Company Registration No. 06428375

# NORTH WEST ELECTRICITY NETWORKS PLC (Formerly NORTH WEST ELECTRICITY NETWORKS LIMITED)

## Half Year Condensed Consolidated Financial Statements

## for the period ended 30 September 2015

## CONTENTS

## INTERIM MANAGEMENT REPORT

### Cautionary statement

This interim management report contains certain forward-looking statements with respect to the consolidated financial condition and business of North West Electricity Networks Plc and its subsidiaries (together referred to as the "Group"). Statements or forecasts relating to events in the future necessarily involve risk and uncertainty and are made by the Directors in good faith based on the information available at the date of signature of this report. North West Electricity Networks Plc (the "Company") undertakes no obligation to update these forward-looking statements. Nothing in this unaudited interim management report should be construed as a profit forecast nor should past performance be relied upon as a guide to future performance.

*Change in company name*

On 6 October 2014 North West Electricity Networks Limited formally re-registered its name as North West Electricity Networks Plc under Section 92(1)(c) of the Companies Act 2006.

### Directors

The names of the Directors who held office during the period and subsequently are given below:

D Brocksom (appointed 5 October 2015)

A Dench (resigned 5 May 2015)

C Dowling (appointed 20 July 2015)

J Gittins (resigned 20 July 2015)

S Johnson

M Rogers (resigned 23 November 2015)

N Mills (appointed 23 November 2015)

M Walters

### Operations

North West Electricity Networks Plc acts as an intermediary holding company within the North West Electricity Networks (Jersey) Limited Group and does not conduct any other trading activities.

The Group's principal activity is the operation of electricity distribution assets owned by Electricity North West Limited ("ENWL"), a subsidiary of the Company. The distribution of electricity is regulated by the terms of ENWL's Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

### Results

| | **6 months ended 30 Sept 2015** | 6 months ended 30 Sept 2014 | Year ended 31 March 2015 |
|---|---|---|---|
| Revenue | **£212m** | £248m | £534m |
| Operating profit | **£92m** | £126m | £290m |
| Profit before tax and fair value movements | **£63m** | £79m | £174m |
| Profit before tax | **£56m** | £45m | £15m |

The Company operates solely as an investment company and therefore it has no non-financial key performance indicators.

### Revenue

Total revenue from the Group has decreased as a result of a decrease in allowed Distribution Use of System ("DUoS") revenue at the start of RIIO-ED1 for the current regulatory price review period, RIIO-ED1.

### Operating profit

Operating profit from the Group has decreased as a result of a decrease in allowed Distribution Use of System ("DUoS") revenue at the start of RIIO-ED1 for the current regulatory price review period, RIIO-ED1. The Group operations were managed within the tight cost budget set by Ofgem.

### Profit before tax and fair value movements

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

### Profit before tax

Profit before tax has increased due to net fair value gains on borrowings and derivative financial instruments. There have been fair value gains on the marked to market bond and interest rate swaps largely as a result of the increase in market expectations of future interest rates, partially offset by the loss on the inflation-linked swaps as a result of the increase in market expectation of future inflation rates.

### Dividends

At the date of these financial statements interim dividends of £6.0m have been paid (period ended 30 September 2014: interim dividend £25.0m, year ended 31 March 2015: final dividend £38.0m).

## INTERIM MANAGEMENT REPORT *(continued)*

### Principal risks and uncertainties

The Board considers that the principal risks and uncertainties have not changed from the last annual report.

The principal trade and activities of the Group are carried out by ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are discussed in the ENWL Annual Report and consolidated financial statements for the year ended 31 March 2015, which are available on our website, [www.enwl.co.uk](http://www.enwl.co.uk).

The Board considers the following risks to be the principal ones that may affect the Group's performance and results.

*Failure to comply with investor and banking covenants*

The Group has a comprehensive set of covenants contained within the legal agreements surrounding the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who are responsible for ensuring compliance.

A compliance reporting regime is well established and the compliance status is reviewed and approved by the CFO and CEO, and is reported to the Board on a monthly basis. There have been no covenant breaches in the current year. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan covering the period to 31 March 2016. In addition the forecasts for the 2015-23 RIIO-ED1 price review period demonstrate sufficient liquidity and headroom against the key ratios.

*Refinancing*

The Company is a subsidiary within a group of companies established specifically for the purpose of purchasing ENWL on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance. The Group and the Company are financed largely by long-term external funding. The Company repaid the £300m intercompany loan in June 2015. This was financed by a £305m US private placement, agreed in October 2014. The funds were received denominated in sterling in two tranches, one of £120m in December 2014 and a second of £185m in June 2015.

