

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2019



Electricity North West Limited
Registered number 02366949

electricity
north west
Bringing energy to your door

Notice regarding limitations on directors' liability under English law

The information supplied in the Strategic Report and Directors' Report has been drawn up and presented in accordance with English law. The liabilities of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

Strategic Report

In preparing the Strategic Report, the Directors have complied with s414 of the Companies Act 2006. The Strategic Report has been prepared for the Electricity North West Group as a whole comprising Electricity North West 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 2019

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 2019 are not due for submission to Ofgem until July 2019, and will be reviewed by Ofgem after their submission.

Website and investor relations

The Company's website, www.enwl.co.uk, gives additional information on the Company and Group. Notwithstanding the references we make in this Annual Report to the website, none of the information made available on the website constitutes part of this Annual Report or shall be deemed to be incorporated by reference herein. Interested institutional debt investors can also gain access to additional financial information by visiting our website www.enwl.co.uk/about-us/investor-relations.

Introduction

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

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

North West

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

Service

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

Innovation

We believe in continuous improvement, leading in energy innovation.

We recognise the role that electricity, and the electricity distribution networks such as ourselves, play in leading and facilitating the switch of the UK to a low carbon economy in an efficient manner, cost effective for customers.

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 2019. Further information on the Company can be found by visiting our website: www.enwl.co.uk. The Company is limited by shares and incorporated in the United Kingdom under the Companies Act 2006.



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Chairman's Statement

I am pleased to present the Annual Report and Consolidated Financial Statements of the Electricity North West Limited (ENWL) Group for the year ended 31 March 2019, the mid-point of the current eight year regulatory period.



Dr John Roberts CBE
Chairman

I am pleased to report that we have continued to make progress in our operational performance, including improving the reliability of the network and also customer satisfaction performance. The continued focus on the safety culture has resulted in a further reduction in lost time incidents. The operational performance is discussed further in the Chief Executive Officer's Statement that follows.

Strategic Direction

The move to a low-carbon economy continues to gather momentum, with wide social and political support. Decarbonisation through electrification is central to achieving the UK's carbon reduction target and is a fundamental element of the Company's strategic plans.

The Company is well placed to respond to the evolving regulatory framework and is focused on developing its network to support the transition to a low carbon economy. The significant investment in next generation network management systems will enable rapid automated control of the network and position the business for transition to a Distribution System Operator.

Legitimacy Of Returns

The legitimacy of the returns made in the energy networks sector continues to be an area of focus. The Company continues to promote transparency of performance and returns. Last year, the typical domestic customer paid £80 from their total electricity bill for the services we provided.

Ofgem presents the results of the networks as a Return on Regulated Equity (RoRE). This year they have increased the transparency of returns by disclosing under or out performance against tax and debt allowances. We welcome this improvement and continue to press for improvement in the methodologies of calculating these returns to ensure consistency across networks.

The Company has been set a base return of 6% p.a. real across the RIIO-ED1 period, being the cost of capital invested in the networks. Additional returns are generated through output incentives, which reward improved customer performance, and cost efficiency incentives, for lowering cost of delivery, where the benefit is also shared with customers. After debt and tax costs the Company has made a real return for the first four years of the price control of 6.2%, which recognises the improved performance of the business, offset by low debt allowances. Further details are in the Strategic Report.

The Company continues to strive to maintain the balance in reducing costs to customers, whilst improving the service quality that they value.

Board Membership

I would like to take the opportunity to thank Mike Nagle for his contribution to the Board over his 8 years of service, following his resignation from the Board in September 2018. I would also like to formally welcome Anne Baldock, Alistair Buchanan and Susan Cooklin, who were all appointed to Board during the year. The new appointments serve to strengthen the diversity of the Board as well as bringing additional expertise in regulatory and cyber security.

The ultimate shareholders of the Group are currently undertaking a strategic review of their investment and we continue to assist them in this process. I would like to thank my Board colleagues and Executive team for their support during the year and finally, I would like to thank all employees of the Company for their continued commitment in delivering the vital services it provides.

Chief Executive Officer's Statement

I am pleased to introduce my third annual report as Chief Executive Officer. In the year ended 31 March 2019, we have continued to build on the significant progress we have made in improving our performance in the key areas of safety, customer service and reliability. We have put strong foundations in place to ensure that the Company is well positioned to deliver strong performance for the remainder of RIIO ED1, is well placed to achieve a successful RIIO ED2 outcome and provide the leadership and support necessary to help the North West transition to the zero carbon economy.



Peter Emery
Chief Executive Officer

Leading The Transition To The Zero Carbon Economy

Our leadership role in the region's transition to zero carbon is becoming very apparent. Our regional stakeholders are setting ambitious targets and in response we have created our 'Leading the North West to Zero Carbon' plan. Part of our new Responsibility Framework, the plan demonstrates our commitment to ensuring that we can take a significant step to achieving rapid decarbonisation. We have the energy and commitment to transform our communities and our plans show how we will lead and encourage businesses, our customers and our colleagues on the decarbonisation journey.

Our ongoing development of Distribution System Operator (DSO) services is an essential part of this transition. We continue to lead the Open Networks project, which is the national coordination of the electricity networks' DSO transition, and have developed and offered flexibility services and capacity trading services to customers. We have published our first 'Distribution Future Energy Scenarios and Regional Insights' document and have committed to invest in strategic infrastructure to support Manchester's low carbon growth. We are developing our Network Management System (NMS) which will provide us with new and innovative ways to better manage our network and further enhance our service to our customers.

Performance Overview

In 2018, we launched our new 'Purpose and Principles' accompanied by our strategic framework with its four objectives of maximising our performance in RIIO ED1, getting closer to our customers, managing risk in all its forms and preparing for RIIO ED2. These are now well understood and embedded and are helping us to create a culture of continuous improvement across all areas of business.

Key to maximising our overall performance in RIIO ED1 has been our good financial performance. Higher than targeted profits in our Energy Solutions business, network investment efficiencies and some overhead savings have offset the impact of upward cost pressures. Our Business Connections business in particular, has increased turnover and profitability this year.

Incentives revenues have also been reflective of our improving service to our customers. Our network is one of the most reliable in the country and Customer Interruptions (CIs) performance continues to be in the upper quartile with Customer Minutes Lost (CMLs) performance mid-pack. The winter was windy but not particularly cold, but the extreme warm weather experienced last summer caused many, significant network faults. Reliability remains a priority for our stakeholders so we will continue to invest in improving performance through our Quality of Supply programme during ED1 and by improving field practices and risk management.

In 2017, we embarked on a Company-wide initiative to create an enhanced safety culture, key to managing risk. I am pleased by the way our colleagues have responded to this and we have completed the year with a lost time injury frequency rate 0.047 and a total recordable injury rate of 0.13. We sustained four lost time injuries during a year in which we worked over 4,000-person years in total. The total recordable injury rate is a new record for the Company. We are never complacent but this demonstrates that we have delivered a step change in our safety performance and sustained it for a 2-year period.

I am pleased to note that our consistent high level of performance is evidenced in Ofgem's Annual Report of network companies where we continue to be the only Distributor Network Operator (DNO) group to achieve 'green' assessments for all output categories. We have done so now for two consecutive years.

Future Outlook

Our commitment to innovation continues to define our business and its application is both diverse and industry-leading. We are rolling-out smart fuse technology to multi-occupancy buildings in the North West, providing an improved level of risk management to residents living in high rise blocks. This Queen's Award for Innovation winning technology provides vital peace of mind to residents after the Grenfell Tower disaster.

We are also utilising our innovative Customer Load Active System Services (CLASS) and are successfully bidding into National Grid's balancing services markets – known as the Fast Reserve Market. This technology is meeting the need, identified by Ofgem and BEIS, to solve peak demand problems on distribution and transmission networks, doing so in a low carbon way. We are the only network business in the UK to provide this service.

Our leading national and regional role in delivering decarbonisation, our strong business performance and our recognised leadership in innovation provide a strong platform for securing the best outcome for our RIIO-ED2 plan. We also value the independent oversight and challenge to this plan that our stakeholder and customer engagement activity provides. I am pleased therefore that we are one of the first DNOs to create an independent Customer Engagement Group. Our independent Chair, Jeff Halliwell, was appointed in December 2018 and appointed his group members in March 2019. I would like to take this opportunity to welcome him to this role.

Our Purpose commits that 'Together we have the energy to transform our communities' and the service to the communities we serve defines our approach. We are making good progress and are working closely with our customers and stakeholders to ensure that we are successfully meeting their needs for today and their expectations for tomorrow.

Strategic Report

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

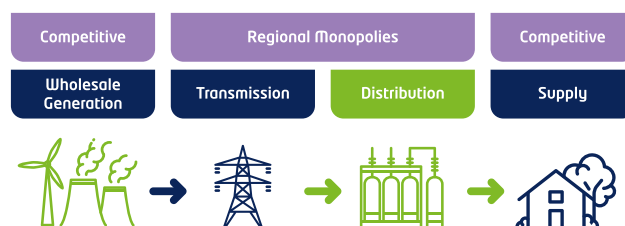
Company Background

Electricity North West Limited (ENWL) is the electricity network operator for the North West of England.



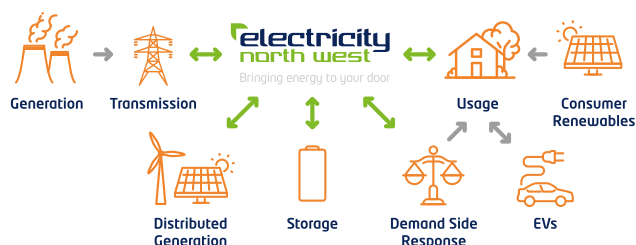
The Company serves approximately 5 million customers at 2.4 million domestic and industrial locations, has circa 1,900 employees and provides a safe and reliable electricity supply, 24 hours a day, seven days a week.

We own, invest in, operate and maintain the network of poles, wires, transformers and cables which carry electricity from the national grid to homes and business across the North West, together with the telecommunications network that controls the operations remotely.



The role we play in serving our communities continues to evolve as we seek to transition to a low carbon economy and electricity generation becomes more distributed across our network.

