Group. • Pre-employment screening. • A strong governance and inspection regime to protect infrastructure assets and operational capacity. • Physical and technological security measures. • Key laptops are encrypted preventing the loss of data. • Data Centre infrastructure providing enhanced security monitoring and management tools, 'next generation' firewalls and network traffic analysis. • Periodic internal and external security reviews. • Key systems migration and testing.
REGULATORY	Compliance failure leading to an adverse affect 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.

The Strategic Report, outlined on pages 7 to 21, has been approved by the Board of Directors and signed on behalf of the Board 27 May 2016.

D Brocksom
Director



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 page 27.

The Board

Board Members at 31 March 2016

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.

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. Chris has a degree in Economics and qualified as a Chartered Accountant with Deloitte Haskins & Sells (now PricewaterhouseCoopers LLP 'PwC').

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 undertaken assignments in the UK on HS1, HS2, Thames Tideway Tunnel, the Type 26 Frigate and the QE Carrier programmes. Overseas Rob has worked in the USA on High Speed Rail projects and in Australia on a regional rail project. He is also a member of PwC's Infrastructure Advisory Panel.

Niall Mills

Non-Executive Director

Appointed on 12 June 2009

Niall Mills is employed by First State Investments Management (UK) Limited 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) Limited where he is a Director in the Direct Infrastructure Investment business. Hamish 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 is 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. Having now retired as a solicitor, Mike is still involved in consultancy work and is also a Non-Executive Director on the board of Greensands Holdings Limited (the parent company of Southern Water).

Mark Walters

Non-Executive Director

Appointed on 7 March 2014

Mark Walters is an Executive Director and Senior Investment Principal in the J.P. Morgan Infrastructure Investments Group, based in London. He holds a B.Sc. (Hons) degree from the University of Manchester and is a Fellow of the Institute of Chartered Accountants in England and Wales, having qualified with Arthur Andersen. Mark is also a board member of Zephyr Investments Limited, a UK wind farm owner and operators and the Water and Waste Water Services company serving the Southeast of England, Southern Water Services Limited.

Peter Emery

Chief Executive Officer

Appointed on 27 May 2016

Peter Emery joined the company in 2016 from Drax Group plc where he was the Group Operations Director and an Executive Director on the Group Board. Peter was also Chairman of Capture Power, the Drax Joint Venture with Alstom and Linde established to develop the White Rose Carbon Capture and Storage Project in conjunction with National Grid. He had previously been with ExxonMobil as Operations Manager at Fawley Refinery and a member of the ExxonMobil European Leadership Team for Refining and Supply, following a 20 year career in strategic planning, refining and supply in the UK and the USA. He is currently a Non-Executive Director of N.G. Bailey Group Limited, a Board member of the York, North Yorkshire and East Riding Local Enterprise Partnership (LEP) and a member of the Sheffield University Energy 2050 Industrial Advisory Board.

Steve Johnson

Outgoing Chief Executive Officer

Appointed on 8 September 2008

Resigned on 27 May 2016

Steve Johnson joined the Company in 2008 and served as Chief Executive until Peter Emery joined the Company. Steve joined from Morrison plc where he was Managing Director, having previously been with United Utilities Group plc as Managing Director of its Industrial and Commercial Business. Prior to this, he worked for both Norweb and Yorkshire Electricity. Steve is currently Chair of the Energy Networks Association SHE Committee – the industry Health Safety and Environment body for the UK's electricity distribution and transmission networks and represents the industry on DECC and Ofgem's Smart Grid Forum. He is a member of the Institute of Engineering and Technology and was appointed as a Non-Executive Director of South West Water Limited in September 2014.

David Brocksom

Chief Finance Officer

Appointed on 5 October 2015

David Brocksom joined the company as interim Chief Financial Officer in September 2013 and served until January 2015. He rejoined the Company in May 2015 and became a Director in October 2015. Previously he has held a number of Chief Financial Officer roles including at UK Coal plc and Pace plc. He is a fellow of the Institute of Chartered Accountants in England and Wales qualifying with Price Waterhouse (now PricewaterhouseCoopers LLP 'PwC') and holds an MA from Cambridge University

Mark Rogers

Non-Executive Director

Appointed on 17 September 2012, resigned 23 November 2015

John Gittins

Independent Non-Executive Director

Appointed on 16 July 2009, resigned 20 July 2015

Andrew Dench

Executive Director

Appointed 29 January 2015, resigned on 5 May 2015

Niall Mills and Mark Walters have both appointed alternate Directors. Niall's alternate was Marcus Ayre until 23 November 2015 when Tomas Pedraza was appointed. Mark's alternate was Andrew Truscott throughout the period.

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year, as did the Interim Chief Financial Officer, (with one meeting missed) David Brocksom, until his formal appointment to the Board.

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

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

Corporate Governance Report (continued)

Board and Board Committee attendance during the year

The below table 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	Board	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety & Environment Committee
John Roberts	5 / 5	3 / 3	3 / 3	1 / 1	–
Chris Dowling	5 / 5	3 / 3	–	1 / 1	–
Rob Holden	1 / 1	–	–	–	–
Niall Mills	5 / 5	3 / 3	3 / 3	1 / 1	2 / 2
Hamish Lea-Wilson	1 / 1	1 / 1	–	–	–
Mark Walters	5 / 5	3 / 3	3 / 3	1 / 1	
Mike Nagle	5 / 5	3 / 3	3 / 3	–	2 / 2
Peter Emery	–	–	–	–	–
Steve Johnson	5 / 5	–	–	–	2 / 2
David Brocksom	2 / 2	–	–	–	–
Mark Rogers	3 / 5	2 / 2	3 / 3	–	–
John Gittins	2 / 2	1 / 1	2 / 2	–	–
Executive Team					
Greg Fernie	–	–	–	–	2 / 2
Helen Sweeney	–	–	–	–	2 / 2
Paul Bircham	–	–	–	–	2 / 2
Martin Deehan	–	–	–	–	2 / 2
Lee Maxwell	–	–	–	–	2 / 2
Mark Williamson	–	–	–	–	2 / 2

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 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.

The Audit Committee reviews the Board's Diversity Statement annually.

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 23-24.

After it was announced that Steve Johnson would be resigning as Chief Executive Officer, a rigorous recruitment process resulted in the announcement of the appointment of Peter Emery to the Board on the 27 May 2016.

Following the resignation of John Gittins as a Non-Executive Director in July 2015, the Nominations Committee undertook an equally rigorous recruitment process and appointed Rob Holden was appointed with effect from 1 January 2016.

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 and each has a clear role description 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 the Executive Leadership Team which 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.

The Board has delegated authority to a number of Committees to assist it in delivering its responsibilities and ensuring there is appropriate independent oversight of internal control and risk management.

The Board engaged during the year in succession planning for both the Executive and Non-Executive roles, both directly as a Board and, through its Nominations Committee.

Evaluation

In July 2015, the Board undertook a questionnaire based evaluation process to which there was a 100% response.

The evaluation concluded that Board members believed the Board and its Committees were operating effectively. A resulting action from the process has been the introduction of programmed "deep dive" sessions through the year to explore key issues in depth with the Executive Leadership Team.

A further questionnaire based evaluation will be undertaken in late 2016 and an externally facilitated evaluation will be conducted in 2017.

Training

The Chairman is responsible for ensuring that all Directors update their skills, knowledge and familiarity of the Company.

Directors regularly receive reports facilitating greater awareness and understanding of the Company, its regulatory environment and the industry. The Board held a strategy meeting which enabled it to develop a greater understanding of the Company's operations and provided the opportunity to meet with senior managers.

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.

In addition, Directors were provided with updates throughout the year on other developments in the legal and regulatory area that could impact the Company.

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.

Corporate Governance Report (continued)

Appointments

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 Chief Financial Officer is on a fixed term contract expires in August 2017.

Non-Executive Directors are appointed by the Company's shareholders. 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.

In 2014, the outgoing Chief Executive Officer joined South West Water Limited as a Non-Executive Director on the basis that it would not adversely affect his executive responsibilities. He retains the fees from the appointment.

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 company wide conflicts of interest register.

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.

Delegation to committees

To ensure the integrity of financial controls and the risk management framework, the Board has delegated the detailed review, but not approval of, these issues to its Audit Committee. The Committee comprises Non-Executive Directors and is chaired by Independent Non-Executive Director Chris Dowling. The Chief Finance Officer, Chief Executive Officer, Head of Risk, Control and Assurance and the external auditor, Deloitte LLP, attend meetings by invitation.

The report of the Audit Committee can be found on page 28.

The Board's responsibility for the remuneration of its Executive Directors is delegated to the Remuneration Committee. The Committee comprises only Non-Executive Directors and is chaired by Niall Mills. The committee regularly reviews the Company's remuneration policy in the context of the Company's risk management framework to ensure that it does not inadvertently promote irresponsible behaviour. The report of the Remuneration Committee can be found on page 30.

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 in the areas where compliance with the provision is either impractical or inappropriate.

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.

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.

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 having to make their voice heard via an Annual General Meeting.

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.

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.

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.

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 and schools, emergency services, MPs and national 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 and contractors and other utilities.

Our stakeholder engagement strategy is outlined on page 12.

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 Terms of Reference and the membership of each Committee were reviewed during the period to ensure their effective operation.

Those Committees listed in green produced a report for the year.

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.

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.

The Committee is responsible for the following areas: financial reporting, the internal control and risk management framework, whistleblowing, the external audit process, internal audit and corporate governance.

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 25.

There were a number of regular attendees by invitation at each of the Committee's meetings including the Chief Executive Officer, the Chief Financial Officer, the Head of Risk, Control and Assurance, the Head of Strategic Planning and Investor Relations 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.
- 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 2015 Annual Report and Consolidated Financial Statements and the September 2015 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. Following an evaluation of the audit service during the period and a change in audit partner at the beginning of the 2012/13 financial reporting period, the Audit Committee agreed that a full tender was not required.