*Financial risks*

The principal financial risks which the Group is exposed to and which arise in the normal course of business are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation and equity price risks.

*Credit (counterparty) risk management*

The Group is required by Ofgem to accept any company that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to the terms.

Exposure limits with counterparties are reviewed regularly. The Group's exposure and the credit ratings of its counterparties are monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

*Market risk management*

The Group manages market risk exposure by seeking to match financing costs as closely as possible with the revenues generated by its assets. The regulated revenue generated by ENWL is linked to inflation and the Group, therefore, matches a proportion of the financing costs using a combination of index-linked debt and index-linked derivatives. By matching the cost of funding and revenue in this way, the exposure to movements in inflation is somewhat mitigated. Inevitably, there is not a perfect match and some exposure remains.

## INTERIM MANAGEMENT REPORT *(continued)*

### Financial statements

All of the Annual Reports and Consolidated Financial Statements in the North West Electricity Networks (Jersey) Limited Group can be found at www.enwl.co.uk.

### Going concern

After making enquiries as discussed in the accounting policies on pages 10 to 11, the Directors have a reasonable expectation that the Company and the 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 half year condensed consolidated financial statements.

### Responsibility statement

We confirm that to the best of our knowledge:

a. the condensed set of consolidated financial statements; which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;

b. the interim management report includes a fair review of the information required by DTR 4.2.7R; and

c. the condensed set of consolidated financial statements has been prepared in accordance with IAS34 'Interim Financial Reporting'.

Registered address:

304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG

Approved by the Board of Directors and signed on its behalf:

**D Brocksom**

Chief Financial Officer

23 November 2015

## CONDENSED CONSOLIDATED INCOME STATEMENT
## For the period ended 30 September 2015

| | Note | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|---|
| **Revenue** | | **211.5** | 247.6 | 533.7 |
| Employee costs | | **(23.8)** | (18.6) | (44.5) |
| Depreciation and amortisation expense (net) | | **(48.8)** | (48.6) | (97.2) |
| Retail property provision release/(charge) | **14** | **0.7** | (0.3) | - |
| Other operating costs | | **(47.8)** | (54.3) | (99.4) |
| Restructuring costs | | **-** | - | (2.8) |
| **Total operating expenses** | | **(119.7)** | (121.8) | (243.9) |
| **Operating profit** | | **91.8** | 125.8 | 289.8 |
| Investment income | **4** | **0.6** | 0.1 | 0.6 |
| Net finance expense | **5** | **(36.1)** | (81.3) | (275.4) |
| **Profit before taxation** | | **56.3** | 44.6 | 15.0 |
| Taxation | **6** | **(11.4)** | (10.6) | (4.2) |
| **Profit for the period/year attributable to the equity shareholders** | | **44.9** | 34.0 | 10.8 |

All the results shown in the condensed consolidated income statement derive from continuing operations.

The notes on pages 9 to 20 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**For the period ended 30 September 2015**

| | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| **Profit for the financial period/year** | **44.9** | 34.0 | 10.8 |
| **Items that will not be classified subsequently to profit or loss:** | | | |
| Remeasurement of defined benefit pension scheme | **44.7** | 7.4 | 4.4 |
| Deferred tax on remeasurement of defined benefit pension scheme taken directly to equity | **(8.9)** | (1.4) | (0.9) |
| Adjustment due to future rates of brought forward deferred tax asset taken directly to equity | **-** | - | - |
| **Other comprehensive income for the period/year** | **35.8** | 6.0 | 3.5 |
| **Total comprehensive income for the period/year and attributable to equity holders** | **80.7** | 40.0 | 14.3 |

The notes on pages 9 to 20 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 30 September 2015