Network operators are critical to the evolution of the electricity market and will need to play a more sophisticated role in managing our network in an environment of multi-directional electricity flow, as well as allowing for the integration of new technologies such as electric vehicles, heat pumps and distributed generation.



How we charge customers

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

The prices that we charge our customers for distributing electricity are regulated by the Gas and Electricity Markets Authority (GEMA) which operates through Ofgem, but we recognise that ultimately it is our customers that fund the business and its investments in the network. ENWL's costs are around 15% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £80 per home last year; this compares to an average customer bill impact of £87 per home across Great Britain.

Regulatory framework

Charges are 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 through incentives for good performance. Ofgem has started consulting on RIIO-2 which will govern the next price control period.

The RIIO price controls have been developed to ensure that the revenues collected from customers are linked to company performance. The base income in each year is largely fixed, being essentially a return to investors for the capital invested in the Company. However, income increases or decreases depending on the Company's performance against the outputs set through a number of incentive mechanisms.

These mechanisms incentivise good customer service and network reliability, the latter based upon minimising the number of interruptions that customers suffer (CIS) and the average length of those interruptions (CMLS). 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, delivering a well maintained and efficiently invested network for the long term, but at a lower cost, through innovation as well as efficiency. These are shared between customers and shareholders, again after an annual review.

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

The Company is committed to ensuring the sustainability of the network for our customers now and in the future. We routinely inspect the network and these inspections inform our maintenance and asset replacement programmes taking electrical load and customer numbers into account.

Investment and innovation continues to ensure the development and availability of the appropriate technology to meet the changing demands of electricity supply and meet the challenge of a low carbon future, at a price our customers can afford.

External environment

Ofgem consultation on the RIIO 2 framework has already started. Ofgem's initial statements in relation to RIIO-2 make it clear that enabling the transition to the low carbon economy is important to the strategic regulatory agenda, and that to deliver this change in a way that is affordable to customers will require innovative solutions. The RIIO 2 framework will also consider cost of debt and cost of equity allowances. While the RIIO 2 consultation has started, sector specific discussions to Electricity Distribution remain some way off. As a consequence it is too early to draw solid assumptions for RIIO-ED2 but we continue to engage in the process and influence the process to meet the needs of our stakeholders.

We continue to monitor the continuing environment of political and economic uncertainty, including Brexit which is expected to have a modest direct impact aside from a modest increase in stock levels to manage supply chain risk.

Having considered the factors noted above there are no material impacts on either the going concern statement or the period covered by the viability statement.

Purpose, principles and corporate goals

ENWL is operating in a dynamic, rapidly changing environment. Customers in the North West rely on the services we provide to keep them connected with friends, family and the wider world, keep their electric cars running, ensure their homes are heated and enable them to work smarter and more flexibly. The Company aims to provide customers with an excellent service at an affordable price through a safe and **reliable** electricity network. The Company balances the priorities of maintaining a reliable network in the near term, investing to ensure this is **sustainable** in the long term, whilst keeping costs as low as reasonably practicable to meet the **affordability** challenge for our customers.



Company Background (continued)

Purpose, principles and corporate goals (continued)

Our Purpose **'Together we have the energy to transform our communities'**, articulates the contribution we make and the ambition we have for the communities we serve in our region. Developed by our colleagues in 2017, the Purpose is now embedded within our business, along with the behaviours that the Company identified would be required to enable us to effectively deliver our plan. Our Principles capture the mindsets, heartsets and skills required for us to deliver the Purpose and they have played a vital role in the delivery of our improved business performance.

These are now a well-established touchstone for behaviour within the Company and will continue to be key as we seek to consolidate and continuously improve the progress we have made.

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

- Safety and environment
- Customer
- Affordability
- Reliability
- People

Our Responsibility Framework

As the Company's Purpose was embraced and progress was made towards delivering our role in the future low carbon economy, it is vital to demonstrate that this is done in a manner that is recognised to be responsible, acknowledging the impact and the transformative role we have in our communities.

Following the approval of our Purpose and Principles in 2017, a Purpose-Led Responsibility Framework has been implemented, which articulates the Company's Corporate Social Responsibility Strategy. Our strategy demonstrates that we consider the social, environmental and economic impact in our decision-making and that our activity delivers a wide positive, societal impact.



Aligned to our Purpose, the delivery of our Responsibility Framework further consolidates and embeds our Purpose and Principles. The framework is structured to deliver responsible business practices for our people and partners, our communities and our environment. Highlights from the strategy include:

In **our people and partners** section, we are developing our colleague diversity policy to ensure we are working towards having a workforce which reflects the community which we serve and tackling modern slavery at home and abroad.

In **our communities** section, we are introducing a colleague-led approach to fundraising and volunteering and continuing to develop effective mechanisms to support consumer vulnerability.

In **our environment** section, we are tackling our operational carbon footprint, engaging with local schools to help them to better understand and manage their carbon impact and developing our approach to managing and developing bio-diversity.

Responsibility Benchmarks

We have benchmarked our Responsibility approach against the Business in the Community (BITC) Corporate Responsibility Index. This year the Company has participated in the final Index and has achieved a score of 92% (2018: 85%). BITC are currently updating this benchmark and we are continuing to work with them to influence and shape their approach.

For the second year, we assessed our responsibility performance against the Global Real Estate Sustainability Benchmark (GRESB).

This assesses and benchmarks the Environmental, Social and Governance performance of real asset investments, and in 2018, GRESB assessed 904 real estate funds and property companies, 75 infrastructure funds, 280 infrastructure assets and 25 debt portfolios. Our overall score is 81%, which is an improvement of 21%. We're proud that we hold 4th position for global network companies benchmarked.

Safety and environment

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

Operational safety

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

In 2017, we embarked on a company-wide initiative to create an enhanced safety culture, key to managing risk. In the year ended 31 March 2019, we have continued to review our safety management system and to improve safety performance in our day-to-day operations.

We finished the year ended 31 March 2019 with a lost time injury frequency rate 0.047 (2018: 0.036) having had 4 lost time injuries in the year (2018:3). This contrasts to 2017 when we had 7 lost time injuries and reflects the sustained improvement since we embarked on our safety initiative. The total recordable injury rate was 0.13 (2018: 0.14).

In the year to 31 March 2020 we will continue to embed the changes introduced as well as improving our arrangements for the selection and management of contractors.

There is a continued focus on the valuable learning obtained through the safety observations and near miss reports, a leading indicator of safety performance with a sustained high level of near miss reports. As our safety journey continues we are increasingly focused on the quality of, and learning from, near miss reports, rather than pure volumes. Near misses in the year were recorded at 12,250 (2018: 14,293).

Asset safety

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

In the year ended 31 March 2019 the Company made significant progress in further reducing the risks associated with link boxes, site security and asbestos remediation as well as developing the approaches for the management of rising and lateral mains in multi occupancy premises.

Environmental performance

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

In terms of our own direct operational impact on the environment, our principal performance indicator is the level of carbon dioxide emissions equivalent (tCO₂e).

This measure covers the environmental impact both from the use of fossil fuels in vehicles and generators and of energy in buildings, as well as the impact of Sulphur Hexafluoride (SF₆), which is a strong greenhouse gas historically used as insulation in electrical equipment.

At the start of the current regulatory period we made a commitment to our customers to reduce carbon emissions, in tCO₂e, by 10% from a 2014/2015 base year by 2020. Through targeted investment in the efficiency of our buildings and other efficiency measures, the level of emissions reduction has exceeded this level already, having been reduced by 16% from 2015 levels to 20,417 tCO₂e in the year ended 31 March 2019.

Even given this performance, we recognise we need to deliver carbon reduction at a faster rate than our original targets. Our leadership role in the region's transition to zero carbon is becoming clearer. Our regional stakeholders are setting ambitious targets and our recently launched carbon reduction plan 'Leading the North West to Zero Carbon' sets out our own ambitious targets to support this change.

The Company undergrounded, for Visual Amenity, and connected 7.3km of overhead lines in the year through the completion of three schemes.

Company Background (continued)

Reliability

Customers say that “keeping the lights on” is their top priority: this is achieved by targeted investment in the network both to limit the number of faults and also to limit the number of customers affected by those faults that do occur. Performance is tracked using a variety of metrics including: delivery of the capital programme outputs, delivery against guaranteed standards of performance and network reliability measures, including customer interruptions (CIs) and customer minutes lost (CMLs).

In the year ended 31 March 2019, the average number of interruptions per 100 customers (CIs) continues to be industry leading and was 33.7, (2018: 33.2) outperforming the target of 47.2 set by Ofgem.

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2019 was 33.0 (2018: 34.6), which outperformed the target of 43.0 set by Ofgem and was the second best performance ever.

The reliability of the network has been sustained through proactive investment in the use of network automation and innovative solutions, and an ongoing focus on operational response when incidents do occur. Network reliability continued to be high with a network availability of 99.994%. CI and CML performance was marginally behind the prior year, with a larger impact from planned supply interruptions which allow the capital investment programme to be delivered. We continue to focus on improving network reliability and this is an area in which we have committed additional funds to further increase the level of automation and thereby reliability of the network.

Most customers enjoy excellent levels of reliability but we recognise that there is variability in the level of service experienced. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. We have continued to invest in the year in schemes to reduce the numbers of worst served customers, with the number of customers meeting this definition being 135 in the year ended 31 March 2019 (2018: 48).

Key to delivering reliability to customers is proactive investment to improve the resilience of the network to storm and flood conditions.

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

Investment in an affordable and sustainable network

In the year ended 31 March 2019, a total network investment programme of £104.7m was delivered (2018: £97.3m). The current network has been installed over many decades and a significant proportion of the programme relates to replacing existing equipment at, or approaching, the end of its life with modern equivalents.

Innovation is essential to maintain network performance and reliability levels and to meet the increasing demands on electricity from the decarbonisation of energy, at an affordable cost. Innovation is a core competence of ENWL, recognising the increasing reliance on electricity for not only light and power but for electric cars and heat. The Company deploys the latest innovative solutions to develop an optimised investment programme and deliver considerable cost benefits and efficiencies that are shared with customers.

Customer

Delivering excellent customer service is a priority for the Company. Customer satisfaction levels have improved during the year, achieving an overall score of 86.5% (2018: 84.7%), which was much closer to our target level and a best ever performance for the Company. The relative ranking among the DNOs was 12th out of 14 (2018: 13th) and significantly reduced the gap to the mean DNO score. The improvements made during the year are reflected in the score in the last quarter of the year of 88%, our best ever performance in a quarter.