Report of the Audit Committee (continued)

The Committee keeps the need for competitive audit tender under review. This will be reviewed in 2018 when the current audit partner reaches the end of this current five-year term.

The significant issues considered by the Committee during the approval of the 2015/16 financial statements were:

- Capital and revenue allocations and ensuring the appropriate treatment of fixed asset expenditure. Management's key controls and a sample of projects were tested, as was capitalised interest cost to ensure compliance with IAS23. No evidence of management bias was identified and key assumptions were in line with external audit expectation.
- 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. No misstatements arising from fraud were identified.

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 report is the thirteenth 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 both members of 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 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 Consolidated Financial Statements.

The non-audit services provided by Deloitte LLP during the year were related to the regulatory audit and the covenant compliance agreed upon procedures.

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 19 to 21.

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. The Policy is kept under regular review by the Committee and a confidential service is provided by an external company whereby employees can raise concerns by email or telephone in confidence. Any matters reported are investigated and escalated as appropriate. The Committee reviewed this policy in January 2016.

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:

- The theme and format was discussed and agreed in January 2016.
- 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 19.

Report of the Nominations Committee

The role and responsibilities of the Committee are set out in its Terms of Reference which were reviewed and updated and approved by the Board in March 2015. The Terms of Reference are available on the Electricity North West website. The Committee's responsibilities include keeping under review the composition of the Board, identifying and nominating candidates for approval by the Board to fill any vacancies and succession planning for Directors and other senior executives.

During the period, the Committee undertook the recruitment process for both a Non-Executive Director and for a Chief Executive Officer. In these searches the committee were aided by, respectively, The Zygos Partnership and Korn Ferry.

Membership and meetings

Composition of the Committee and attendance by individual members at meetings is detailed on page 25. In addition to formal meetings, the Committee met less formally on a large number of occasions to discuss and progress the recruitments noted above.

The Chief Executive Officer and the Customer and Business Services Director attend meetings at the invitation of the Chairman of the Committee.

The Committee's main activity during the year was the recruitment and recommendation to the Board of the appointment of Independent Non-Executive Director, Rob Holden and the new Chief Executive Officer, Peter Emery. In each case a detailed role description was prepared following a review of the Board's skills and experience and the needs of the Company.

Diversity

As described in the Corporate Governance report on page 26, 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, Chief Financial Officer and the Customer and Business Services Director.

Membership and meetings

Composition of the Committee and attendance by individual members is detailed on page 25.

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.

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.

Matters considered by the Committee during the year included:

- Approval and monitoring of the Company's former Short Term Incentive Plan.
- Review of the Executive Leadership Team bonus and remuneration.
- Monitoring and review of the Company's former Long Term Incentive Plan.

A significant piece of work for the Committee during the year was reviewing the Company's Executive Incentive Plan, the long-term incentive scheme for senior individuals covering the eight-year period beginning on 1 April 2015, aligned with the RIIO-ED1 price control period.

In line with the Board's commitment to comply with the Code where appropriate the Committee approved the design of the new Executive Incentive Plan to include:

- An allowance for a downward adjustment to amounts not yet paid to individuals (malus); and
- An allowance for recovery of amounts already paid from the Executive Incentive Plan (clawback).

The Committee is of the opinion that the remuneration structure designed for the RIIO period reflects the strategic direction of the business and the steps taken during the year ensures that remuneration is designed to 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.

Report of the Remuneration Committee (continued)

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 but 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)	An executive incentive plan was introduced on 1 April 2015 to reward in year performance and incentivise strategic and innovative behaviours over the longer term, aligned to shareholder objectives. Executive Directors may be included within this plan or separate arrangements may be entered into with incentives based on short term and longer term outcomes, the balance of the split being determined by the Remuneration Committee as appropriate for the individual.	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. 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. Following Health & Safety best practice, Safety is considered to be an essential part of any role and Directors therefore receive no Health & Safety related incentives, instead with safety performance acting as a gateway to earn bonus.
Pension	Employees who joined the business before 2006 are members of a defined benefit scheme. Anyone joining the Group after that date is offered membership of a competitive defined contribution scheme. Life assurance cover is also provided.	Directors are offered the same level of defined contribution benefits as all other employees. No Directors are members 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 and strives to lead the way with health, safety and environmental initiatives, follow best practice and to learn from its workforce across the organisation wherever they are based.

The Committee not only 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 works with other organisations to ensure best practice.

Membership and meetings

The committee is composed of Niall Mills, Mike Nagle and Steve Johnson, together with the Commercial Director, the Operations Director (North), Operations Director (South) and the Energy Solutions Director.

Attendance is detailed in the table on page 25.

The role of the Committee

The Committee has designated authority from the Board set out in its Terms of Reference, which were reviewed and updated in July 2015. They are published on the Company's 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.

This report includes the following:

- Results of systems audits;
- Detail on training initiatives, including attendance figures and evaluation;
- Carbon footprint data;
- Any emerging trends;
- Near miss reports;
- Copies of safety bulletins issued during the period;
- Synopses of significant incidents occurring in the period, detailing contributory factors and preventative actions; and
- Reports of significant incidents occurring at other network operators.

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 2016.

Dividends

In the year ended 31 March 2016 the Company declared dividends of £30m, which were paid in December 2015 (31 March 2015: £37m). The Directors do not propose a final dividend for the year ended 31 March 2016 (31 March 2015: no final dividend was proposed).

Directors

The Directors of the Company during the year ended 31 March 2016 are set out below. Directors served for the whole year except where otherwise indicated.

Executive Directors

P Emery (appointed 27 May 2016)

S Johnson (resigned 27 May 2016)

D G Brocksom (appointed 5 October 2015)

A Dench (appointed 29 January 2015 and resigned 5 May 2015)

Non-executive Directors

Dr J Roberts

N P Mills

M A Nagle

M A Walters

C Dowling

H Lea-Wilson (appointed 23 November 2015)

R D Holden (appointed 1 January 2016)

J A Gittins (resigned 20 July 2015)

M Rogers (resigned 23 November 2015)

Alternate Directors during the year were:

M L Ayre (resigned 23 November 2015)

T Pedraza (appointed 23 November 2015)

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.

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.

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 19 to the financial statements.

Fixed assets

Further details on Property, Plant and Equipment are provided in the Strategic Report and Note 12 to the financial statements.

Capital structure

The Company's capital structure is set out in Note 27 to the financial statements.

Commitments

Details of commitments and contractual obligations are provided in Notes 11, 12, 19 and 32 of the financial statements.

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 are deemed to be re-appointed as auditor of the Company.

Registered address

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

Registered number: 02366949

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

D Brocksom
Director

Directors' Responsibilities Statement

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

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

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

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

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

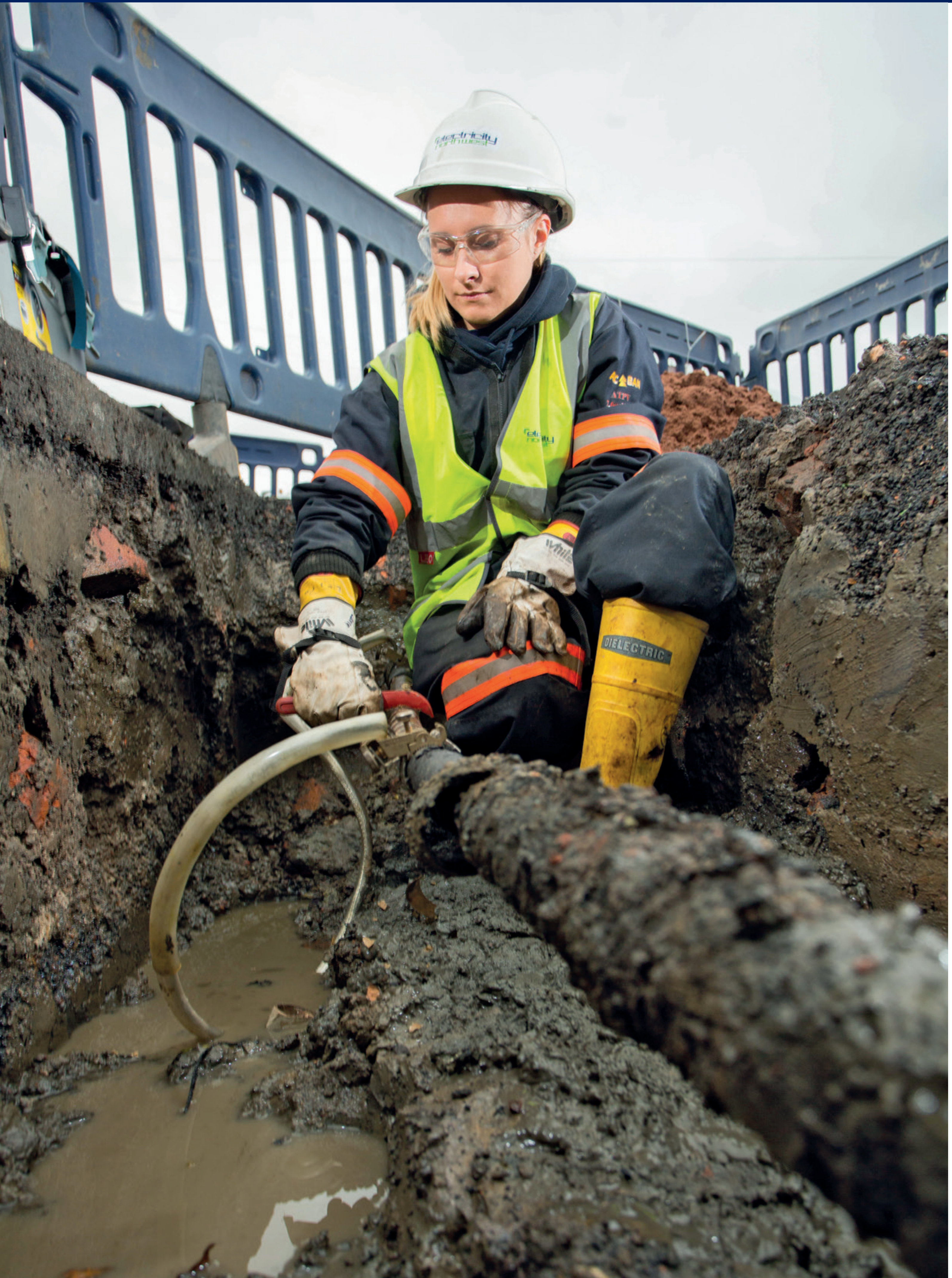
Responsibility statement

We confirm that to the best of our knowledge:

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

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

D Brocksom
Director



Independent Auditor's Report to the Members of 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 2016 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.