| | Note | **Unaudited 30 September 2015 £m** | Unaudited 30 September 2014 £m | Audited 31 March 2015 £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets and goodwill | | **222.8** | 207.1 | 216.3 |
| Property, plant and equipment | **8** | **2,901.5** | 2,779.6 | 2,847.9 |
| Retirement benefit surplus | **12** | **15.2** | - | - |
| | | **3,139.5** | 2,986.7 | 3,064.2 |
| **Current assets** | | | | |
| Inventories | | **7.6** | 8.1 | 7.3 |
| Trade and other receivables | | **51.6** | 60.6 | 63.4 |
| Cash and cash equivalents | | **141.0** | 56.5 | 257.6 |
| Money market deposits (maturity over 3 months) | | **10.0** | - | 25.0 |
| Current tax asset | | **-** | - | 14.4 |
| | | **210.2** | 125.2 | 367.7 |
| **Total assets** | | **3,349.7** | 3,111.9 | 3,431.9 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Borrowings | **9** | **(676.6)** | (676.5) | (976.1) |
| Trade and other payables | | **(139.6)** | (135.6) | (146.2) |
| Current tax liabilities | | **(6.4)** | (15.5) | - |
| Provisions | **14** | **(1.6)** | (3.9) | (2.8) |
| | | **(824.2)** | (831.5) | (1,125.1) |
| **Net current liabilities** | | **(614.0)** | (706.3) | (757.4) |
| **Non-current liabilities** | | | | |
| Borrowings | **9** | **(1,548.2)** | (1,424.7) | (1,381.3) |
| Derivative financial instruments | **10** | **(251.5)** | (141.9) | (241.9) |
| Deferred tax liabilities | | **(282.5)** | (301.5) | (283.0) |
| Customer contributions | | **(245.7)** | (219.0) | (240.9) |
| Refundable customer deposits | | **(2.5)** | (2.6) | (4.8) |
| Provisions | **14** | **(2.5)** | (3.8) | (3.3) |
| Retirement benefit obligations | **12** | **-** | (30.3) | (33.7) |
| | | **(2,332.9)** | (2,123.8) | (2,188.9) |
| **Total liabilities** | | **(3,157.1)** | (2,955.3) | (3,314.0) |
| **Net assets** | | **192.6** | 156.6 | 117.9 |
| **EQUITY** | | | | |
| Called up share capital | | **3.0** | 3.0 | 3.0 |
| Retained earnings | | **189.6** | 153.6 | 114.9 |
| **Total equity** | | **192.6** | 156.6 | 117.9 |

Approved by the Board of Directors on 23 November 2015 and signed on its behalf by:

**D Brocksom**
Director
The notes on pages 9 to 20 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**For the period ended 30 September 2015**

| | **Called up share capital £m** | **Retained earnings /(deficit) £m** | **Total equity £m** |
|---|---|---|---|
| At 31 March 2014 (audited) | 3.0 | 138.6 | 141.6 |
| Profit for the period | - | 34.0 | 34.0 |
| Remeasurement of defined benefit schemes | - | 7.4 | 7.4 |
| Tax on components of comprehensive income | - | (1.4) | (1.4) |
| Total comprehensive income for the period ended 30 September 2014 | - | 40.0 | 40.0 |
| Transactions with owners recorded directly in equity: | | | |
| Equity dividends | - | (25.0) | (25.0) |
| At 30 September 2014 (unaudited) | 3.0 | 153.6 | 156.6 |
| | | | |
| At 31 March 2014 (audited) | 3.0 | 138.6 | 141.6 |
| Profit for the year | - | 10.8 | 10.8 |
| Remeasurement of defined benefit schemes | - | 4.4 | 4.4 |
| Tax on components of comprehensive income | - | (0.9) | (0.9) |
| Total comprehensive income for the year ended 31 March 2015 | - | 14.3 | 14.3 |
| Transactions with owners recorded directly in equity: | | | |
| Equity dividends | - | (38.0) | (38.0) |
| At 31 March 2015 (audited) | 3.0 | 114.9 | 117.9 |
| Profit for the period | - | 44.9 | 44.9 |
| Actuarial gains on defined benefit schemes | - | 44.7 | 44.7 |
| Tax on components of comprehensive income | - | (8.9) | (8.9) |
| **Total comprehensive income for the period ended 30 September 2015** | **-** | **80.7** | **80.7** |
| **Transactions with owners recorded directly in equity:** | | | |
| Equity dividends | - | (6.0) | (6.0) |
| **At 30 September 2015 (unaudited)** | **3.0** | **189.6** | **192.6** |