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

We maintain a Priority Service Register (PSR) to identify those customers who are most dependent on our services. In the year ended 31 March 2019 we have continued to promote our PSR and have developed our strategy to offer more targeted services to higher risk customers, for example those who are medically dependant on electricity. Investment in staff training has also been a focus in order to help facilitate this.

In delivering for our priority customers we have managed to reach out to over 520,000 customers this year which exceeds our target. The communications were carried out through various channels including letters, email and telephony.

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

We track the time taken to resolve complaints when we do receive them. The overall complaints performance within the year continued to outperform the Ofgem penalty incentive and a significant year on year reduction, with a complaint metric of 2.16 (2018: 2.45), with 82.1% of complaints resolved in 24 hours (2018: 82.4%), forecasting us to be 8th position in the DNO league table. The complaint metric reflects the percentage of complaints resolved within 24 hours, combined with the percentage of complaints resolved within 31 days.

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

People

The Company is a major employer in the North West of England and employs circa 1,900 people in the region. The Company also works with a carefully chosen contractor workforce providing even greater levels of employment for the region. We are committed to providing secure, long-term employment and career development opportunities for employees.

We look to balance the right skills and people resources to support the business in the long term.

The new Purpose and Principles were developed with our employees and set out the required behaviours to deliver our Purpose and achieve sustained high performance.

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

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

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

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

Levels of colleague engagement are high, with a survey completion rate of almost 1,500 colleagues. The last survey in September 2018 had an overall agreement rate of 69.4%, a marginal decrease from the 72.2% in February 2018. We have set a target of 75% employee agreement and the latest scores received in April 2019 show an overall agreement rate of 74.9%.

The Group sets policies and encourages a working culture that recognises, respects, values and harnesses diversity for the benefit of the Group and the individual, and we are committed to integrating equality and diversity into all that the Group does.

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

The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, equal consideration is given to applicants with disabilities in the Group's employment criteria. The business will modify equipment and practices wherever it is safe and practical to do so, both for new employees and for those employees that become disabled during the course of their employment.

Corporate Social Responsibility

Stakeholder engagement

Electricity North West is committed to ongoing stakeholder engagement and recognises that such engagement enhances the Company's ability to achieve its aims and objectives and to provide the highest level of service at a price customers can afford. The importance of demonstrating strong stakeholder engagement and addressing vulnerable customer needs has increased during RIIO-ED1 and the focus is expected to be even stronger for developing and operating in RIIO-ED2.

Ofgem has stated that it is committed to giving consumers a stronger voice in setting outputs and shaping and assessing business plans. They say 'Each company will be responsible for designing and running its own programme for engagement with their stakeholders and demonstrating that they have done it well'.¹

We welcome the opportunity that such engagement provides and Electricity North West has led the DNOs in an early appointment of Jeff Halliwell to Chair our Customer Engagement Group to provide oversight and challenge to this engagement programme. Jeff has now also appointed the members of the Group and it will hold its inauguration meeting in May 2019.

The role of the Customer Engagement Group is to independently scrutinise our stakeholder engagement work. In doing so, the Group will have access to the Board and the Executive Leadership Team and will be able to question them about how stakeholder engagement insight is being used to inform our RIIO-ED2 Business Plan. The CEG will also fulfil the oversight function for all reinforcement decisions in line with the requirements of the Department for Business, Environment and Industrial Strategy.

We must continue to develop and enhance our stakeholder engagement approach. We have delivered an improvement plan this year which included reviews of:

- Our stakeholder engagement and consumer vulnerability strategy, our procedures and processes to ensure we become more stakeholder focused as an organisation and to respond, measure and learn as this is an embedded and continuous process;
- The presentation of our activity in the SECV submission, and
- Preparation for the Panel assessment.

This year, a third Strategic Stakeholder Advisory Panel was held in June 2018 and outputs from that session and other stakeholder and consumer insights inform our business decision-making. Company understanding of stakeholder requirements was further enhanced by hosting similar events in Lancashire and Cumbria.

Central to these events was a consultation of their priorities to inform the 'shaping' phase of our RIIO-ED2 plan development. The transition to the low carbon economy and support for vulnerable consumers are emerging priorities for our stakeholders.

We further enhanced our approach through the creation of a Chief Executive Panel. The Board and the Executive Leadership are committed to improving the Company's stakeholder engagement approach and the Chief Executive Panel provides stakeholders with an effective and direct route for ongoing dialogue with the Board and the Executive Team. This work of the Chief Executive Panel is supported by our Sustainability and Consumer Vulnerability Advisory Panels.

To support adherence to these initiatives, for the 8th year running the Company has engaged auditors for a non-financial assurance of its Stakeholder Engagement and Customer Vulnerability Submission and its commitment to AA1000APS.

Human rights

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

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

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

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

¹ Ofgem – RIIO2 – Framework consultation

Anti-corruption and anti-bribery

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

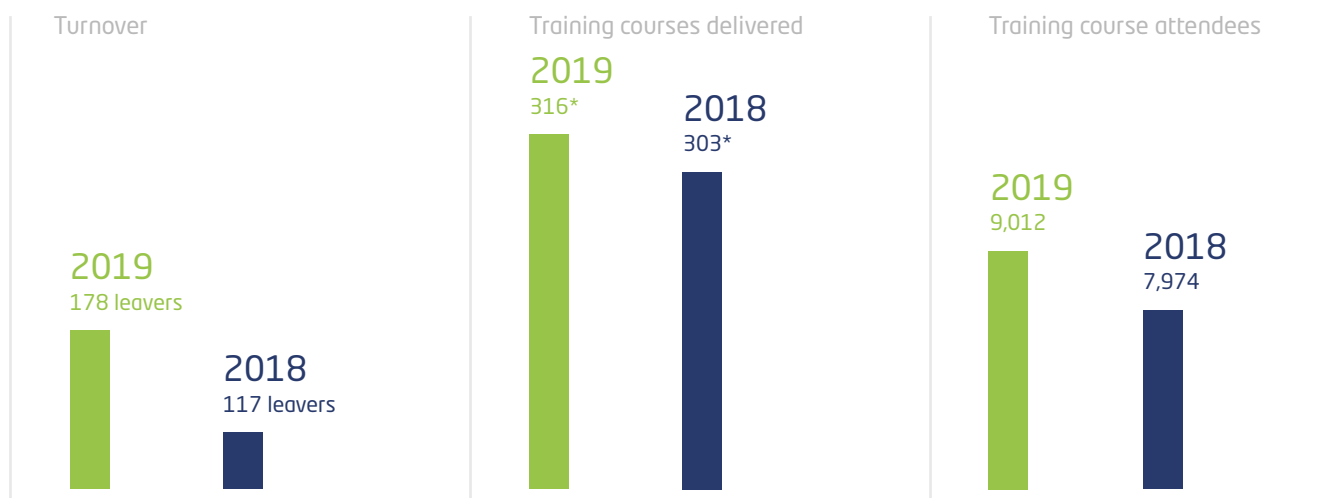
The Company operates a number of policies governing the anti-bribery and anti-corruption matters: Anti-Corruption and Bribery policy, Disclosure (Whistleblowing) policy, Ethics policy and Conflict of Interest policy.

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

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

Gender and diversity

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



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

Corporate Social Responsibility

Workforce composition	2019 Males	2019 Females	2018 Males	2018 Females
Total employees	1,420 75%	482 25%	1,400 74%	480 26%
Senior managers	35 70%	15 30%	32 68%	15 32%
Executive leadership team*	7 87%	1 13%	7 87%	1 13%
Directors	9 82%	2 18%	9 100%	- -

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

Environment

We take our responsibility for the protection of the environment affected by our activities very seriously. To this end, we are committed to achieving the highest possible standards of environmental performance. We aim to minimise emissions and spills, and we are investing to remove potentially damaging equipment, enhance the environment by undergrounding overhead cables, and supporting the UK in its move to a low carbon economy.

As examples of what we are doing, during the year:

- 17.5 km of fluid filled cable was removed and replaced with modern equivalent. Overall leakage of oil from underground cables was 55,829 litres which, whilst an improvement over the previous year's performance of 65,788 litres, reflected the continued necessity to rely on leaking cables which could not be switched out without causing huge disruption to customers. We aim to reduce this further to 30,000 litres by the end of RIIO-ED1 and have increased our planned fluid filled cable replacement volumes for the next 4 years.
- 7.3 km of overhead line in National Parks and Areas of Outstanding Natural Beauty were replaced with underground cable.

In addition to this, we've launched our '**Leading the North West to Zero Carbon**' plan, which sets out how, over the next four years, we will spend £63.5m decarbonising our own operations and lead businesses, colleagues and customers to do the same.

Our RIIO-ED1 business plan and the supporting health, safety and environment strategy, sets out our plans for delivery of our environmental objectives. All this is supported through an environmental management system that is certified to ISO 14001 standard and an energy management system certified to ISO 50001.

Business carbon footprint

The Company's business carbon footprint (excluding losses) for the year was 20,417 tCO₂e, a 1% reduction on of 20,599 tCO₂e and 16% reduction over the current regulatory period.

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. There has been an increase in fuel combustion owing to the increased use of temporary diesel generation to maintain customer supplies during both planned and unplanned supply interruptions, supporting our customer service strategy.

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.

	2019 tCO ₂ e	2018 tCO ₂ e
Scope 1		
Operational transport	7,870	6,977
Business transport - road	1,319	1,254
Fugitive emissions	954	1,254
Fuel combustion	4,435	3,763
	14,578	13,248
Scope 2		
Buildings energy usage	5,773	7,262
Scope 3		
Business transport - rail	22	21
Business transport - air	44	68
	66	89
Business Carbon Footprint (excl. losses)	20,417	20,599
Electrical Losses ²	347,010	520,176
Business Carbon Footprint (incl. losses)	367,427	540,775

² The reported electrical losses figure is a snapshot of received data as of the date of this report and will change as further settlement reconciliation runs are carried out (up to 28 months after each relevant settlement date).