The financial statements comprise the Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and the related Notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and 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.

Going concern and the directors' assessment of the principal risks that vthreaten the solvency or liquidity of the group

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the directors' statement on the longer-term viability of the group on pages 18-19.

We have nothing material to add or draw attention to in relation to:

- The directors' confirmation on page 19 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures on pages 20-21 that describe those risks and explain how they are being managed or mitigated;
- The directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation on page 19 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Treasury accounting	
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 potential material error. We note that there has been an issue of £100m index-linked swaps in the year.	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 interest rate and 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 in the group, along with the associated amortisation and interest charges as the bonds unwind to maturity. We have reviewed the accounting for the new £100m tranche of swaps entered into in the year and assessed whether the swaps were recognised in accordance with the accounting treatment under IFRS 13. We have challenged management regarding the approach to classifying the derivatives as Level 3. In addition our review of the financial statements assessed whether the disclosures made in Note 19 are consistent with the requirements of IFRS 13 and IFRS 7.
Pensions accounting	
Accounting for defined benefit pension schemes under IAS 19 Revised is complex and involves actuarial assumptions that are judgemental. We focus our significant risk to the assumptions behind the discount rate employed in the pension valuation. This is because a small movement in the discount rate can have a large impact on the funded status of the pension deficit. As at 31 March 2016 the fair value of the Group's defined benefit obligations were £1,219.9m, and the fair value of the scheme's assets were £1,203.7m as disclosed in Note 20.	We have reviewed the assumptions behind the actuarial valuation of the pensions liabilities as at 31 March 2016, focussing our work on the assumptions employed in the discount rate. With involvement of our internal actuaries, we reviewed the assumptions behind the actuarial valuation of the pensions liabilities as at 31 March 2016 by comparing to the Deloitte illustrative benchmarks for comparator companies in order to assess their appropriateness. We also reviewed the disclosures made in the financial statements to determine whether they are in line with IAS 19 Revised.
Inappropriate capitalisation of costs	
The effect of inappropriate capitalisation of costs is that items capital in nature are expensed, whilst items which are expenditure in nature are conversely capitalised. We focus the significant risk in relation to capital versus revenue to the allocation/percentage rates applied to employee cost overhead absorption. In particular we focus on those judgemental areas, for example engineer and electricians whose time is split between capital projects and repair and maintenance on the network. The risk is that this can lead to misstated profits and assets. Total employee costs are £102.3m in the year (2015: £98.2m), of which £55.1m (2015: £53.7m) has been transferred directly to fixed assets.	As part of our tangible fixed asset audit we tested a sample of additions to consider whether those items are capital in nature. We also tested a representative sample of re-charges and consider the level of overhead absorption on a departmental basis. In addition, a sample of capital projects are reviewed in detail, with discussions and supporting documentation obtained from the project managers in order to better understand those projects and determine the specific nature of the spend and method of overhead absorption. We have reviewed the Company's assumptions, policies and procedures with regards to overhead absorption and compared to the balances capitalised.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 28 onwards.

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.

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.

We determined materiality for the group to be £4.1 million (2015: £4.4 million) using revenue as the determining base. This materiality is below 3.4% (2015: 4.8%) of pre-tax profit and below 1% (2015: 1%) of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £79,000 (2015: £88,000), 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 each non-dormant entity within the group, we performed an audit covering 100% of the group's companies and accordingly our work was performed on each individual component's total assets, revenue and profit.

We have also tested the consolidation process.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Independent Auditor's Report to the Members of Electricity North West Limited (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept 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 arising from this matter.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other Matters

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

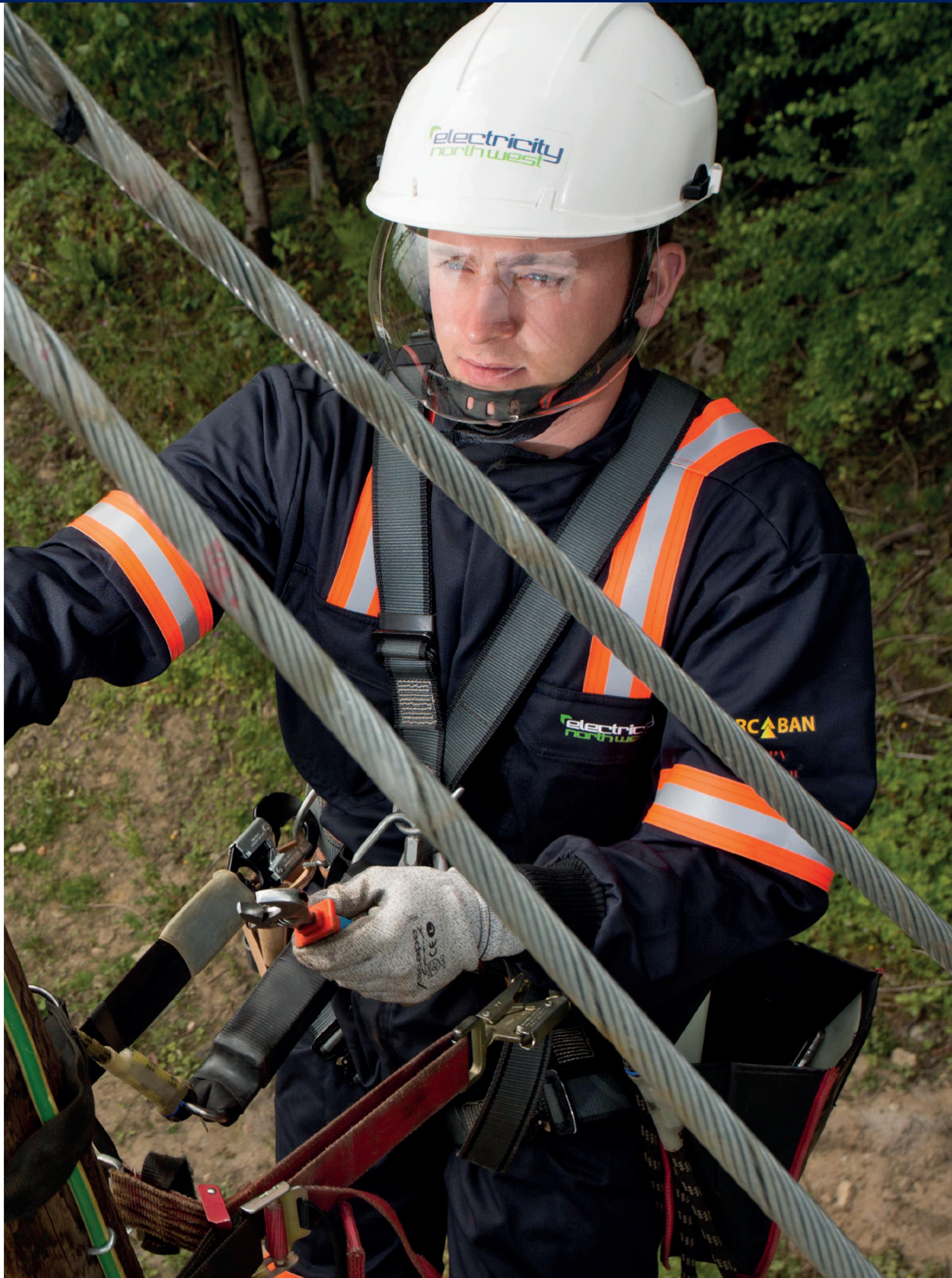
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

27 May 2016



Consolidated Income Statement

for the year ended 31 March 2016

	Note	Group 2016 £m	Group 2015 £m
Revenue	2	**450.8**	533.7
Employee costs	3,4	**(47.2)**	(44.5)
Depreciation and amortisation expense (net)	3	**(94.4)**	(85.7)
Retail property provision credit	3,21	**1.0**	–
Other operating costs		**(95.6)**	(99.4)
Restructuring costs	3,6	**–**	(2.8)
Total operating expenses		**(236.2)**	(232.4)
Operating profit	3	**214.6**	301.3
Investment income	7	**0.9**	0.3
Finance expense (net)	8	**(94.0)**	(209.7)
Profit before taxation		**121.5**	91.9
Taxation	9	**(4.5)**	(20.1)
Profit for the year attributable to equity shareholders	26	**117.0**	71.8

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

Consolidated and Company Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	Group/ Company 2016 £m	Group/ Company 2015 £m
Profit for the year		**117.0**	71.8
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension schemes	20	**9.1**	4.4
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	22	**(1.6)**	(0.9)
Adjustment due to change in future tax rates of brought forward deferred tax taken directly to equity	22	**(2.2)**	–
Other comprehensive income for the year		**5.3**	3.5
Total comprehensive income for the year attributable to equity holders		**122.3**	75.3