The notes on pages 9 to 20 form part of the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
## For the period ended 30 September 2015

| | Note | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash generated from operations | **11** | **118.1** | 161.8 | 394.4 |
| Interest paid | | **(36.8)** | (33.0) | (108.2) |
| Tax paid | | **-** | (13.6) | (52.4) |
| **Net cash generated from operating activities** | | **81.3** | 115.2 | 233.8 |
| **Investing activities** | | | | |
| Interest received and similar income | | **0.5** | 0.1 | 0.5 |
| Purchase of property, plant and equipment | **8** | **(102.5)** | (124.6) | (243.7) |
| Purchase of intangible assets | | **(8.6)** | - | (11.0) |
| Customer contributions received | | **21.8** | 19.1 | 41.1 |
| Proceeds from sale of property, plant and equipment | | **0.1** | 0.2 | 1.2 |
| **Net cash used in investing activities** | | **(88.7)** | (105.2) | (211.9) |
| **Financing activities** | | | | |
| Dividends paid to equity shareholders of the Company | **7** | **(6.0)** | (25.0) | (38.0) |
| Transfer from/(to) money market deposits | | **15.0** | - | (25.0) |
| Proceeds from external borrowings | | **185.0** | 22.0 | 232.0 |
| Fees associated with borrowings | | **(0.2)** | - | (2.8) |
| Repayment of borrowings | | **(303.0)** | (20.0) | - |
| **Net cash (used in)/generated from financing activities** | | **(109.2)** | (23.0) | 166.2 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(116.6)** | (13.0) | 188.1 |
| **Cash and cash equivalents at beginning of the period/year** | | **257.6** | 69.5 | 69.5 |
| **Cash and cash equivalents at end of the period/year** | | **141.0** | 56.5 | 257.6 |

The notes on pages 9 to 20 form part of the condensed consolidated financial statements.

# NOTES TO THE CONDENSED SET OF CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

The financial information for the 6 month period ended 30 September 2015 and similarly the period ended 30 September 2014 has neither been audited nor reviewed by the auditor. The financial information for the year ended 31 March 2015 has been based on information in the audited financial statements for that year.

The financial information for the year ended 31 March 2015 does not constitute the statutory financial statements for that year (as defined in s434 of the Companies Act 2006), but is derived from those financial statements. Statutory financial statements for 31 March 2015 have been delivered to the Registrar of Companies. The auditor reported on those financial statements: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

## 2 ACCOUNTING POLICIES

### Basis of preparation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted for use in the European Union. The half year condensed consolidated financial statements of the Group which are unaudited, have been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ (“IAS 34”) as adopted by the European Union.

The results for the period ended 30 September 2015 have been prepared using the same method of computation and on the basis of accounting policies consistent with those set out in the Annual Report and Consolidated Financial Statements of North West Electricity Networks Plc for the year ended 31 March 2015.

Although some of the Group’s operations may sometimes be affected by seasonal factors such as general weather conditions, the Directors do not feel that this has a material effect on the performance of the Group when comparing the interim results to those achieved in the second half of the year.

### Going concern

When considering continuing to adopt the going concern basis in preparing the half year condensed consolidated financial statements for the six months ended 30 September 2015, the Directors have taken into account a number of factors, including the following:

- Electricity North West Limited’s electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating and this has been maintained through the period under review;
- 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 the 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, the approved Group budget to 31 March 2016 which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over/under recoveries of allowed revenue, and demonstrate that there is sufficient headroom on key covenants and that sufficient resources are available within the forecast period;
- The latest forecasts for the 2015-23 RIIO-ED1 price review period have also been reviewed to assess going concern. The forecasts are based on the Ofgem final determination and demonstrate sufficient liquidity and headroom against key ratios to support the going concern basis;
- The Group and the Company are financed largely by long term external funding. This together with the present cash position and committed un-drawn facilities provides the appropriate liquidity platform to allow the Group and Company to meet their operational and financial commitments for the foreseeable future;

# Notes to the condensed set of consolidated financial statements *(continued)*

## 2 ACCOUNTING POLICIES *(continued)*

### Going concern *(continued)*

- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by surplus cash and short-term deposit balances. Furthermore, committed undrawn bank facilities of £50m within ENWL and £100m in the Company are available from lenders. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2016 indicate there is significant headroom on these covenants; and
- The Group and ENWL are financed largely by long-term external funding, and this, together with the present cash position and committed undrawn facilities, provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future. A £300m 6.75% bond issued by ENW Capital Finance Plc was redeemed on maturity in June 2015, using the proceeds from the repayment of the related intercompany loan by the Company. A United States Private Placement ("USPP") was entered into by the Company for the amount of £305m to repay the intercompany loan on maturity.
- The Board has given detailed consideration to the principal risks and uncertainties affecting the Group and Company, as referred to in the interim management report, and all other factors which could impact on the Group and the Company's ability to remain a going concern; and
- The Condensed consolidated statement of financial position shows net current liabilities at 30 September 2015. The net current liability position arises primarily due to the £676.6m inter-company borrowings.

Consequently, after making enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half year condensed consolidated financial statements.