Key Performance Indicators

Safety

Lost time incident frequency rate

Definition

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

Performance

During the year the Company had four lost time incidents involving employees and contractor employees (2018: three). The corresponding lost time incident frequency rate was 0.047 (2018: 0.036).

0.047

Year	Frequency Rate
2019	0.047
2018	0.036
2017	0.100
2016	0.065
2015	0.226

Safety

Safety observation reporting

Definition

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

Performance

In the year, the number of safety observations reported was 12,250 (2018: 14,293), well above the target of 8,000. Having seen an increase in the volume of safety observations over the last two years, focus is now on improving the quality and level of 'behavioural challenge', rather than simply overall volumes.

12,250 safety observations

Year	Number of Observations
2019	12,250
2018	14,293
2017	12,199
2016	9,240
2015	4,800

Customer

Overall customer satisfaction

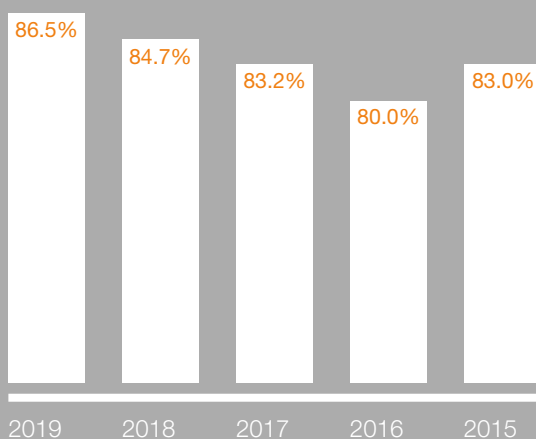
Definition

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

Performance

Performance this year has improved to 86.5%, an all time high and up from 84.7% in the prior year. It reflects the ongoing focus on improvement actions.

86.5%



People

Employee engagement

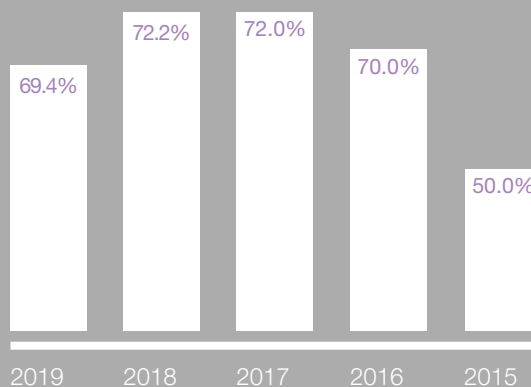
Definition

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

Performance

Overall employee engagement was 69.4% for the year.

69.4% Climate score



Key Performance Indicators (continued)

Reliability

Customer interruptions (CIs)³

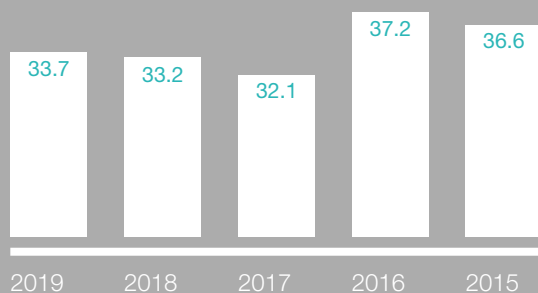
Definition

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

Performance

The result of 33.7 for the year outperforms the Ofgem target of 47.2. Performance in the year was impacted by a third party cable damage incident but remains close to internal targets, reflecting the ongoing investment in network automation and interconnection, to secure supplies to our customers.

33.7 CIs



Reliability

Customer minutes lost (CMLs)³

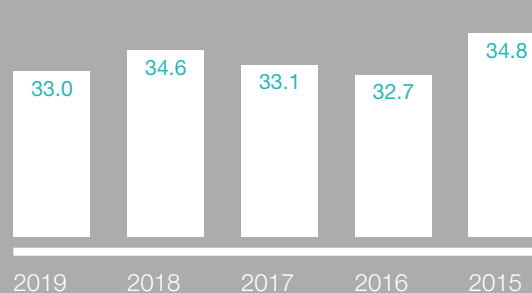
Definition

CMLs represent 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.

Performance

The result of 33.0 for the year has improved from the prior year result of 34.6 and also outperforms the Ofgem target of 43.0.

33.0 CMLs



³ The year ended 31 March 2019 figure includes assumptions for exclusion of exceptional events and is yet to be audited by Ofgem.

Sustainability

Carbon footprint (excluding electrical losses)

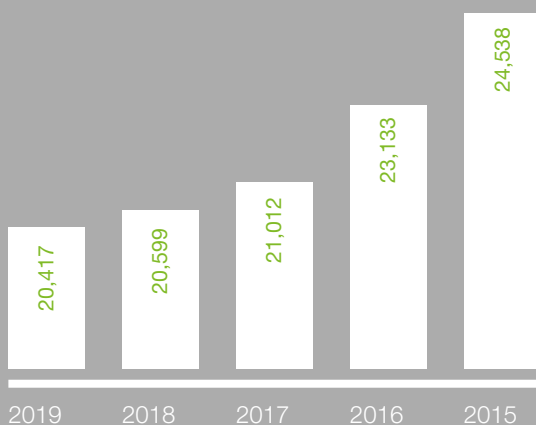
Definition

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

Performance

Our carbon footprint has reduced by 1% from the prior year reflecting the ongoing focus in energy usage. There may be some year-on-year volatility in emissions dependant on levels of generation deployed on the network as a result of interruptions or exceptional events.

20,417 tCO₂e



Affordability

Total Expenditure⁴

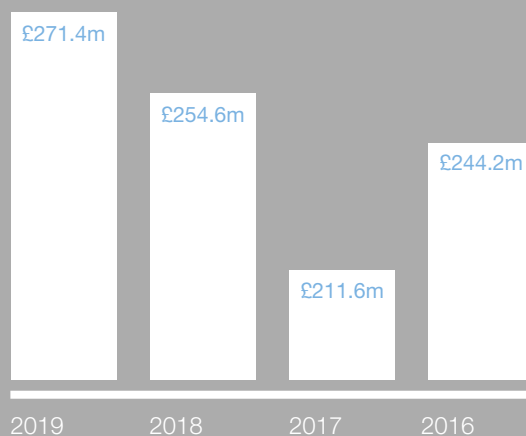
Definition

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

Performance

Totex for the year ending 31 March 2019 was £271.4m compared to an Ofgem allowance of £260.8m in outturn prices. Expenditure was higher than the allowance as we have made proactive investment to improve cost and incentives performance in the second half of ED1.

£271.4m



⁴ Totex is calculated on a regulatory basis and reported to Ofgem annually on 31 July. For management reporting purposes an approximate calculation of totex is prepared to track performance. The final regulatory totex figure will differ from this approximation when detailed cost allocations are performed. The number for 2018 has been updated to reflect the Ofgem annual submission.

Key Performance Indicators (continued)

Financial KPIs

Revenue

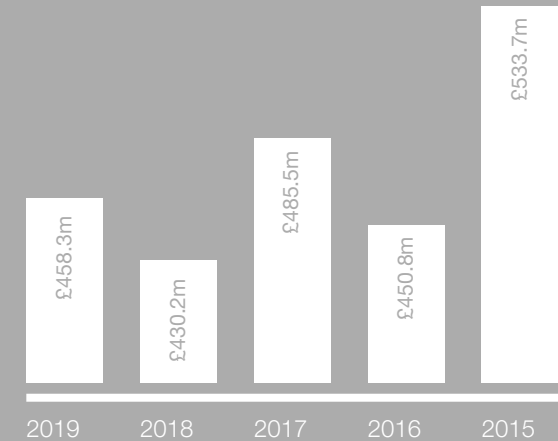
Definition

Revenue is largely fixed over time, but can vary through over/under recovery as demand varies against the forecasts used to set tariffs, and other adjustments for, for example, incentive revenues. It is determined by Ofgem to allow recovery of efficient costs to maintain the network. This revenue is profiled over RII0-ED1. Additional revenue is generated through charges for new connections to the network, along with an opportunity to earn incentive revenue for delivering improved performance.

Performance

Revenues have increased from the prior year reflecting inflation and adjustments through the regulatory price setting mechanism. The revenue over recovery for the year was £0.4m (2018: £3.7m) and it will be corrected through adjustments in pricing in two years' time.

£458.3m



Financial KPIs

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

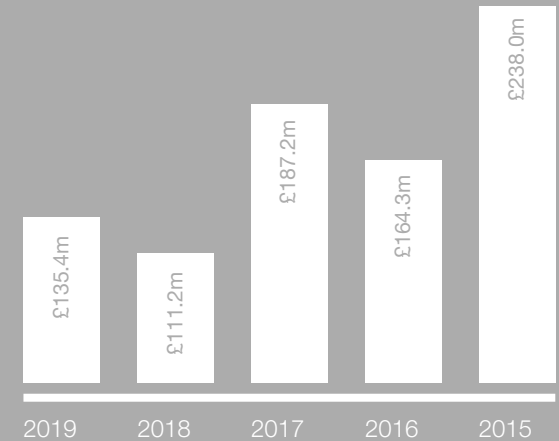
Definition

PBTFV is the profit before tax of £87m (2018: £141m) adding back the £47m FV loss (2018: 30m gain), per Note 9.

Performance

PBTFV has increased to £135m (2018: £111m), mainly as a result of higher revenues. PBTFV excludes the significant capital investment that we make in the network each year. Financial performance is better understood through the Totex measure.

£135.4m



Financial KPIs

Net debt

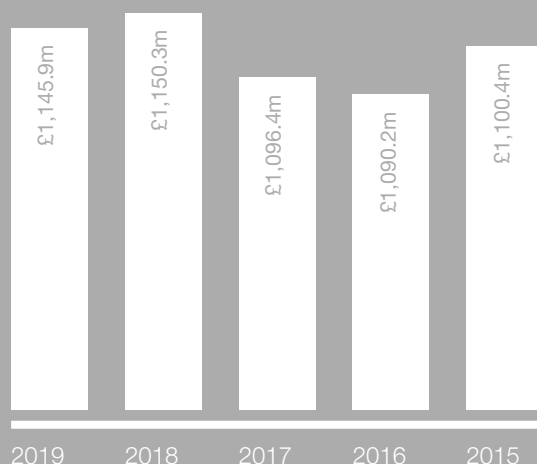
Definition

Net debt includes the total borrowings of £1,169m (2018: £1,237m) per Note 19, net of cash and cash equivalents and money market deposits of £23m (2018: £87m) per Note 17.