Consolidated and Company Statement of Financial Position

for the year ended 31 March 2016

	Note	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Assets					
Non-current assets					
Intangible assets and goodwill	11	39.5	39.5	29.4	29.4
Property, plant and equipment	12	2,942.7	2,942.7	2,836.6	2,836.6
Investments	13	–	15.4	–	15.4
		2,982.2	2,997.6	2,866.0	2,881.4
Current assets					
Inventories	14	8.5	8.5	7.3	7.3
Trade and other receivables	15	67.9	67.9	66.3	66.3
Cash and cash equivalents	16,19	119.3	119.3	136.0	136.0
Money market deposits	16,19	23.5	23.5	25.0	25.0
Current Tax Asset		–	–	3.6	3.6
		219.2	219.2	238.2	238.2
Total assets		3,201.4	3,216.8	3,104.2	3,119.6
Liabilities					
Current liabilities					
Trade and other payables	17	(137.1)	(152.8)	(137.8)	(153.5)
Provisions	21	(0.6)	(0.6)	(2.8)	(2.8)
Current income tax liabilities		(7.1)	(7.1)	–	–
Borrowings	18	(4.6)	(4.6)	–	–
		(149.4)	(165.1)	(140.6)	(156.3)
Net current assets/(liabilities)		69.8	54.1	97.6	81.9

	Note	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Non-current liabilities					
Borrowings	18	(1,228.4)	(1,228.4)	(1,261.4)	(1,261.4)
Derivative financial instruments	19	(267.7)	(267.7)	(212.2)	(212.2)
Provisions	21	(1.9)	(1.9)	(3.3)	(3.3)
Retirement benefit obligations	20	(16.2)	(16.2)	(33.7)	(33.7)
Deferred tax	22	(158.0)	(158.0)	(183.2)	(183.2)
Customer contributions	23	(561.0)	(561.0)	(538.5)	(538.5)
Refundable customer deposits	24	–	–	(4.8)	(4.8)
		(2,233.2)	(2,233.2)	(2,237.1)	(2,237.1)
Total liabilities		(2,382.6)	(2, 398.3)	(2,377.7)	(2,393.4)
Total net assets		818.8	818.5	726.5	726.2
Equity					
Called up share capital	25	238.4	238.4	238.4	238.4
Share premium account	26	4.4	4.4	4.4	4.4
Revaluation reserve	26	93.5	93.5	99.2	99.2
Capital redemption reserve	26	8.6	8.6	8.6	8.6
Retained earnings	26	473.9	473.6	375.9	375.6
Total equity		818.8	818.5	726.5	726.2

The financial statements of Electricity North West Limited (registered number 2366949) were authorised for issue and approved by the Board of Directors on 27 May 2016 and signed on its behalf by:

D. Brocksom
Director

Consolidated Statement of Changes in Equity
for the year ended 31 March 2016

	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 2014	238.4	4.4	104.5	8.6	332.3	688.2
Profit for the year	–	–	–	–	71.8	71.8
Transfer from revaluation reserve	–	–	(5.3)	–	5.3	–
Other Comprehensive income for the year	–	–	–	–	3.5	3.5
Total comprehensive (expense)/income for the year	–	–	(5.3)	–	80.6	75.3
Transactions with owners recorded directly in equity						
Equity dividends (Note 10,26)	–	–	–	–	(37.0)	(37.0)
At 31 March 2015	**238.4**	**4.4**	**99.2**	**8.6**	**375.9**	**726.5**
Profit for the year	**–**	**–**	**–**	**–**	**117.0**	**117.0**
Transfer from revaluation reserve	**–**	**–**	**(5.7)**	**–**	**5.7**	**–**
Other Comprehensive income for the year	**–**	**–**	**–**	**–**	**5.3**	**5.3**
Total comprehensive (expense)/income for the year	**–**	**–**	**(5.7)**	**–**	**128.0**	**122.3**
Transactions with owners recorded directly in equity						
Equity dividends (Note 10,26)	**–**	**–**	**–**	**–**	**(30.0)**	**(30.0)**
At 31 March 2016	**238.4**	**4.4**	**93.5**	**8.6**	**473.9**	**818.8**

Company Statement of Changes in Equity
for the year ended 31 March 2016

	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 2014	238.4	4.4	104.5	8.6	332.0	687.9
Profit for the year	–	–	–	–	71.8	71.8
Transfer from revaluation reserve	–	–	(5.3)	–	5.3	–
Other Comprehensive income for the year	–	–	–	–	3.5	3.5
Total comprehensive (expense)/income for the year	–	–	(5.3)	–	80.6	75.3
Transactions with owners recorded directly in equity						
Equity dividends (Note 10,26)	–	–	–	–	(37.0)	(37.0)
At 31 March 2015	**238.4**	**4.4**	**99.2**	**8.6**	**375.6**	**726.2**
Profit for the year	**–**	**–**	**–**	**–**	**117.0**	**117.0**
Transfer from revaluation reserve	**–**	**–**	**(5.7)**	**–**	**(5.7)**	**–**
Other Comprehensive income for the year					**5.3**	**5.3**
Total comprehensive (expense)/income for the year	**–**	**–**	**(5.7)**	**–**	**128.0**	**122.3**
Transactions with owners recorded directly in equity						
Equity dividends (Note 10,26)	**–**	**–**	**–**	**–**	**(30.0)**	**(30.0)**
At 31 March 2016	**238.4**	**4.4**	**93.5**	**8.6**	**473.6**	**818.5**

Consolidated and Company Statement of Cash Flows
for the year ended 31 March 2016

	Note	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Operating activities					
Cash generated from operations	30	270.8	270.8	377.8	375.6
Interest paid		(46.8)	(46.8)	(53.9)	(53.9)
Tax paid		(22.8)	(22.8)	(52.4)	(52.4)
Net cash generated from operating activities		201.2	201.2	271.5	269.3
Investing activities					
Interest received and similar income		0.9	0.9	0.3	0.3
Purchase of property, plant and equipment		(199.5)	(199.5)	(242.7)	(242.7)
Purchase of intangible assets		(14.9)	(14.9)	(11.0)	(11.0)
Customer contributions received		44.3	44.3	41.1	43.3
Proceeds from sale of property, plant and equipment		0.2	0.2	1.2	1.2
Net cash used in investing activities		(169.0)	(169.0)	(211.1)	(208.9)
Net cash flow before financing activities		32.2	32.2	60.4	60.4
Financing activities					
Proceeds from borrowings		1.8	1.8	72.3	72.3
Repayment of borrowings		(22.2)	(22.2)	–	–
Transfer to money market deposits		1.5	1.5	(25.0)	(25.0)
Dividends paid to equity shareholders of the Company		(30.0)	(30.0)	(37.0)	(37.0)
Net cash from/(used in) financing activities		(48.9)	(48.9)	10.3	10.3
Net increase/(decrease) in cash and cash equivalents		(16.7)	(16.7)	70.7	70.7
Cash and cash equivalents at the beginning of the year	16	136.0	136.0	65.3	65.3
Cash and cash equivalents at the end of the year	16	119.3	119.3	136.0	136.0

1. Significant accounting policies

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

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and certain property, plant and equipment. The financial statements are presented in Sterling which is also the functional currency. All values are rounded to the nearest million pounds (£m) unless otherwise indicated. The preparation of financial statements, in conformity with generally accepted accounting principles ('GAAP') under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

Basis of preparation - going concern basis

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

- 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 2017 and forecasts covering the period to the end of the current price review in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources are available to the Group within the forecast period.
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, £50m of committed undrawn bank facilities are available from lenders which 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 2017 indicate there is significant headroom on these covenants.

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

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

Adoption of new and revised standards

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

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

New standards in issue not yet effective

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

IFRS 15: Revenue from customer contracts (Effective for the year ended 31 March 2018)

IFRS 9: Financial Instruments (Effective for the year ended 31 March 2019)

IFRS 16: Leases (Effective for periods beginning on or after 1 January 2019)

The Group intends to adopt these standards, as applicable, when they become effective. IFRS 9 will impact the measurement and disclosure of the Group's financial instruments. IFRS 15 may impact the measurement of the Group's revenue. The Group is assessing the impact of both these IFRSs.

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

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

Basis of consolidation

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

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

Subsidiaries

Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an invested entity so as to obtain benefits from its activities. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired the difference is recognised as negative goodwill and immediately written-off and credited to the Income Statement in the year of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Business combinations and goodwill

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

Goodwill arising on the acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the negative goodwill is recognised, but immediately written-off to the Income Statement. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Goodwill is considered as having an indefinite useful life.

Intangible assets

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Carrying amount is reduced by any provision for impairment where necessary.

Amortisation periods for categories of intangible assets are:
Computer software – 3-10 years

Intangible assets under construction are not amortised. Amortisation commences from the date the intangible asset is available for use.

Property, plant and equipment

Property, plant and equipment comprise operational structures and other assets (including properties, over ground plant and equipment and electricity operational assets).

Operational structures

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

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 created as result of the revaluation is transferred from the revaluation reserve to retained earnings on an annual basis.

Other assets

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.

1. Significant accounting policies (continued)

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

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

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

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

Financial instruments

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

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.

Financial investments

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

Financial 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, which are initially measured at fair value.

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Borrowing costs and finance income

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

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

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

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

Derivatives and borrowings

The Group's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the Statement of Financial Position at fair value with movements in those fair values reflected through the Income Statement. This has the potential to introduce considerable volatility to both the Income Statement and Statement of Financial Position.

Embedded derivatives

Derivatives embedded in other financial instruments, or 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.

The Group is therefore subject to volatility in the Income Statement due to changes in the fair values of the derivative financial instruments. Further information is provided in Note 19 to the financial statements.