### Principal risks and uncertainties

The principal trade and activities of the Group are carried out in ENWL and a comprehensive review of the strategy and operating model, the regulatory environment, the resources and principal risks and uncertainties facing that company, and ultimately the Group, are discussed in the ENWL Annual report and consolidated financial statements, which are available on our website, www.enwl.co.uk.

An assessment of the change in risk has been carried out and the principal risks are deemed comparable year on year with the exception of the reduced refinancing risk.

The Board considers the following risks to be the principal ones that may affect the Group's performance and results, in addition to those identified in the Strategic report of the ENWL Annual report and consolidated financial statements.

*Failure to comply with investor and banking covenants*

The Group has a comprehensive set of covenants contained within the legal agreements surrounding the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who are responsible for ensuring compliance.

A compliance reporting regime is well established and the compliance status is reviewed and approved by the Interim CFO and CEO, and is reported to the Board on a monthly basis. There have been no covenant breaches in the current year. Further, there are no covenant breaches forecast nor expected in the most recent approved business plan covering the period to 31 March 2016.

# Notes to the condensed set of consolidated financial statements *(continued)*

## 2 ACCOUNTING POLICIES *(continued)*

### Principal risks and uncertainties *(continued)*

*Refinancing*

The Company is a subsidiary within a group of companies established specifically for the purpose of purchasing ENWL on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance. The Group and the Company are financed largely by long-term external funding. The Company repaid the £300m intercompany loan in June 2015. This was financed by a £305m US private placement, agreed in October 2014. The funds were received denominated in sterling in two tranches, one of £120m in December 2014 and a second of £185m in June 2015.

*Financial risks*

The principal financial risks which the Group is exposed to and which arise in the normal course of business are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation and equity price risks.

*Credit (counterparty) risk management*

The Group is required by Ofgem to accept any company that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to the terms.

Exposure limits with counterparties are reviewed regularly. The Group's exposure and the credit ratings of its counterparties are monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

*Market risk management*

The Group manages market risk exposure by seeking to match financing costs as closely as possible with the revenues generated by its assets. The regulated revenue generated by ENWL is linked to inflation and the Group, therefore, matches a proportion of the financing costs using a combination of index-linked debt and index-linked derivatives. By matching the cost of funding and revenue in this way, the exposure to movements in inflation is somewhat mitigated. Inevitably, there is not a perfect match and some exposure remains.

### Changes in accounting policy

There are no accounting policies and standards adopted for the six month period ended 30 September 2015 or for the year ending 31 March 2016 that have a significant impact on the Company.

### Financial instruments at fair value through profit or loss (FVTPL)

Financial instruments 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 is recognised in the income statement in finance expense and is separately identifiable from the net interest paid or received on these financial instruments, see note 5. Fair value is determined in the manner described in note 10.

## 3 OPERATING SEGMENTS

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

The geographical origin and destination of revenue is all within the United Kingdom. In addition whilst revenue can fluctuate marginally with weather conditions, revenues are not affected significantly by seasonal trends.

# Notes to the condensed set of consolidated financial statements *(continued)*

## 4 INVESTMENT INCOME

| | **Unaudited six months ended 30 September 2015 £m** | Unaudited six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| Interest receivable on short-term bank deposits held at amortised cost | **0.6** | 0.1 | 0.6 |

## 5 NET FINANCE EXPENSE

| | **Unaudited six months ended 30 September 2015 £m** | Unaudited six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| **Interest payable** | | | |
| Interest payable on Group borrowings | **15.7** | 15.6 | 31.4 |
| Interest payable on borrowings held at amortised cost | **27.7** | 30.2 | 61.7 |
| Interest payable on borrowings designated at fair value through profit or loss | **-** | - | 22.2 |
| Net receipts on derivatives held for trading | **(1.7)** | (3.0) | (5.4) |
| Other finance charges related to index-linked debt | **1.5** | 3.2 | 6.3 |
| IAS 23 capitalised interest | **(0.3)** | (0.2) | (0.8) |
| Interest cost on pension plan obligations | **0.3** | 0.8 | 1.2 |
| | **43.2** | 46.6 | 116.6 |
| **Fair value (gains)/losses on financial instruments** | | | |
| Borrowings designated at fair value through profit or loss | **(16.6)** | 5.3 | 29.4 |
| Fair value movement on derivatives held for trading | **9.5** | 29.4 | 129.4 |
| | **(7.1)** | 34.7 | 158.8 |
| | **36.1** | 81.3 | 275.4 |