Performance

Net debt has decreased over the year by £4m, the net effect of £68m lower debt and £64m reduction in cash balances. The decrease in debt is primarily due to the change in accounting treatment of the £250m 8.875% 2026 bond under IFRS9, which is now stated at amortised cost.

£1,146m



Financial KPIs

RAV gearing

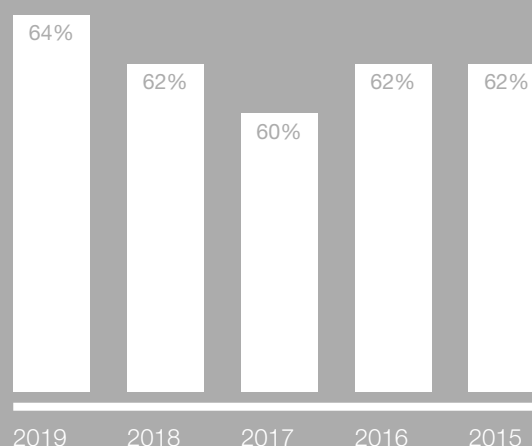
Definition

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 £1,820m at March 2019 (2018: £1,758m), as defined by the Financing Agreements.

Performance

The RAV gearing is within the required maximum level of 65%.

64%



Key Performance Indicators (continued)

Financial KPIs

Interest cover

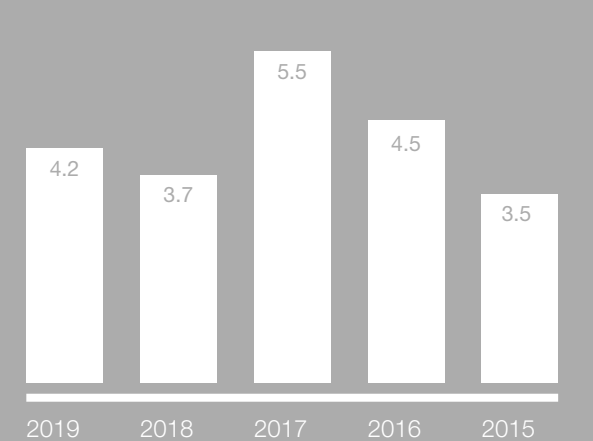
Definition

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

Performance

Interest cover has increased due to the £7m increase in Operating Profit, with the interest expense (excluding inflation movements on inflation-linked instruments and FV movements) being lower than prior year.

4.2 times



Financial KPIs

Capital expenditure

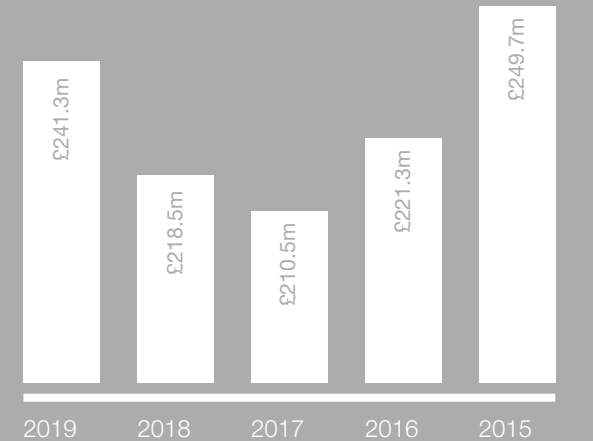
Definition

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

Performance

We continue to invest to improve the quality and reliability of the network. During the year we invested £23m more than the previous year, including additional investment in network automation.

£241.3m



Financial Performance

Overall performance reporting

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

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

Actual revenues are allowed by Ofgem, not on the profiles of costs in the period, but based on the long term cash requirements of the business. Revenues are therefore the cash funding mechanism for the business, including current investment requirements as well as the repayment of past investment, rather than the reflection of income resulting from activities that financial statements usually reflect.

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

Consequently the profit earned in any given period does not reflect the return to shareholders, which is more accurately represented by the Return on Regulated Equity (see section below).

Whilst the statutory measure that is most closely aligned to the return to shareholders, is cash flow before financing activities (see page 61), this has a limited correlation to actual returns as a result of the factors noted above.

Return on Regulated Equity

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

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

The Regulated Equity is a percentage of the RAV which is essentially equivalent to the net book value of the fixed assets of the business, calculated in regulatory terms. Ofgem assume that this RAV is financed, 65% by debt and 35% by shareholders in the Company, hence they calculate the return to shareholders based upon 35% of the RAV. The Company operates at a lower gearing ratio than this notional level, so returns based upon actual gearing levels are also shown.

The Company is allowed to make a return of 6.0% per annum real (i.e. before RPI inflation) across the RIIO-ED1 period, on this element.

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

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

After taking into account the timing of expenditures against the timing of allowances and outputs (enduring value calculation), our average post financing RoRE for the first four years of RIIO-ED1 is at an annual rate of 6.2% on an actual equity basis.

In broad terms, this figure reflects the 6.0% allowed return, with incentives for improved performance adding an additional 2.1% and 1.2% through totex cost efficiencies. However, the costs of servicing our debt are higher than Ofgem allow us, with these actual debt service costs reflecting the prices in the debt markets at the time our debt was issued. This is the principal element reducing our performance to the overall 6.2% per annum, real, after tax and interest.

Financial Performance (continued)

Return on Regulated Equity (continued)

Prior year regulatory performance has been restated to reflect the refinement of the methodology to calculate regulatory returns. Reporting is consistent with the methodology used to report to Ofgem in the Regulatory Financial Performance Report (RFPR).

	2019 £m	2018* £m	2017 £m	2016 £m
Profit after tax	71.8	116.3	71.0	117.0
Adjustments:				
RAV	(57.2)	(55.8)	(49.6)	(60.9)
Deferred Taxation	(6.9)	5.9	(26.1)	(25.6)
Indexation and Fair Value Movements	70.0	6.0	136.8	50.9
Movement in Other Regulatory Balances	(14.7)	(24.2)	(97.5)	(54.5)
Post - financing return	63.0	48.2	34.6	26.9
Average return for the RIIO-ED1 period	43.2			
Average RAV balance	1,710.7			
Average debt balance	1,010.7			
RoRE (actual regulatory equity)	6.2%			

*A prior year comparator of RoRE is not provided in the table above as 2019 represents a four year trailing average and 2018 represents three year trailing average (2018: 5.5%).

Reconciliation of statutory profit to regulatory performance

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

Adjustments in calculating regulatory financial performance

The principal adjustments⁵ from reported profit after tax to regulated financial performance are:

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

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

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

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

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

⁵Regulatory adjustments for the year ended 31 March 2019 have been presented on a draft basis. Regulatory performance is reported to Ofgem on 31 July and final reported figures may differ from the reconciliation as detailed cost allocations are prepared.

Equity component: RoRE performance has been presented on a real equity basis, representing the balance of the RAV that is not debt funded. Average equity for the period is 41%, higher than the assumed 35% notional equity funding. The difference between the actual and notional equity has the effect of reducing the allowed equity return from 6.7% to an actual equity return of 6.2%.

Financial reporting measures

Revenue

Revenue has increased to £458m (2018: £430m) during the year, in line with the allowed Distribution Use of System (DUoS) revenue under the RIIO price control.

For the year 31 March 2019 there was an over recovery of DUoS revenue of £0.4m against plan (2018: £3.7m under-recovery), reflecting variability against forecast in consumption volumes year on year. This over recovery will be corrected through adjustments in revenues in two years' time, in accordance with Ofgem's methodology.

Operating profit

Operating profit has increased to £191m (2018: £183m) primarily as a result of the increased revenue detailed above, net of a smaller increase in costs.

Profit before tax and fair value movements

Profit before tax and fair value movements has increased to £134m (2018: £111m), mainly as a result of the increased operating profit detailed above.

Taxation

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the period. The rate will be reduced to 17% on 1 April 2020. The deferred tax is calculated based on the expected future tax rates.

The overall taxation charge for the year has decreased from £25m in 2018 to £15m in 2019, mainly as a result of the deferred tax impact of fair value movements on swaps disregarded for tax purposes and the impact of transition to IFRS 9 (see Note 1).

Dividends and dividend policy

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

During the year ended 31 March 2019, the Company proposed and paid a final dividend for the year ended 31 March 2018 of £16m, paid in June 2018, and an interim dividend of £30m that was paid in December 2018. In the year ended 31 March 2018 the Company declared a final dividend for the year ended 31 March 2017 of £12m, paid in June 2017, and an interim dividend of £64m that was paid in December 2017. The Directors have proposed a final dividend of £17m for the year ended 31 March 2019.

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 2019 was £5,014m (2018: £4,788m), with a net book value of £3,260m (2018: £3,138m). In the year ended 31 March 2019, the Group invested £232m (2018: £209m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £9m (2018: £10m) on new computer software platforms. New investment is financed through a combination of operating cash flows and increased borrowing capacity against the RAV.

Pension obligations

The Group's pension scheme under IAS 19, is a net surplus at 31 March 2019 of £33m (2018: £18m deficit). The main reason for the decrease in the deficit is due to the reductions in the future mortality assumptions, and the payment of deficit repair contributions by the Company.

The most recent triennial valuation of the scheme was carried out as at 31 March 2016 and identified a shortfall of £142.6m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations including contributions made in the period and return on assets, the main difference is due to the different assumptions between the IAS 19 and the funding valuation basis. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2016 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions from April 2016 to December 2023. The next funding valuation, as at March 2019, is currently being prepared.

Financial Performance (continued)

Cash flow before financing activities

Cash generated before financing in the year was £2m (2018: £12m), reflecting the increased asset investment.

Net debt

Net debt	2019 £m	2018 £m
Cash and deposits	23	87
Borrowings	(1,169)	(1,237)
Net debt	(1,146)	(1,150)

Included within the total borrowings figure are £75m of loans from the parent company North West Electricity Networks plc (NWN plc), due to mature in March 2023 (2018: £74m) and a £199m loan from an affiliated company ENW Finance plc, maturing in 2021 (2018: £198m).