Financial liabilities designated at fair value through profit or loss ('FVTPL')

The Group applied fair value through profit or loss to the £250m 8.875% 2026 bond upon initial recognition as the complexity of the associated swaps at that time meant that the criteria to allow hedge accounting was not met.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses on re-measurement recognised in the Income Statement. The net gain or loss recognised in the Income Statement incorporates any interest paid on the financial liabilities and is included in the interest charge. Fair value is determined in the manner described in Note 19.

The Group elects to designate a financial liability at inception as fair value through the Income Statement on the basis that it meets the conditions specified in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 13 provides clarity around the methodology for measuring fair value. The Group applies the definition of fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.

Derivative financial instruments and hedge accounting

Interest rate and index linked swap agreements are used to manage interest rate exposure. The Group does not use derivative financial instruments for speculative purposes. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each Statement of Financial Position date. Changes in the fair value of all derivative financial instruments are recognised in the Income Statement within finance expense as they arise; the Group does not currently designate derivatives into hedging relationships and apply hedge accounting.

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

Hedge accounting

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

Operating profit

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

Taxation

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

1. Significant accounting policies (continued)

Current taxation

Current tax, representing UK corporation tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date. Taxable profit differs from the net profit as reported in the Income Statement because 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. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the Statement of Financial Position date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date. The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer more likely than not that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the Income Statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in other comprehensive income.

Employee benefits - Retirement benefit obligations

The Group's defined pension benefit arrangements are provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2013; agreed Actuarial valuations are carried out thereafter at intervals of not more than three years. The pension cost under IAS 19 (Revised 2011) 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in Note 20 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the scheme's assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants. Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

IAS 19 (revised 2011) and the related consequential amendments have impacted the accounting for the Group's defined benefit scheme, by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit. The net interest expense is recognised within finance costs (see Note 8).

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

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

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

Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business primarily for the distribution of electricity during the year, exclusive of value-added tax. Revenue in the period includes an assessment of the volume of unbilled energy distributed to customers between the date of income based upon the last meter reading and 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.

Leases

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

Research and development

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

Critical accounting policies

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

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

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

Carrying value of long-life assets

The Group's accounting policy for property, plant and equipment ('PPE') is detailed above. The carrying value of PPE under IFRS as at 31 March 2016 was £2,942.7m (2015: £2,836.6m). Additions to PPE, totalled £206.4m (2015: £238.7m) and the depreciation charge was £100.3m (2015: £95.0m) in the year ended 31 March 2016. The estimated useful economic lives of PPE are based on management's judgement and experience. When management identify that the actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

In the financial year ended 31 March 2016, the Directors have assessed the carrying value of both tangible and intangible fixed assets in accordance with the principles of IAS 36 'Impairment of Assets'. This review was underpinned by value in use calculations on the recoverable amounts of the cash generating unit (CGU). For the purpose of impairment testing the Group have determined that there is only one CGU and, due to favourable operating cash flows being forecast to the end of RIIO-ED1 and beyond, no impairment exists. Furthermore, management have completed a review of tangible fixed assets for material obsolescence and/or physical damage and no indication of impairment was identified.

Revenue recognition

Under IFRS, the Company 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 Company raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes.

The principal direct customers of the business are the electricity supply companies that utilise the Company's distribution network to distribute electricity from generators to the end consumer.

Revenue from such activity is known as 'use of system'. The amount billed is dependent upon the volume of electricity distributed, including estimates of the units distributed to customers. The estimated usage is based on historical data, judgement and assumptions. Operating revenues are gradually adjusted to reflect actual usage in the period over which the meters are read.

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.

1. Significant accounting policies (continued)

Accounting for provisions and contingencies

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

Property provision

The Company held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to a third party in 1996. However, the third party went into administration during 2013 and the Company has a potential liability for lease obligations under privity of contract rules for these retail properties. The retail properties have lease expiry dates ranging from 2016 to 2021. The Directors have recognised a provision based on the probable financial exposure, having consulted with both internal and external property advisors and property management agents. Further information on the judgements involved is provided in Note 21 to the financial statements.

Retirement benefits

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

Fair values of derivative financial instruments

The Group uses derivative financial instruments to manage the exposure to interest rate risk and bond issues. The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each Statement of Financial Position date. Changes in the fair value of all derivative financial instruments that are not in a hedging relationship are recognised in the Income Statement within finance expense as they arise.

The Group is therefore subject to volatility in the Income Statement due to changes in the fair values of the derivative financial instruments. Further information on the judgements involved is provided in Note 19 to the financial statements.

Impairment of goodwill

On acquisition of business combinations, assessment is required as to whether the Group has acquired any intangible assets as part of the acquisition, and subsequent measurement of any intangible assets must be made.

In 2010 the Group acquired the share capital of Electricity North West Services Limited. On acquisition, in line with IFRS 3 requirements, management has performed a review for intangibles as part of the assessment of fair values. For an intangible asset to be recognised it must be possible to separately identify it and also to reliably measure the value. Management did not identify any intangible assets arising as a result of the acquisition of ENWSL, and consequently the excess of the total consideration over acquired net assets, after fair value adjustments, of £10.1m was recognised as goodwill.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The value in use calculation performed concludes that no impairment loss is required against this goodwill. The carrying amount of goodwill at the Statement of Financial Position date was £10.1m.

Impairment of tangible and intangible assets excluding 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 the present value for the asset and compare that calculation to its carrying value.

2. Revenue

Group	2016 £m	2015 £m
Revenue	450.8	533.7

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is therefore regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues of approximately £303.2m (2015: £370.8m) which arose from sales to the Group's five (2015: five) largest customers. Customer 1 represented £88.6m (2015: £109.6m), Customer 2 £84.0m (2015: £98.9m), Customer 3 £61.8m (2015: £75.2m), Customer 4 £35.0m (2015: £46.8m) and Customer 5 £33.8m (2015: £40.3m) of revenues. No other customer represented more than 10 per cent of revenues either this year or in the prior year.

3. Operating profit

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

Group	2016 £m	2015 £m
Employee costs		
Employee costs (see Note 4)	47.2	44.5
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
Owned assets (see Note 12)	100.3	95.0
Amortisation of intangible assets and customer contributions		
Software (see Note 11)	4.8	3.6
Customer contributions[1] (see Note 23)	(10.7)	(12.9)
Depreciation and amortisation expense (net)	94.4	85.7
Other income		
Profit on disposal of property, plant and equipment	(0.2)	(0.7)
Retail property provision credit (see Note 21)	1.0	–
Restructuring costs (see Note 6)	–	2.8

[1] In the current year £4.6m (2015: £1.9m) of customer contributions amortisation has been amortised through revenue in line with IFRIC 18.

3. Operating profit (continued)

Group	2016 £m	2015 £m
Other operating costs include:		
Research and development	6.7	3.3
Operating leases:		
Land and buildings	0.7	0.8
Hire of plant and machinery	2.7	1.7
Analysis of the auditor's remuneration is as follows:		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	0.1	0.1
Total audit fees	0.1	0.1
Audit-related assurance services	0.1	0.1
Taxation advisory services	–	–
Total non-audit fees	0.1	0.1
Total fees	0.2	0.2

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.

4. Employee costs

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

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

Group	2016 Number	2015 Number
Electricity distribution	1,604	1,670

5. Directors' remuneration

Group	2016 £m	2015 £m
Salaries	0.9	0.6
Accrued bonus	0.1	0.3
Amounts receivable under long term incentive schemes	0.3	1.0
Pensions	–	–
	1.3	1.9

The aggregate emoluments of the Directors in 2016 amounted to £1,295,865 (2015: £1,944,591). 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 2016 in respect of services to the Group amounted to £682,000 (2015: £1,607,702). Included in the salaries shown above, are amounts payable for compensation for loss of office of £35,000 (2015: £nil) all paid in cash. Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in Note 29.

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

As at 31 March 2016 the Directors have no interests in the ordinary shares of the Company (2015: same).

6. Restructuring costs

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

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

7. Investment income

Group	2016 £m	2015 £m
Interest receivable on short-term bank deposits held at amortised cost	0.9	0.3
Total investment income	0.9	0.3

8. Finance expense (net)

Group	2016 £m	2015 £m
Interest payable		
Interest payable on Group borrowings	15.0	16.9
Interest payable on borrowings held at amortised cost	23.3	23.2
Interest payable on borrowings designated at fair value through profit or loss	22.2	22.2
Net (receipts)/payments on derivatives held for trading	(12.9)	(5.4)
Other finance charges related to index-linked debt	3.9	6.3
Interest cost on pension plan obligations (see Note 20)	0.7	1.2
Capitalisation of borrowing costs under IAS 23	(1.0)	(0.8)
Total interest expense	51.2	63.6
Fair value movements on financial instruments		
Fair value movement on borrowings designated at fair value through profit or loss	(12.7)	29.4
Fair value movement on derivatives held for trading	55.5	116.7
Total fair value movements	42.8	146.1
Total finance expense (net)	94.0	209.7

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 19 provides more detail on this.

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

9. Taxation

Group	2016 £m	2015 £m
Current tax		
Current year	31.9	41.0
Prior year	1.6	(3.8)
Deferred tax		
Current year	(6.6)	(20.2)
Prior year	(1.9)	3.1
Impact of change in future tax rates	(20.5)	–
Tax charge for the year	4.5	20.1

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

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

The deferred tax credit in respect of the change from 18% to a 17% tax rate is expected to be in the region of £9m.