# Notes to the condensed set of consolidated financial statements *(continued)*

## 6 TAXATION

| | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| **Current tax:** | | | |
| UK corporation tax: | | | |
| Current period/year | **20.8** | 17.5 | 30.1 |
| Prior year | **-** | - | (3.8) |
| | **20.8** | 17.5 | 26.3 |
| **Deferred tax:** | | | |
| Current period/year | **(9.4)** | (6.9) | (25.2) |
| Prior year | **-** | - | 3.1 |
| | **(9.4)** | (6.9) | (22.1) |
| Tax charge for the period/year | **11.4** | 10.6 | 4.2 |

Corporation tax is calculated at 20% (period ended 30 September 2014: 21%, year ended 31 March 2015: 21%) being the best estimate of the effective tax rate for the full financial year.

Deferred tax is calculated at 20% (period ended 30 September 2014: 21%, year ended 31 March 2015: 20%).

The UK corporation tax rate will is expected to reduce to 19% on 1 April 2017 and 18% on 1 April 2020; however as the legislation was not substantially enacted at the balance sheet date, the deferred tax rate used at 30 September 2015 is 20%. The rate reduction will reduce the Group’s future tax charge.

## 7 DIVIDENDS

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

| | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| Dividends for the period/year | **6.0** | 25.0 | 38.0 |

# Notes to the condensed set of consolidated financial statements *(continued)*

## 8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent £100.7m (period ended 30 September 2014: £124.6m, year ended March 2015: £238.7m) on additions to property, plant and equipment as part of its capital programme for replacing its operating network and capitalised £0.3m (period ended 30 September 2014: £0.2m, year ended March 2015: £0.8m) of interest, in accordance with IAS 23.

## 9 BORROWINGS

| | **Unaudited 30 September 2015 £m** | Unaudited 30 September 2014 £m | Audited 31 March 2015 £m |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank and other term borrowings | **343.3** | 232.2 | 344.9 |
| Bonds | **1,204.9** | 1,192.5 | 1,036.4 |
| | **1,548.2** | 1,424.7 | 1,381.3 |
| **Current liabilities** | | | |
| Bonds | **-** | - | 299.6 |
| Amounts owed to parent undertaking | **676.6** | 676.5 | 676.5 |
| | **676.6** | 676.5 | 976.1 |
| | **2,224.8** | 2,101.2 | 2,357.4 |

As at 30 September 2015 the Group had £150.4m of unutilised committed bank facilities (30 September 2014: £167.4m, 31 March 2015: £332.4m).

## 10 FINANCIAL INSTRUMENTS

### Fair values

Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy overleaf). Where market values are not available, fair values have been calculated by estimating future contractual cash flows using prevailing interest and RPI rate expectations sourced from market data then discounting those estimated future cash flows, using a discount rate based on the market data and then adjusted for the non-performance risk of either the Company or the counterparty as appropriate (see Level 2 in the fair value hierarchy overleaf). The non-performance risk has been calculated by reference to entity specific market data.

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. Borrowings designated at fair value through profit or loss and derivative financial instruments are carried in the statement of financial position at fair value. All of the fair value measurements recognised in the statement of financial position for the Group and Company occur on a recurring basis. The only category of financial assets and financial liabilities where the carrying value differs from the fair value is Borrowings measured at amortised cost, as shown in the table below:

# Notes to the condensed set of consolidated financial statements *(continued)*

## 10 FINANCIAL INSTRUMENTS *(continued)*

| **30 September 2015** | **Group Carrying Value** | **Group Fair Value** | **Company Carrying Value** | **Company Fair Value** |
|---|---|---|---|---|
| **Financial liabilities:** | **£m** | **£m** | **£m** | **£m** |
| ***Non-current liabilities:*** | | | | |
| Borrowings measured at amortised cost | **(1,171.4)** | **(1,348.5)** | **(391.8)** | **(391.8)** |
| ***Current liabilities:*** | | | | |
| Borrowings measured at amortised cost | **-** | **-** | **-** | **-** |

| 30 September 2014 | Group Carrying Value | Group Fair Value | Company Carrying Value | Company Fair Value |
|---|---|---|---|---|
| Financial liabilities: | £m | £m | £m | £m |
| *Non-current liabilities:* | | | | |
| Borrowings measured at amortised cost | (1,054.3) | (1,206.0) | (32.2) | (32.2) |
| *Current liabilities:* | | | | |
| Borrowings measured at amortised cost | (299.8) | (311.5) | (299.8) | (311.5) |

| 31 March 2015 | Group Carrying Value | Group Fair Value | Company Carrying Value | Company Fair Value |
|---|---|---|---|---|
| Financial liabilities: | £m | £m | £m | £m |
| *Non-current liabilities:* | | | | |
| Borrowings measured at amortised cost | (987.9) | (1,188.5) | (209.6) | (209.6) |
| *Current liabilities:* | | | | |
| Borrowings measured at amortised cost | (299.5) | (303.6) | (299.6) | (303.6) |