Of the borrowings, £6.8m (2018: £6.6m) is due to be repaid within the next year, under European Investment Bank ('EIB') loans that have an amortising repayment profile.

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £635m (2018: £706m) and EIB loans of £253m (2018: £253m). Note 19 provides more details on the borrowings.

Liquidity

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

Short-term liquidity

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

As at 31 March 2019, the unutilised committed facilities were £50m (2018: £25m) and together with £23m (2018: £87m) of cash and short-term deposits these provide short-term liquidity for the Group.

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

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 negative outlook by Moody's Investors Service and BBB+ with stable outlook by Fitch Ratings.

Our short-term debt ratings are A-2 and F2 with Standard and Poor's and Fitch Ratings respectively. Further details are available to credit investors on the Company's 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) accretion to the RAV and to 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, which has been met.
- 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 2020 and forecasts covering the period to the end of the current price review in 2023. These forecasts include projections and cash flow forecasts, including covenant compliance considerations. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources available to the Group within the forecast period.
- Short-term liquidity requirements are forecast to be met from the Group's 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 2020 indicate there is sufficient 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.

Viability statement

In accordance with the provision of C.2.2 of the 2018 UK Corporate Governance Code the Directors have assessed viability over a period longer than that required for going concern and have chosen the duration to the end of the regulatory period in 2023.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the risk and sensitivity analysis undertaken, is the period to 31 March 2023, the end of the current Regulatory period. The Board has considered whether it is aware of any specific relevant factors and notes, in particular, the Ofgem's RIIO-ED2 consultation document, which indicates lower equity returns and possibly a changed incentive environment for RIIO-ED2. The Board has also considered the current political environment, including potential changes in future government policy as well as the impact from a potential Brexit, in making the viability assessment. In reaching its conclusion, the Board has taken into account OFGEM's statutory duty to secure that companies can finance their functions and has assumed that there will be no changes to the regulatory framework or Government policy that will affect the Company's viability.

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

In arriving at their conclusion, the Directors have considered the Company's forecast financial performance and cash flow over the viability period to 2023. Headroom to compliance ratios over the viability period is considered and the extent to which deviations in financial performance from the business plan may impact that headroom. The Directors have considered this headroom in assessing the Company's long term viability. The Directors have also considered the potential impact from a range of possible outcomes from the ongoing strategic review by the ultimate shareholders of the Group, including the impact on liquidity from change of control clauses on the Company's and Group's debt.

Financial Performance (continued)

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 four year period of their assessment.

Fair, balanced & understandable

The Directors have reviewed the thorough assurance process in place within the Group with regards to the preparation, verification and approval of financial reports. This process includes:

- Detailed review and appropriate challenge from key internal Group functions, such as Risk, Control and Assurance, senior managers and the Chief Financial Officer;
- Formal sign-offs from the business area senior managers, the finance managers and Chief Financial Officer;
- Group Audit Committee oversight, involving a review of key financial reporting judgements, review and appropriate challenge on matters such as any changes to significant accounting policies and practices during the year, significant adjustments and the going concern assumption;
- The involvement of qualified, professional employees with an appropriate level of expertise and experience throughout the business; and
- Engagement of a professional and experienced external auditor, a framework for full transparent disclosure of information during the audit process and post audit evaluation.

Risk Management

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

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

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

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

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

The key features of the risk management system include:

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

The underpinning of the corporate register by a number of local risk registers across the business with a network of Risk Co-ordinators which enhance the local monitoring process.

Risk Management (continued)

Principal risks and uncertainties

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

	Risk	Mitigations
Safety	Health, safety and the environment: Risk associated with unsafe working practices, man-made or naturally occurring hazards that could cause harm to people or the environment.	- Board Health, Safety and Environment Committee oversee this area. - Extensive policy and procedures to ensure a safe system of work and environmental management. - Behavioural safety training programme across all areas of the organisation. - Simple 'Golden Rules' to ensure strong safety approach throughout the Company's operations. - Robust 'lessons learned' exercises conducted to identify root causes when safety or environmental issues occur. - 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. - Well-established hazard and safety observation (including near miss) reporting in place.
	Meeting our customers' expectations: Failure to meet the required level of customer satisfaction performance and to achieve costs and efficiencies against the commitments made to our customers in the RIIO-ED1 period.	- A programme of improvement activities described in more detail on pages 9-10 is being co-ordinated by the Executive Leadership Team to optimise the Company's position against all elements of the customer satisfaction measure. - Robust plans in place to achieve other commitment targets, or outperform where possible. - Controls in place regarding the ongoing reporting of performance against targets.
Customer	Developing our people: Resource and succession planning for the business.	- Succession plans are in place, that are subject to periodic executive level review. - Training delivered throughout the Company to ensure employees are equipped to do their roles competently and effectively.
	Ethical Behaviour: Inappropriate behaviour by Board members, executive or senior management bringing the company into disrepute.	- Extensive policies in place regarding ethical conduct within the business, including Anti-Bribery and Corruption; Conflict of Interests; Ethics; Equality; Internal Control & Governance; Modern Slavery and Whistleblowing/Disclosure. - We continue to review and enhance the mitigations in this area in line with emerging best practice and are corporate members of the Institute of Business Ethics.
People	Cyber and physical security threat: Breach of our security regime and access to key network security systems by an internal/external party.	- Dedicated qualified personnel allocated to Cyber and IT security. - A training programme in place to inform all users of the risks of email and social engineering attacks. - A cyber risk assessment methodology implemented within the Group. - Pre-employment screening for critical roles such as System Administrators. - A strong governance and inspection regime to protect infrastructure assets and operational capacity. - Physical and technological security measures, including encryption of key laptops, preventing the loss of data. - Data Centre infrastructure providing enhanced security monitoring and management tools, 'next generation' firewalls and network traffic analysis. - Ongoing security patching of critical systems. - Periodic internal and external security reviews. - Key systems IT disaster recovery testing. - Physical security measures are in place to limit access to sites.
	Personal data: Breach of regulations relating to data protection and privacy.	- We continue to review and enhance the mitigations in this area, in particular to do with the General Data Protection Regulation (GDPR) requirements. Mitigations include: - Appropriate technological controls as noted above. - Identification of all Personal Information assets (both computer-based and paper records) to ensure appropriate controls in place. - Appointment of dedicated manager to drive programme to achieve compliance with GDPR.
Reliability		

Sustainability

Risk

Government and regulator policy:

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

Business resilience:

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

Regulation and compliance risk:

Compliance failure leading to an adverse effect on the business.

Mitigations

- The Company has dedicated Regulation, Legal and Compliance departments that provide advice and guidance regarding the interpretation of political, regulatory and legislative change.
- There is ongoing engagement by the Company with the Regulator and Government.
- Parliament, in framing the Electricity Act, imposed certain duties on Ofgem/GEMA to ensure that the networks remain financeable for the long term benefit of customers.
- There is regular engagement with the Board on political and regulatory developments which may impact the Company.

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

- 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 focusing on the Group's key risk area, including fraud, regulatory compliance and business processes.
- Established controls in place, including segregation of duties and restricted access to systems.

Affordability

Financial risks:

The business is subject to treasury, tax and liquidity risk exposures, and under performance of the pension scheme investments, market impacts and/ or an increase in the scheme liabilities which would give rise to higher contributions.

Programme delivery including change programmes:

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

Macro economic factors:

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

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

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

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

Corporate Governance Report

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

The Board

Board members at 31 March 2019

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 from 1992 until 1995. He has also sat on Ofgem's Environmental Advisory Panel and has chaired the North West Energy Council.

Anne Baldock

Non-Executive Director

Appointed on 26 September 2018

Anne Baldock was previously a partner and global head of the Projects, Energy and Infrastructure Group at the international law firm Allen & Overy LLP. Now retired as a solicitor, she now has a portfolio of Non-Executive Director positions. As well as being one of the JP Morgan Infrastructure Investments Fund Non-Executive Directors on this Board, she is also on the Board of Low Carbon Contracts Company Limited, East West Rail Limited and Bazalgette Tunnel Limited.

Alistair Buchanan

Independent Non-Executive Director

Appointed on 25 July 2018

Alistair Buchanan has over 25 years experience in the energy industry, including 10 years as Chief Executive of Ofgem. In 2013 he joined KPMG as Partner and UK Chairman of Power & Utilities, returning to the firm where he trained as a Chartered Accountant. During his career, Alistair became an award winning energy sector analyst and head of research for banks in New York and London. With experience at Board level on various companies, he currently also serves as an Independent Non-Executive on the Board of Thames Water Utilities Limited.

Susan Cooklin

Independent Non-Executive Director

Appointed on 25 July 2018

Susan Cooklin is the Managing Director of Route Services at Network Rail. She has worked at Board level for over 8 years with Non-Executive Director positions on the Board of Leeds Beckett University and Leeds Building Society. Susan was listed by Computer Weekly as the seventh most influential woman in UK IT. In 2013 she launched the Could IT Be You campaign to raise awareness of IT as a career for young women.

Chris Dowling

Independent Non-Executive Director

Appointed on 1 May 2014

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

Rob Holden

Independent Non-Executive Director

Appointed on 1 January 2016

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

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. He is also a director of several other fund investments across Europe including New Finerge SA (Portuguese operator of wind farms with gross installed capacity of 843MW). He holds a B.Sc. (Hons) Economics degree from Durham University.

John Lynch

Non-Executive Director

Appointed on 31 January 2017

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

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.

Shareholder appointed directors

Niall Mills, Hamish Lea-Wilson and John Lynch and Anne Baldock are shareholder appointed directors and have appointed alternate Directors during their time as Board members, Hamish and Niall's alternate is Tomas Pedraza. John's alternate is Mark Scarsella.

Peter Emery

Chief Executive Officer

Appointed on 27 May 2016

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

David Brocksom

Chief Finance Officer

Appointed on 5 October 2015

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

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year.