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

Group	2016 £m	2015 £m
Profit before tax	121.5	91.9
Tax at the UK corporation tax rate of 20% (2015: 21%)	24.3	19.3
Prior year tax adjustments	(0.3)	(0.6)
Reduction in current year deferred tax due to rate change	0.7	(1.0)
Non taxable expense	0.3	0.4
Impact from change in future tax rates	(20.5)	–
Tax charge for the year	4.5	20.1

10. Dividends

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

Group and Company	2016 £m	2015 £m
Final dividends for the year ended 31 March 2014 of 7.76 pence per share	–	37.0
Interim dividends for the year ended 31 March 2016 of 6.29 pence per share (31 March 2015: nil)	30.0	–
	30.0	37.0

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

11. Intangible assets and goodwill

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
Cost				
At 1 April 2014	10.1	55.9	–	66.0
Additions	–	–	11.0	11.0
Disposals	–	–	–	–
At 31 March 2015	**10.1**	**55.9**	**11.0**	**77.0**
Additions	**–**	**5.9**	**9.0**	**14.9**
Transfers	**–**	**6.6**	**(6.6)**	**–**
At 31 March 2016	**10.1**	**68.4**	**13.4**	**91.9**
Amortisation				
At 1 April 2014	–	44.0	–	44.0
Charge for the year	–	3.6	–	3.6
Disposals	–	–	–	–
At 31 March 2015	**–**	**47.6**	**–**	**47.6**
Charge for the year	**–**	**4.8**	**–**	**4.8**
Disposals	**–**	**–**	**–**	**–**
At 31 March 2016	**–**	**52.4**	**–**	**52.4**
Net book value				
At 31 March 2016	**10.1**	**16.0**	**13.4**	**39.5**
At 31 March 2015	10.1	8.3	11.0	29.4

In the Company, goodwill arose on the acquisition of assets and liabilities of ENWSL 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 2016, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £11.1m (2015: £15.5m).

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

12. 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
Cost or valuation					
At 1 April 2014	3,586.3	22.9	58.2	287.9	3,955.3
Additions	67.8	1.8	4.6	164.5	238.7
Transfers	119.8	(0.1)	11.4	(131.1)	–
Disposals	(3.8)	–	(3.5)	–	(7.3)
At 31 March 2015	**3,770.1**	**24.6**	**70.7**	**321.3**	**4,186.7**
Additions	**138.5**	**2.4**	**7.7**	**57.8**	**206.4**
Transfers	**238.9**	**4.1**	**14.6**	**(257.6)**	**–**
Disposals	**(1.4)**	**–**	**(0.8)**	**–**	**(2.2)**
At 31 March 2016	**4,146.1**	**31.1**	**92.2**	**121.5**	**4,390.9**
Accumulated depreciation and impairment					
At 1 April 2014	1,217.3	5.6	39.0	–	1,261.9
Charge for the year	81.8	0.8	12.4	–	95.0
Disposals	(3.8)	–	(3.0)	–	(6.8)
At 31 March 2015	**1,295.3**	**6.4**	**48.4**	**–**	**1,350.1**
Charge for the year	**87.6**	**0.8**	**11.9**	**–**	**100.3**
Disposals	**(1.4)**	**–**	**(0.8)**	**–**	**(2.2)**
At 31 March 2016	**1,381.5**	**7.2**	**59.5**	**–**	**1,448.2**
Net book value					
At 31 March 2016	**2,764.6**	**23.9**	**32.7**	**121.5**	**2,942.7**
At 31 March 2015	2,474.8	18.2	22.3	321.3	2,836.6

At 31 March 2016, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £63.2m (2015: £71.3m).

12. Property, plant and equipment (continued)

At 31 March 2016, 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 £2,828.5m (2015: £2,714.5m). The revaluation reserve is disclosed in Note 26, net of deferred tax. The revaluation reserve arose following North West Water's acquisition of Norweb.

Impairment testing of intangible assets and property plant and equipment

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

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

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

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

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

13. Investments

	Group £m	Company £m
Cost and carrying value at 31 March 2015 and 31 March 2016	–	15.4

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

	Description of holding	Proportion held	Nature of business
Subsidiary undertakings			
Electricity North West Services Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Dormant
Joint venture			
Nor.Web DPL Limited	Ordinary shares of £1 each	50%	Dormant
Other Investments			
Selectusonline Ltd	Ordinary shares of 66.67p each	16.67%	Planning and procurement
Energy Networks Association Ltd	Limited by Guarantee	11.11%	Industry support services
Electricity Association Services Ltd - in liquidation	Ordinary shares of £1 each	9.09%	Industry support services
Electralink Ltd	Ordinary shares of £0.10 each	7.38%	Industry support services
Electricity Pensions Ltd	Limited by Guarantee	4.76%	Industry support services
Northmere Ltd	Limited by Guarantee	4.55%	Industry support services
Electricity Pensions Trustees Ltd	Ordinary shares of £1 each	3.38%	Industry support services
Gemserv Ltd	Ordinary shares of £1 each	2.78%	Industry support services
DCUSA Ltd	Ordinary shares of £1 each	1.72%	Industry support services
Smart Energy Code Company Ltd	Ordinary shares of £1 each	0.85%	Industry support services
MRA Service Company Ltd	Ordinary shares of £1 each	0.61%	Industry support services
National Grid plc	Ordinary shares of 11.76p each	Negligible	Energy Distribution

14. Inventories

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

15. Trade and other receivables

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Trade receivables	15.6	15.6	6.7	6.7
Amounts owed by Group undertakings	4.5	4.5	4.3	4.3
Prepayments and accrued income	47.8	47.8	55.3	55.3
	67.9	67.9	66.3	66.3

The average credit period taken on sales is 14 days (2015: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.7m (2015: £0.3m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

51% (2015: 56%) are past due but not impaired. The majority of balances are less than 30 days past due; a balance of £1.1m is greater than 30 days past due at 31 March 2016 (2015: £1.0m), against which an allowance for doubtful debt of £0.7m (2015: £0.3m) has been made.

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

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Balance at 1 April	0.3	0.3	0.4	0.4
Charged/(credited) to the Income Statement	0.4	0.4	(0.1)	(0.1)
Utilised	–	–	–	–
Balance at 31 March	0.7	0.7	0.3	0.3

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 2016 £2.6m (2015: £4.8m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of ED1 (1 April 2015 to 31 March 2023) and is £1,643.0m (2015: £1,609m) for the year ended 31 March 2016 based on the actual retail price index (RPI) for March.

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

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

16. Cash and cash equivalents and money market deposits

Group and Company	2016 £m	2015 £m
Cash and cash equivalents	119.3	136.0
Short-term money market deposits (maturity over 3 months)	23.5	25.0
	142.8	161.0

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

The effective interest rate on all short-term deposits was a weighted average of 0.7% (2015: 0.5%) and these deposits had an average maturity of 40 days (2015: 45 days).

17. Trade and other payables

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Trade payables	13.4	13.4	17.9	17.9
Amounts owed to group	3.0	3.0	3.8	3.8
Amounts owed to subsidiary undertakings	–	15.4	–	15.4
Other taxation and social security	11.2	11.2	15.1	15.1
Customer contributions (see Note 23)	23.9	23.9	17.4	17.4
Refundable customer deposits (see Note 24)	2.6	2.6	0.2	0.2
Accruals and deferred income	83.0	83.3	83.4	83.7
	137.1	152.8	137.8	153.5

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 15 days from receipt of invoice (2015: 18 days).

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

18. Borrowings

This Note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to credit risk, liquidity risk and market risk see Note 19.

Group and Company	2016 £m	2015 £m
Current liabilities		
Bank and other term borrowings	4.6	–
Non-current liabilities		
Bonds	711.3	722.4
Bank and other term borrowings	249.0	252.6
Amounts owed to parent undertaking	70.9	89.7
Amounts owed to affiliated[1] undertaking	197.2	196.7
	1,228.4	1,261.4

Carrying value by category

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

Group and Company	Year of maturity	2016 £m	2015 £m
Borrowings designated at fair value through profit or loss statement			
8.875% £250m bond	2026	380.7	393.4
Borrowings measured at amortised cost			
8.875% £200m bond	2026	196.4	196.1
1.4746%+RPI[2] £100m index-linked bond	2046	134.3	132.9
1.5911%+RPI[2] £135m index-linked loan	2024	154.0	152.2
Amortising costs re: long term loans at LIBOR plus 0.70%	2017	–	(0.1)
0.38%+RPI[2] £50m index-linked loan	2032	49.5	50.5
0.0%+RPI[2] £50m index-linked loan	2033	50.0	50.0
Amounts due to parent undertaking	2023	70.9	89.7
Amounts due to affiliated[1] undertaking	2021	197.2	196.7
Other financial liabilities held at amortised cost		852.3	868.0

[1] Affiliated companies being those owned by Companies under common ownership with Electricity North West Limited in the North West Electricity Networks (Jersey) Limited consolidation group.

[2] 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).

As at 31 March 2015 and at 31 March 2016 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 2016. The fair values of the Group's financial instruments are shown in Note 19.

The loan from parent undertaking accrues interest at 2.74 % (2015: 6.5%). The loan from the affiliated undertaking accrues interest at 6.125% (2015: 6.125%).

Borrowing facilities

The Group and Company had £50m (2015: £50m) in unutilised committed bank facilities at 31 March 2016 of which £nil expires within one year (2015: £nil), £50m expires after one year but less than two years (2015: £50m) and £nil expires in more than two years (2015: £nil).

19. Financial instruments

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

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

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

The accounting policy for derivatives is provided in Note 1.

Control over financial instruments

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

Risk management

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

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. 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 five (2015: five) principal customers, see Note 2. 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 2016 there was £7.2m receivables past due (2015: £3.8m) against which an allowance for doubtful debts of £0.7m has been made (2015: £0.3m).