### Fair value measurements recognised in the statement of financial position

The following table provides an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the condensed set of consolidated financial statements *(continued)*

## 10 FINANCIAL INSTRUMENTS *(continued)*

| **Group** | **30 September 2015** | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
| **Financial liabilities at fair value through profit or loss:** | | | | |
| Derivative financial liabilities | **-** | **(251.5)** | **-** | **(251.5)** |
| Financial liabilities designated at FVTPL | **(376.8)** | **-** | **-** | **(376.8)** |
| **Total** | **(376.8)** | **(251.5)** | **-** | **(628.3)** |

| Group | 30 September 2014 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivative financial liabilities | - | (141.9) | - | (141.9) |
| Financial liabilities designated at FVTPL | (369.3) | - | - | (369.3) |
| Total | (369.3) | (141.9) | - | (511.2) |

| Group | 31 March 2015 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivative financial liabilities | - | (241.9) | - | (241.9) |
| Financial liabilities designated at FVTPL | (393.4) | - | - | (393.4) |
| Total | (393.4) | (241.9) | - | (635.3) |

There were no transfers between levels during the current period (period ended 30 September 2014: same, year ended 31 March 2015: same).

# Notes to the condensed set of consolidated financial statements *(continued)*

## 11 CASH GENERATED FROM OPERATIONS

| | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| Operating profit | **91.8** | 125.8 | 289.8 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | **47.5** | 47.4 | 95.3 |
| Amortisation of intangible assets | **2.1** | 1.9 | 3.6 |
| Amortisation of customer contributions[1] | **(1.3)** | (1.2) | (3.6) |
| Profit on disposal of property, plant and equipment | **(0.1)** | - | (0.8) |
| Cash contributions in excess of pension charge to operating profit | **(4.5)** | (0.2) | (0.2) |
| Operating cash flows before movement in working capital | **135.5** | 173.7 | 384.1 |
| Changes in working capital: | | | |
| Increase in inventories | **(0.3)** | (0.9) | - |
| Decrease/(increase) in trade and other receivables | **9.4** | (0.5) | (4.3) |
| (Decrease)/increase in provisions and payables | **(26.5)** | (10.5) | 14.6 |
| Cash generated from continuing operations | **118.1** | 161.8 | 394.4 |

1 In the 6 months ended 30 September 2015 £1.3m (period ended September 2014: £1.2m, year ended March 2015 £3.6m) of customer contributions amortisation has been amortised through revenue as a result of the adoption of IFRIC 18.

## 12 RETIREMENT BENEFIT SCHEMES

**Defined benefit schemes**

The defined benefit surplus is calculated using the latest actuarial valuation as at 31 March 2015 and has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 30 September 2015. The present value of the defined benefit surplus, the related current service cost and the past service cost were measured using the projected unit credit method. The defined benefit plan assets have been updated to reflect their market value as at 30 September 2015. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the statement of comprehensive income in accordance with the Group's accounting policy. The defined benefit surplus increased to £15.2m (30 September 2014: deficit of £30.3m, 31 March 2015: deficit of £33.7m), primarily due to asset returns exceeding interest on the scheme's liabilities.

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies the principles of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', whereby a surplus is only recognised to the extent that the Group is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, where the Group does not have access to any funds once they are paid into the scheme, the IFRS financial position recorded reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable.

# Notes to the condensed set of consolidated financial statements *(continued)*

## 12 RETIREMENT BENEFIT SCHEMES *(continued)*

The Group has concluded that it can recognise the full amount of this surplus on the grounds that it could gain sufficient economic benefit from the refund of the surplus assets that would be available to it following the final payment to the last beneficiary of the Section.