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

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

The Board (continued)

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

Attended / Scheduled

Board member	ENWL Board	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety and Environment Committee
John Roberts	7/7	3/3	3/3	1/1	-
Alistair Buchanan	5/5	-	-	-	-
Anne Baldock*	3/4	-	2/2	-	2/2
Chris Dowling	7/7	3/3	-	1/1	-
David Brocksom	7/7	-	-		-
Hamish Lea-Wilson	6/7	3/3	3/3		-
John Lynch	7/7	3/3	3/3	1/1	-
Mike Nagle	3/3	0/1	1/1	-	1/1
Niall Mills**	7/7	-	2/3	1/1	3/3
Peter Emery	7/7	-	-	-	3/3
Rob Holden	6/7	-	-	-	3/3
Susan Cooklin	5/5	2/2		-	-

*At the 18th October 2018 Health, Safety and Environment Committee meeting Mark Scarsella attended as an alternate Director in place of Anne Baldock.

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

Diversity

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

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

Composition

The Board comprises five Non-Executive Directors considered under the Code to be independent, one of whom is the Chairman, four Non-Executive Directors representing the two shareholders and two Executive Directors. The Directors' biographies are on pages 31 to 32.

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

Leadership

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

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

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

Advice

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

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

How the Board operates

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

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

Evaluation

The Board participate in an internal questionnaire based evaluation process conducted by the Company Secretary every year.

During March 2018, an externally facilitated evaluation was undertaken by Lintstock Ltd, who had no previous connection with the Company. The findings were delivered to the Board in May 2018 with largely positive comments. In relation to Board diversity it was acknowledged that there was a need to develop a wider range of experience and competency. As such, an executive search agency was engaged with a view to recruit two additional non-executive directors; ideally one with regulatory experience and the other with considerable IT experience. Following this search the appointments of Alistair Buchanan and Susan Cooklin were concluded.

Lintstock Ltd have been engaged to undertake a second evaluation.

Training

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

Training (continued)

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

Committee members received detailed presentations at meetings focusing on areas of relevance to the Committee and Board members are invited to workshops with

The Board (continued)

shareholder representatives which are able to delve into areas of interest in greater detail.

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

Appointments

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

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

On his appointment, Peter Emery was a Non-Executive Director of NG Bailey Group Limited, the Board agreed to his remaining a Non-Executive Director with the proviso that when he is due for re-election, this again will be discussed with the ENWL Board.

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.

Areas of non-compliance with the UK Corporate Governance Code

There are some areas where the Company does not comply with the UK Corporate Governance Code, all of which are due to its privately owned status and are discussed below. The Company has endeavoured to comply with the spirit

of the Code throughout the accounts; there are areas where compliance with the provision is either impractical or inappropriate, outlined below.

Senior Independent Director

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

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

The Company does not disclose in these financial statements the remuneration paid to those Executive Directors who are released to serve as Non-Executive Directors elsewhere. This information is made available to the shareholders through their representation on the Board (D.1.2).

Constitution of the Board

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

In addition to the two Sufficiently Independent Directors required by Ofgem, there are three further Independent Non-Executive Directors. The Board considers that the five Independent Non-Executive Directors offer an appropriate perspective, allowing for the refreshment of its Committees, 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 at an Annual General Meeting (B.7.1).

Publication of the terms and conditions of Non-Executive Directors

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

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

Engagement with stakeholders

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

Shareholders:

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

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

Stakeholders:

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

Our stakeholder engagement strategy is outlined on page 11.

The Company has recently appointed Jeff Halliwell to Chair our Customer Engagement Group (CEG). Jeff has now also appointed the members of the Group and it will hold its inauguration meeting in May 2019.

The role of the CEG is to independently scrutinise our stakeholder engagement work. In doing so, the Group will have access to the Board and the Executive Leadership Team and will be able to question them about how stakeholder engagement insight is being used to inform our RIIO-ED 2 Business Plan. The CEG will also fulfil the oversight function for all reinforcement decisions in line with the requirements of the Department for Business, Environment and Industrial Strategy.

Board Committees

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

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

Audit Committee

Remuneration Committee

Nominations Committee

Health, Safety and Environment Committee

Use of Systems Pricing Committee

Financing Committee

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

Banking Committee

Retail Property Committee

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

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

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

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

Report of the Audit Committee

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

Membership and meetings

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

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

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

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

- Review of the 31 March 2019 Annual Report and Consolidated Financial Statements and the September 2018 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 mandatory rotation policy and a new Group lead engagement partner is appointed once their predecessors have completed a term of five years. A new lead engagement partner was appointed in the year ended 31 March 2018 due to his predecessor completing her five year term.

The significant issues considered by the Committee during the approval of the financial statements to 31 March 2019 were:

- The adoption of new accounting standards effective during the year, IFRS 9 and IFRS 15 – and the impact on the financial statements.
- 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.
- Management override of controls (in accordance with ISA 240) with particular consideration of controls surrounding journal entries, accounting estimates for bias of material misstatement and fraud, adjustments made in the preparation of the Group financial statements and the potential manipulation of any incentive or performance targets.
- The risk of material misstatement and fraud in revenue recognition where considerations included specific testing on unbilled income and analytical review.
- The inclusion of RoRE in the Annual Report and Financial Statements as a key measure of performance under the regulatory contract.
- Capital and revenue allocations and ensuring the appropriate treatment of fixed asset expenditure. The Committee considered the management's key controls and assumptions applied to the capitalisation of overhead costs. The assumptions, policies and procedures in this area were considered reasonable.

External audit

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

To assess the effectiveness of the previous year's external audit, the Committee reviewed the audit approach and strategy and received a report of Deloitte LLP's performance from the Executives.

Auditor independence and the provision of non-audit services

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

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

The non-audit services provided by Deloitte LLP during the year were in connection to Ofgem regulatory requirements and consultancy to the ultimate parent company, NWEN (Jersey).

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 28 to 30.

Report of the Audit Committee (continued)

Whistleblowing arrangements

The Committee is responsible for reviewing the Company's Disclosure (Whistleblowing) policy and any concerns raised through these channels and management actions taken in response. A revised policy was approved by the Committee in January 2019. 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.

Committee effectiveness

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

Fair, balanced and understandable

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

- Different sections of the Annual Report are drafted by appropriate senior management who have visibility of the Company's performance in these areas.
- Reviews of the drafts are carried out by the Executive Directors and other members of the Executive Leadership Team.
- Feedback is received from the external auditor on the content of the Annual Report. A final draft is reviewed by the Audit Committee before being recommended to the Board for approval.

The Directors' statement on a fair, balanced and understandable Annual Report and Consolidated Financial Statements is set out on page 45.

Report of the Nominations Committee

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

Membership and meetings

The Committee Chair is Chris Dowling, Independent Non-Executive Director. Composition of the Committee and attendance by individual members at meetings is detailed on page 33.

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

Diversity

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

Report of the Remuneration Committee

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

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

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

Membership and meetings

The Committee Chair is Niall Mills, Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 33.

Role of the Committee

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

The Committee is of the opinion that the remuneration structure, designed for the RII0-ED1 period, reflects the strategic direction of the business and will promote the long-term success of the Company.

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

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

Element	Purpose and link to strategy	Framework
Basic salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked and will also reflect the Director's experience and time at Director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, Directors are provided with a car allowance and private medical insurance.
Executive Incentive Plan (EIP)	Executive Directors are members of the Executive Incentive Plan, which was introduced in April 2015 to reward both in-year performance and incentivise strategic and innovative behaviours over the longer term, aligned to shareholder objectives.	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 following years 4 and 8 of the regulatory period 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. However a range of safety performance measures act as a gateway to earn bonuses.
Pension	Directors are offered the same level of defined contribution benefits as all other employees, or a taxable payment in lieu.	No Director is a member of the defined benefit scheme which is now closed to new members.

Report of the Health, Safety and Environment Committee

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

Membership and meetings

The Committee Chair is Rob Holden, Independent Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 33.

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

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

The role of the Committee

The Committee has designated authority from the Board set out in its Terms of Reference which are published on the Company website.

The primary purpose of the Committee is to:

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

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

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



Directors' Report

The Directors present their Annual Report and 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 2019.

Dividends

During the year ended 31 March 2019, the Company proposed and paid a final dividend for the year ended 31 March 2018 of £16m, paid in June 2018, and an interim dividend of £30m that was paid in December 2018. In the year ended 31 March 2018 the Company declared a final dividend for the year ended 31 March 2017 of £12m, paid in June 2017, and an interim dividend of £64m that was paid in December 2017. The Directors have proposed a final dividend of £17m for the year ended 31 March 2019.

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

Directors

The Directors of the Company during the year ended 31 March 2019 and to date are set out below. Directors served for the whole year except where otherwise indicated.

Executive Directors

D Brocksom
P Emery

Non-executive Directors

Dr J Roberts
C Dowling
R D Holden
J E Lynch
N P Mills
H Lea-Wilson
A Buchanan (appointed 25 July 2018)
S Cooklin (appointed 25 July 2018)
A E Baldock (appointed 26 September 2018)
M A Nagle (resigned 26 September 2018)

Alternate Directors during the year were:

M Scarsella
T Pedraza

At no time during the year did any Director have a material interest in any contract or arrangement which was significant in relation to the Group's business.

Directors' and Officers' insurance

The Group maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act. The insurance is a group policy, held in the name of the ultimate parent North West Electricity Networks (Jersey) (NWEN (Jersey)) and is for the benefit of that company and all its subsidiaries, including the Company.

People

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

Corporate Social Responsibility

Details of the Group's approach to Corporate Social Responsibility can be found in the Strategic Report.

Research and development

The Group is committed to developing innovative and cost-effective solutions for providing high quality services and reliability to our customers, and for the benefit of the wider community and the development of the network, as further detailed in the Strategic Report. During the year ended 31 March 2019 the Group incurred £2.9m of expenditure on research and development (2018: £3.4m).

Financial instruments

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

Fixed assets

Further details on Property, Plant and Equipment are provided in the Strategic Report and Note 13.

Capital structure

The Company's capital structure is set out in Note 28.

Commitments

Details of commitments and contractual obligations are provided in Notes 12, 13, 20 and 32.

Future developments

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

Information given to the 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

This confirmation is given and should be interpreted within the provisions of s418 of the Companies Act 2006.

Independent auditor

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

Registered address

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

Electricity North West Limited

304 Bridgewater Place
Birchwood Park
Warrington
England
WA3 6XG

Registered number: 02366949

Approved by the Board on 30 May 2019 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 financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, 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 company'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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

This responsibility statement was approved by the Board of Directors on 30 May 2019 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 of Electricity North West Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; 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.