Treasury investments

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

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

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

Credit Rating for cash and cash equivalents, excluding unpresented cheques	2016 £m	2016 %	2015 £m	2015 %
AAA	52.3	26.4	99.7	60.4
AA	–	–	–	–
AA-	11.4	5.7	–	–
A+	42.1	21.3	–	–
A	92.3	46.6	65.3	39.6
	198.1	100.0	165.0	100.0

At the Statement of Financial Position date, no collateral is held in relation to Treasury assets (2015: same).

Exposure to credit risk

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

Credit risk by category	2016 Group £m	2016 Company £m	2015 Group £m	2015 Company £m
Trade receivables	15.6	15.6	6.7	6.7
Amounts owed by Group undertakings	4.5	4.5	4.3	4.3
Cash and cash equivalents	119.3	119.3	136.0	136.0
Money market deposits (maturity over three months)	23.5	23.5	25.0	25.0
	162.9	162.9	172.0	172.0

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

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

19. Financial instruments (continued)

Available liquidity at 31 March was as follows:

Available liquidity	2016 Group £m	2016 Company £m	2015 Group £m	2015 Company £m
Cash and cash equivalents	119.3	119.3	136.0	136.0
Money market deposits (maturity over three months)	23.5	23.5	25.0	25.0
Committed undrawn bank facilities	50.0	50.0	50.0	50.0
	192.8	192.8	211.0	211.0

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 (2015: none).

The Group and Company had committed undrawn bank facilities including £nil (2015: £nil) of facilities that expire within one year, £50m (2015: £50m) that expires after one year but less than two years and £nil (2015: £nil) 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.

Group and Company At 31 March 2016	On demand £m	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
Trade payables	(13.4)	–	–	–	–	–	(13.4)
Refundable customer deposits	(2.6)	–	–	–	–	–	(2.6)
Amounts owed to parent undertaking	–	(2.0)	(1.9)	(1.9)	(1.9)	(77.3)	(85.0)
Amounts owed to affiliated companies	–	(12.2)	(12.2)	(12.2)	(12.2)	(218.4)	(267.2)
Bonds	–	(41.9)	(41.9)	(41.9)	(41.9)	(877.4)	(1,045.0)
Borrowings and overdrafts	–	(7.3)	(8.8)	(8.8)	(8.8)	(241.9)	(275.6)
Derivative financial instruments (net)	–	12.1	7.5	12.1	12.1	(126.3)	(82.5)
	(16.0)	(51.3)	(57.3)	(52.7)	(52.7)	(1,541.3)	(1,771.3)

Group and Company At 31 March 2015	On demand £m	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
Trade payables	(17.9)	–	–	–	–	–	(17.9)
Refundable customer deposits	–	(0.2)	(4.8)	–	–	–	(5.0)
Amounts owed to parent undertaking	–	(3.0)	(3.6)	(3.6)	(3.6)	(105.9)	(119.7)
Amounts owed to affiliated companies	–	(12.2)	(12.2)	(12.2)	(12.2)	(230.8)	(279.6)
Bonds	–	(41.9)	(41.9)	(41.9)	(41.9)	(916.9)	(1,084.5)
Borrowings and overdrafts	–	(4.2)	(7.2)	(8.7)	(8.7)	(365.7)	(394.5)
Derivative financial instruments (net)	–	4.7	4.7	0.5	4.7	(265.0)	(250.4)
	(17.9)	(56.8)	(65.0)	(65.9)	(61.7)	(1,884.3)	(2,151.6)

Market risk

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

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

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

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.

19. Financial instruments (continued)

	2016			2015		
	Change in interest rates			Change in interest rates		
	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Debt held at fair value	(14.8)	14.1	27.5	(16.1)	15.3	29.9
Interest rate swaps	–	–	–	–	–	–
Inflation-linked swaps	(53.9)	47.8	90.6	(32.0)	28.4	53.7
Total fair value movement	(68.7)	61.9	118.1	(48.1)	43.7	83.6

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 2016, the Group had no floating rate borrowings (2015: 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.

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

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

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

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

19. Financial instruments (continued)

Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. At 31 March 2016, the Group's derivatives are not designated in formal hedging relationships (2015: none), and instead are measured at fair value through the Income Statement.

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 79).

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 79 in accordance with IFRS 13, an adjustment for non-performance risk has then been made to give the fair value.

The non-performance risk has been quantified by calculating either a credit valuation adjustment (CVA) based on the credit risk profile of the counterparty, or a debit valuation adjustment (DVA) based on the credit risk profile of the relevant group entity, using market-available data.

Whilst the majority of the inputs to the CVA and DVA calculations meet the criteria for Level 2 inputs, certain inputs regarding the Group's credit risk are deemed to be Level 3 inputs, due to the lack of market-available data. The credit risk profile of the Group has been built using the few market-available data points, e.g. credit spreads on the listed bonds, and then extrapolated over the term of the derivatives. It is this extrapolation that is deemed to be Level 3. All other inputs to both the underlying valuation and the CVA and DVA calculations are Level 2 inputs.

For certain derivatives, the Level 3 inputs form an insignificant part of the fair value and, as such, these derivatives are disclosed as Level 2. Otherwise, the derivatives are disclosed as Level 3.

The adjustment for non-performance risk as at 31 March 2016 is £93.2m (2015: £76.2m), of which £91.3m (2015: nil) is classed as Level 3.

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

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

For cash and cash equivalents, trade and other receivables and trade and other payables the book values approximate to the fair values because of their short-term nature.

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

Group and Company	2016 Carrying value £m	2016 Fair value £m	2015 Carrying value £m	2015 Fair value £m
Current assets				
Trade receivables	15.6	15.6	6.7	6.7
Cash and cash equivalents	119.3	119.3	136.0	136.0
Short-term money market deposits (maturity over 3 months)	23.5	23.5	25.0	25.0
	158.4	158.4	167.7	167.7
Non-current liabilities				
Borrowings designated at fair value through profit and loss (FVTPL)	(380.7)	(380.7)	(393.4)	(393.4)
Borrowings measured at amortised cost	(579.6)	(722.5)	(581.5)	(734.9)
Amounts due to parent undertaking	(70.9)	(70.9)	(89.7)	(89.7)
Amounts due to affiliated companies	(197.2)	(239.6)	(196.7)	(243.9)
Derivative financial instruments	(267.7)	(267.7)	(212.2)	(212.2)
Refundable customer deposits	–	–	(4.8)	(4.8)
Current liabilities				
Trade and other payables	(13.4)	(13.4)	(17.9)	(17.9)
Refundable customer deposits	(2.6)	(2.6)	(0.2)	(0.2)
Borrowings measured at amortised cost	(4.6)	(4.6)		
	(1,516.7)	(1,702.0)	(1,496.4)	(1,697.0)

19. 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 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities at FVTPL				
Derivative financial liabilities				
- £300m notional inflation-linked swaps	**–**	**(99.9)**	**(167.8)**	**(267.7)**
Financial liabilities designated at FVTPL	**(380.7)**	**–**	**–**	**(380.7)**
	(380.7)	**(99.9)**	**(167.8)**	**(648.4)**

Group and Company 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities at FVTPL				
Derivative financial liabilities				
- £200m notional inflation-linked swaps	–	(212.2)	–	(212.2)
Financial liabilities designated at FVTPL	(393.4)	–	–	(393.4)
	(393.4)	(212.2)	–	(605.6)

Inflation-linked swap liabilities with fair values of £131.4m were transferred from Level 2 to Level 3 at the start of the current year (2015: none), principally due to a change in the significance of the unobservable inputs used to derive Electricity North West's credit curve for the DVA, as described in this section above.

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

Group and Company	2016 £m	2015 £m
At 1 April	–	–
Transfers into Level 3 from Level 2	(131.4)	–
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	(26.0)	–
- On new derivatives in the year	(10.4)	–
At 31 March	**(167.8)**	–

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

Group and Company 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities with fair value disclosed				
Borrowings measured at amortised cost	**(722.5)**	**–**	**–**	**(722.5)**

Group and Company 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities with fair value disclosed				
Financial liabilities held at amortised cost	(734.9)	–	–	(734.9)

20. 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 Services Limited (ENWSL) to the Company and the termination of the Asset Services Agreement between the Company and ENWSL 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 £24.6m (2015: £15.0m) to the defined benefit section of the Scheme. The Group estimates that contributions for the year ending 31 March 2017 will amount to around £24.3m which includes £11.3m of expected deficit contribution payments. In addition under the current schedule of contributions depending on the funding position as at 31 March 2016, there is a potential catch up deficit contribution due before 31 March 2017. The maximum possible catch up contribution due is £16.8m. The total defined benefit pension expense for the year was £16.2m (2015: £16.0m). Information about the pension arrangements for Executive Directors is contained in Note 5.

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

Funding the liabilities

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation was carried out as at 31 March 2013 and identified a shortfall of £188.0m against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2013 Actuarial valuation the Group agreed to remove the shortfall by paying annual contributions to 2025.

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

The results of the 2013 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2016 for the 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 £16.2m is included in the Statement of Financial Position at 31 March 2016 (2015 deficit of £33.7m).

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

Investment strategy

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

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

Other risks

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

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

Winding up

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

Defined Contribution arrangements

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

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

Defined Benefits employee benefits

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

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

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

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

20. Retirement benefit schemes (continued)

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

	£m
Liabilities owing to active members	400.6
Liabilities owing to deferred members	93.1
Liabilities owing to pensioner members	726.2
Total liability at 31 March 2016	**1,219.9**

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

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

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

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

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

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

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

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

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

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

Male life expectancy at age 60	2016 Years	2015 Years
Retired member	26.9	26.8
Non-retired member (current age 45)	28.4	28.3

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

20. Retirement benefit schemes (continued)

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.