## 13 RELATED PARTIES

Loans are made between companies in the North West Electricity Networks (Jersey) Group on which varying rates of interest are chargeable. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the North West Electricity Networks Plc Group companies entered into the following transactions with related parties who are not members of that Group:

| | **Unaudited Six months ended 30 September 2015 £m** | Unaudited Six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| **Transactions with related parties** | | | |
| Recharges to Electricity North West (Construction and Maintenance) Limited | **0.9** | 1.0 | 0.6 |
| Recharges from Electricity North West (Construction and Maintenance) Limited | **0.2** | 0.2 | 0.2 |
| Interest payable to North West Electricity Networks (Holdings) Ltd | **15.7** | 15.6 | 31.4 |
| Dividends paid to North West Electricity Networks Group Limited | **6.0** | 25.0 | 38.0 |
| Executive Directors' remuneration | **0.6** | 0.6 | 1.7 |
| Directors' services | **0.1** | 0.1 | 0.2 |

Fees of £60,000 (September 2014: £60,000, March 2015: £120,000) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party.

Fees of £60,000 (September 2014: £60,000, March 2015: £120,000) 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; IIF have refunded £68,000 of fees for previous periods as a result of a true up exercise.

## Notes to the condensed set of consolidated financial statements *(continued)*

### 13 RELATED PARTIES *(continued)*

Amounts outstanding between the Group and other companies within the North West Electricity Networks (Jersey) Group:

| | **Unaudited 30 September 2015 £m** | Unaudited 30 September 2014 £m | Audited 31 March 2015 £m |
|---|---|---|---|
| **Amounts owed to related parties** | | | |
| Interest to North West Electricity Networks (Holdings) Ltd | **13.5** | 13.0 | 13.4 |
| Amounts owed to North West Electricity Networks (Holdings) Ltd | **676.5** | 676.5 | 676.5 |
| **Amounts owed from related parties** | | | |
| Amounts owed from Electricity North West (Construction and Maintenance) Limited | **0.4** | 0.3 | 0.4 |
| Amounts owed from North West Electricity Networks (Holdings) Ltd | **0.7** | 0.6 | 0.9 |

The loans from related parties comprise amounts loaned from North West Electricity Networks (Holdings) Limited. £200m carries interest at 10% per annum, £327m is interest free, £149.5m carries interest at fixed rate 7.09% (2014: same). Amounts are repayable on demand.

### 14 PROVISIONS

| | **Unaudited six months ended 30 September 2015 £m** | Unaudited six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| Opening Balance | **6.1** | 9.6 | 9.6 |
| (Release)/charge to the income statement on re-estimate provision | **(0.7)** | 0.3 | - |
| Utilisation of provision | **(1.3)** | (2.2) | (3.5) |
| | **4.1** | 7.7 | 6.1 |

| | **Unaudited six months ended 30 September 2015 £m** | Unaudited six months ended 30 September 2014 £m | Audited Year ended 31 March 2015 £m |
|---|---|---|---|
| Current | **1.6** | 3.9 | 2.8 |
| Non current | **2.5** | 3.8 | 3.3 |
| | **4.1** | 7.7 | 6.1 |

## Notes to the condensed set of consolidated financial statements *(continued)*

### 14 PROVISIONS *(continued)*

The provision relates to onerous lease commitments on properties and is in two parts, a portfolio of leases arising from the administration of a third party tenant and one retail property outside of the portfolio. The carried forward provision at 1 April 2015 was made up of £5.1m for the portfolio of leases and £1.0m in relation to the one retail property outside of the portfolio. During the period £1.2m of the provision relating to the portfolio of leases was utilised and £0.1m of the provision relating to the retail property outside of this portfolio was utilised.

Based on the current risk assessment of the portfolio which considers the location and size of the stores, market conditions, demand and expectation on the ability to re-let the properties, cash exposure is forecast to be approximately £1.6m over the next 12 months, with the remaining outflows falling over the period to 2021/22.

Of the total portfolio of 39 leases previously assigned to the third party, at 30 September 2015 it was assumed that the likelihood of obligations for 7 of these units becoming payable was remote. In the remote event of all 7 remaining property leases reverting to ENWL, the maximum total annual accommodation cost (which includes rent, rates, service charge, insurance and maintenance), based on certain leases extending until 2021, would be approximately £5.3m profiled over a six year period from 2015 to 2021 (£6.3m undiscounted). Of the other 32 leases within the portfolio, 9 make up the current provision of £3.1m as at 30 September 2015, whilst the others have either had leases disclaimed, surrendered by the landlord, or new third party tenants have taken occupation.

The one retail property outside of the portfolio carries a provision of £1.0m at 30 September 2015. This amount takes account of expectations that the lease costs arising will be borne by the Group until the lease terminates (hence the amount represents a 100% provision).

### 15 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.

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 £74.3m as at 31 March 2015, of which the Company's share will be £5.0m.