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

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

	Scheme assets at 31 March 2016 %	Value at 31 March 2016 £m	Scheme assets at 31 March 2015 %	Value at 31 March 2015 £m
Cash and Cash equivalents	0.5	5.9	1.3	16.4
Equity instruments	9.3	113.3	8.6	107.3
Debt instruments	68.0	819.1	70.8	879.9
Real estate	12.4	148.5	11.1	138.0
Distressed debt	2.7	32.0	1.4	17.5
Hedge funds	7.1	84.9	6.8	83.8
Total fair value of assets	100.0	1,203.7	100.0	1,242.9
Present value of liabilities		(1,219.9)		(1,276.6)
Net retirement benefit obligation		(16.2)		(33.7)

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

21. Provisions

Group and Company	2016 £m	2015 £m
At 1 April	6.1	9.6
Release to income statement on re-estimate of liability	(1.0)	–
Utilisation of provision	(2.6)	(3.5)
At 31 March	2.5	6.1

Group and Company	2016 £m	2015 £m
Current	0.6	2.8
Non current	1.9	3.3
At 31 March	2.5	6.1

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

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

The combined closing provision of £2.5m which now 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.

22. Deferred Tax

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

Group and Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2014	216.3	(7.5)	(9.4)	199.4
Charged/(credited) to the Income Statement	10.6	(0.2)	(27.5)	(17.1)
Deferred tax on remeasurement of defined benefit pension schemes	–	0.9	–	0.9
Adjustment due to change in future tax rates of brought forward deferred tax OCI	–	–	–	–
At 1 April 2015	**226.9**	**(6.8)**	**(36.9)**	**183.2**
Charged/(credited) to the Income Statement	**(23.5)**	**–**	**(5.5)**	**(29.0)**
Deferred tax on remeasurement of defined benefit pension schemes	**–**	**1.6**	**–**	**1.6**
Adjustment due to change in future tax rates of brought forward deferred tax in OCI	**–**	**2.2**	**–**	**(2.2)**
At 31 March 2016	**203.4**	**(3.0)**	**(42.4)**	**158.0**

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

23. Customer Contributions

Customer contributions are amounts received from a customer in respect of the provision of a new connection to the network. Customer contributions are amortised through the Income Statement over the expected lifetime of the relevant asset.

Group and Company	£m
At 1 April 2014	529.6
Additions during the year	41.1
Amortisation	(12.9)
Amortised through revenue (IFRIC 18)	(1.9)
At 1 April 2015	**555.9**
Additions during the year	**44.3**
Amortisation	**(10.7)**
Amortised through revenue (IFRIC 18)	**(4.6)**
At 31 March 2016	**584.9**

	2016 £m	2015 £m
Amounts due in less than one year (see Note 17)	**23.9**	17.4
Amounts due after more than one year	**561.0**	538.5
	584.9	555.9

24. Refundable customer deposits

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

Group and Company	2016 £m	2015 £m
Amounts due in less than one year (see Note 17)	**2.6**	0.2
Amounts due after more than one year	**–**	4.8
	2.6	5.0

25. Called up share capital

	2016 £	2015 £
Authorised:		
569,999,996 (2015: 569,999,996) ordinary shares of 50 pence each	284,999,998	284,999,998
4 'A' ordinary shares of 50 pence each	2	2
Special rights redeemable preference share of £1	1	1
	285,000,001	285,000,001
Allotted, called up and fully paid:		
476,821,341 (2015: 476,821,341) ordinary shares of 50 pence each	238,410,671	238,410,671
4 'A' ordinary shares of 50 pence each	2	2
	238,410,673	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.

26. 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 2015	238.4	4.4	99.2	8.6	375.9	726.5
Profit for the year	–	–	–	–	117.0	117.0
Transfer from revaluation reserve	–	–	(5.7)	–	5.7	–
Remeasurement of defined benefit schemes	–	–	–	–	9.1	9.1
Tax on components of comprehensive income	–	–	–	–	(3.8)	(3.8)
Total comprehensive income for the year	–	–	(5.7)	–	128.0	122.3
Transactions with owners recorded directly in equity						
Equity dividends	–	–	–	–	(30.0)	(30.0)
At 31 March 2016	**238.4**	**4.4**	**93.5**	**8.6**	**473.9**	**818.8**

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.

26. Shareholders' equity (continued)

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 2015	238.4	4.4	99.2	8.6	375.9	726.5
Profit for the year	–	–	–	–	117.0	117.0
Transfer from revaluation reserve	–	–	(5.7)	–	5.7	–
Remeasurement of defined benefit schemes	–	–	–	–	9.1	9.1
Tax on components of comprehensive income	–	–	–	–	(3.8)	(3.8)
Total comprehensive income for the year	–	–	(5.7)	–	128.0	122.3
Transactions with owners recorded directly in equity						
Equity dividends	–	–	–	–	(30.0)	(30.0)
At 31 March 2016	**238.4**	**4.4**	**93.5**	**8.6**	**473.6**	**818.5**

The profit after tax for the Company for the year ended 31 March 2016 was £117.0m (2015: £71.8m) and the revenue for the year was £450.8m (2015: £533.7m). As permitted by s408 of the Companies Act 2006, the Company has not presented its own Income Statement.

27. 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 25. 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 the Corporate Governance Report on pages 23 to 32.

28. 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 ultimate parent undertaking is North West Electricity Networks (Jersey) Limited, a company incorporated and registered in Jersey. The address of the ultimate parent company is: Ogier House, The 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) Limited.

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

NOTES TO THE FINANCIAL STATEMENTS

29. Related party transactions

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Ltd	1.2	1.2	0.6	0.6
Recharges from Electricity North West (Construction and Maintenance) Ltd	0.2	0.2	0.2	0.2
Directors' remuneration (Note 5)	1.3	1.3	1.9	1.9
Directors' services	0.2	0.2	0.2	0.2
Interest payable to North West Electricity Networks Plc	2.6	2.6	4.5	4.5
Interest payable to ENW Finance Plc	12.4	12.4	12.4	12.4
Dividends paid to North West Electricity Networks Plc	30.0	30.0	37.0	37.0
Amounts outstanding with related parties are as follows:				
Amounts owed to related parties				
Group tax relief to North West Electricity Networks Plc	12.9	12.9	10.8	10.8
Group tax relief to North West Electricity Networks (Holdings) Ltd	–	–	–	–
Interest payable to North West Electricity Networks Plc	0.5	0.5	1.3	1.3
Interest payable to ENW Finance Plc	2.4	2.4	2.5	2.5
Amounts owed to Electricity North West (Construction and Maintenance) Ltd	–	–	–	–
Amounts owed to Electricity North West Services Limited	–	15.4	–	15.4
Borrowings from North West Electricity Networks Plc	70.9	70.9	89.7	89.7
Borrowings from ENW Finance plc	199.0	199.0	196.7	196.7

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Amounts owed by related parties				
Amounts owed by North West Electricity Networks Plc	3.7	3.7	3.6	3.6
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	0.5	0.5	0.4	0.4
Amounts owed by North West Electricity Networks (Jersey) Limited	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 2.74% (2015: 5.35%) and is repayable in March 2023. The loan from ENW Finance plc accrues interest at 6.125% (2015: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2015: £0.1m) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party as per Note 28.

Fees of £0.1m (2015: £0.1m) were payable to IIF Int'l Holding GP Ltd ('IIF') in respect of the provision of Directors' services which is identified as a related party as per Note 28.

For disclosure relating to executive directors remuneration see Note 5.

30. Cash generated from operations

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Operating profit	214.6	214.6	301.3	301.3
Adjustments for:				
Depreciation of property, plant and equipment	100.3	100.3	95.0	95.0
Amortisation of intangible assets	4.8	4.8	3.6	3.6
Amortisation of customer contributions	(15.3)	(15.3)	(14.8)	(14.8)
Profit on disposal of property, plant and equipment	(0.2)	(0.2)	(0.7)	(0.7)
Cash contributions in excess of pension charge to operating profit	(16.0)	(16.0)	(0.2)	(0.2)
Operating cash flows before movements in working capital	288.2	288.2	384.2	384.2
Changes in working capital:				
(Increase)/decrease in inventories	(1.2)	(1.2)	–	–
Increase in trade and other receivables	(2.0)	(2.0)	(1.9)	(4.1)
(Decrease)/increase in payables and provisions	(14.2)	(14.2)	(4.5)	(4.5)
Cash generated from operations	270.8	270.8	377.8	375.6

31. Contingent liability

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

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

Under the terms of the Deed of Covenant if there was such discontinuance event the Company is liable to pay 6.7% of the discontinuance deficit. Management do not consider that this event is probable and no provision has been made in these accounts. The total deficit has been estimated at approximately £75m as at 31 March 2016, for which the Company's liability could be between £5.0 to £7.0m.

32. Operating leases

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

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

Glossary

C_2C	Capacity to Customers (LCNF/ future networks project)
CGU	Cash Generating Unit
CI	Customer Interruptions
CML	Customer Minutes Lost
CSR	Corporate Social Responsibility
DECC	Department of Energy and Climate Change
DNO	Distribution Network Operator
DPCR5	Distribution Price Control 5, 2010-2015
DUoS	Distribution Use Of System
ELT	Executive Leadership Team
ENWL	Electricity North West Limited
ENWSL	Electricity North West Services Limited (formerly 'UUES')
ESPS	Electricity Supply Pension Scheme
ESQCR	Electricity Safety and Quality Continuity (Amendment) Regulations
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Principles
HI	Health Indices
IFI	Innovation Funding Incentive
IFRS	International Financial Reporting Standard
KPI	Key Performance Indicators
LCNF	Low Carbon Network Fund
LI	Load Indices
Ofgem	Office of Gas and Electricity Markets
PPE	Property, Plant and Equipment
RAV	Regulatory Asset Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation

Glossary

RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RPI	Retail Price Index
SID	Sufficiently Independent Director
UUES	United Utilities Electricity Services Limited

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