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Treasury – accounting • Inappropriate capitalisation of costs Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with.
Materiality	The materiality that we used for the group financial statements was £5.05m which was determined on the basis of 3.6% of adjusted profit before tax.
Scoping	All audit work for the group was performed directly by the group engagement team.
Significant changes in our approach	Our audit approach is consistent with the previous year. It was noted that defined benefit pension scheme liability assumptions is no longer a key audit matter and this is discussed within the key audit matters section below.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

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

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

Last year our report also referred to defined benefit pension scheme liability assumptions. There have been no significant events impacting the defined benefit pension scheme in recent years which require high levels of management judgement. In addition, management continue to use the same process for determining the actuarial assumptions and the assumptions adopted previously have always fallen within our acceptable range. Therefore we do not deem this a key audit matter for this year's audit.

Treasury accounting

Key audit matter description

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

As at 31 March 2019 ENWL had £632.4m of bonds in issue (2018: £705.6m) as disclosed in note 19 to the financial statements, and held derivative financial instruments, being a portfolio of index-linked swaps, with a fair value of £404.6m (2018: £357.3m) as disclosed in note 20. Total fair value movements in the year were £47.3m loss (2018: £30.1m gain) as per note 9 to the financial statements.

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

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

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

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

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

We challenged management around the IFRS 9 transitional adjustments, as well as the ongoing treatment of the financial instruments and associated debt items in line with IFRS 9 to ensure debt items were valued correctly in line with IFRS 9. We challenged management by discussing the specific inputs into the models assumed and comparing these to other third party sources, as well as challenging the assumptions made by management to ensure these were in line with our expectations.

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

Key observations

From the work performed we are satisfied that the valuation of the Group's portfolio of bonds and index-linked swaps is materially correct. In addition we note that the index-linked swaps are appropriately disclosed as Level 2 and Level 3 in the financial statements as per the fair value hierarchy of IFRS 13. We are also satisfied with the transitional adjustments and continuing accounting of the group in respect of IFRS 9.

Inappropriate capitalisation of costs

Key audit matter description

This key audit matter relates to the judgmental percentage rates applied to costs initially recorded as overhead expenditure and subsequently capitalised into fixed assets. In particular we focus on those judgmental areas, for example employee costs and other costs such as faults, where the split between capital projects and repair and maintenance is judgemental.

Given the significant level of judgement involved, we considered this a potential fraud risk area. The effect of inappropriate capitalisation of costs from a financial statement perspective is that items which are capital in nature are expensed, whilst items which are expenditure in nature are, conversely, capitalised. Given the magnitude of overheads capitalised in the business the impact could be material. Total employee costs are £126.3m in the year (2018: £115.6m), of which £68.2m (2018: £64.1m) has been capitalised directly to fixed assets. Fault costs totaled £35.7m (2018: £32.8m) of which £22.9m (2018: £21.3m) had been capitalised.

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

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

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

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

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

Key observations

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

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£5.05m	£5.04m
Basis for determining materiality	3.6% of adjusted pre-tax profit, being profit pre tax and fair value movements.	Parent company materiality equates to 99% of net assets, which is capped at 99% of group materiality.
Rationale for the benchmark applied	Adjusted pre-tax profit is deemed suitable as this removes the volatile fair value movements of the financial derivatives held, for which no formal hedge accounting is applied, and therefore creates a stable basis for the determination of our materiality. Adjusted pre-tax profit is further determined to be a key metric used by the users of the financial statements of regulated utilities.	As the parent company contains almost all net assets, this is deemed a suitable benchmark for the determination of materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000, 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 the non-dormant entity within the group, we performed an audit covering 100% of the group's companies and accordingly our audit work achieved coverage of 100% of the group's total assets, revenue and profit.

Component materiality level was capped at £5.04m.

We have also tested the consolidation process.

Other information

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

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

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area: inappropriate capitalisation of costs; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation. In addition, compliance with terms of the group's operating licence were fundamental to the group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified inappropriate capitalisation of costs as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC & Ofgem, the licensing authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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 statement is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders in 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 March 2003 to 31 March 2019.

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Robertson (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Manchester, United Kingdom

30 May 2019

Financial Statements

Consolidated and Company Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	Group and Company 2019 £m	Group and Company 2018 £m
Revenue	4	458.3	430.2
Employee costs	5,6	(58.1)	(51.5)
Depreciation and amortisation expense	5	(116.9)	(103.3)
Other operating costs		(92.8)	(92.1)
Total operating expenses		(267.8)	(246.9)
Operating profit	5	190.5	183.3
Investment income	8	0.4	1.0
Finance expense (net)	9	(103.9)	(43.0)
Profit before taxation		87.0	141.3
Taxation	10	(15.2)	(25.0)
Profit for the year attributable to equity shareholders		71.8	116.3
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of net defined benefit liability	21	41.4	27.1
Deferred tax on re-measurement of defined benefit liability	23	(7.0)	(4.6)
Other comprehensive income/(expense) for the year		34.4	22.5
Total comprehensive income for the period attributable to equity shareholders		106.2	138.8

The results for the current and prior year are derived from continuing operations.

Consolidated and Company Statement of Financial Position

as at 31 March 2019

	Note	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Assets					
Non-current assets					
Intangible assets and goodwill	12	52.3	52.3	49.6	49.6
Property, plant and equipment	13	3,259.7	3,259.7	3,137.9	3,137.9
Retirement benefit surplus	21	32.8	32.8	-	-
Investments	14	-	15.4	-	15.4
		3,344.8	3,360.2	3,187.5	3,202.9
Current assets					
Inventories	15	12.2	12.2	10.5	10.5
Trade and other receivables	16	57.7	57.7	63.4	63.4
Cash and cash equivalents	17,20	22.7	22.7	87.0	87.0
		92.6	92.6	160.9	160.9
Total assets		3,437.4	3,452.8	3,348.4	3,363.8
Liabilities					
Current liabilities					
Trade and other payables	18	(120.6)	(136.3)	(142.6)	(158.3)
Current income tax liabilities		(6.6)	(6.6)	(13.5)	(13.5)
Borrowings	19	(6.8)	(6.8)	(6.6)	(6.6)
Provisions	22	(0.8)	(0.8)	(0.8)	(0.8)
		(134.8)	(150.5)	(163.5)	(179.2)
Net current assets/ (liabilities)		(42.2)	(57.9)	(2.6)	(18.3)
Non-current liabilities					
Borrowings	19	(1,161.8)	(1,161.8)	(1,230.7)	(1,230.7)
Derivative financial instruments	20	(404.6)	(404.6)	(357.3)	(357.3)
Provisions	22	(2.2)	(2.2)	(2.3)	(2.3)
Retirement benefit obligations	21	-	-	(18.2)	(18.2)
Deferred tax	23	(150.1)	(150.1)	(136.0)	(136.0)
Customer contributions	24	(637.2)	(637.2)	(612.6)	(612.6)
		(2,355.9)	(2,355.9)	(2,357.1)	(2,357.1)
Total liabilities		(2,490.7)	(2,506.4)	(2,520.6)	(2,536.3)
Total net assets		946.7	946.4	827.8	827.5
Equity					
Called up share capital	26,27	238.4	238.4	238.4	238.4
Share premium account	27	4.4	4.4	4.4	4.4
Revaluation reserve	27	88.2	88.2	90.3	90.3
Capital redemption reserve	27	8.6	8.6	8.6	8.6
Retained earnings	27	607.1	606.8	486.1	485.8
Total equity		946.7	946.4	827.8	827.5

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

D Brocksom

Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2019

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 31 March 2017	238.4	4.4	92.5	8.6	420.7	764.6
Profit for the year	-	-	-	-	116.3	116.3
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Other comprehensive income for the year	-	-	-	-	22.5	22.5
Total comprehensive income/(expense) for the year	-	-	(2.2)	-	141.0	138.8
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(75.6)	(75.6)
At 31 March 2018	238.4	4.4	90.3	8.6	486.1	827.8
Opening reserve adjustment on transition to IFRS 9 (Note 1)	-	-	-	-	71.0	71.0
Tax impact on opening reserve adjustment on transition to IFRS 9 (Note 1)	-	-	-	-	(12.0)	(12.0)
Opening reserves					545.1	886.8
Profit for the year	-	-	-	-	71.8	71.8
Transfer from revaluation reserve	-	-	(2.1)	-	2.1	-
Other comprehensive income for the year	-	-	-	-	34.4	34.4
Total comprehensive income/(expense) for the year	-	-	(2.1)	-	108.3	106.2
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(46.3)	(46.3)
At 31 March 2019	238.4	4.4	88.2	8.6	607.1	946.7

Company Statement of Changes in Equity

for the year ended 31 March 2019

Company	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 31 March 2017	238.4	4.4	92.5	8.6	420.4	764.3
Profit for the year	-	-	-	-	116.3	116.3
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Other comprehensive income for the year	-	-	-	-	22.5	22.5
Total comprehensive income/(expense) for the year	-	-	(2.2)	-	141.0	138.8
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(75.6)	(75.6)
At 31 March 2018	238.4	4.4	90.3	8.6	485.8	827.5
Opening reserve adjustment on transition to IFRS 9	-	-	-	-	71.0	71.0
Tax impact on opening reserve adjustment on transition to IFRS 9	-	-	-	-	(12.0)	(12.0)
Opening reserves					544.8	886.5
Profit for the year	-	-	-	-	71.8	71.8
Transfer from revaluation reserve	-	-	(2.1)	-	2.1	-
Other comprehensive income for the year	-	-	-	-	34.4	34.4
Total comprehensive income/(expense) for the year	-	-	(2.1)	-	108.3	106.2
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(46.3)	(46.3)
At 31 March 2019	238.4	4.4	88.2	8.6	606.8	946.4

Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2019

	<i>Note</i>	Group and Company 2019 £m	Group and Company 2018 £m
Operating activities			
Cash generated from operations	31	267.6	239.0
Interest paid		(48.3)	(47.2)
Tax paid		(27.1)	(15.1)
Net cash generated from operating activities		192.2	176.7
Investing activities			
Interest received and similar income		0.4	1.0
Purchase of property, plant and equipment		(224.2)	(200.3)
Purchase of intangible assets		(8.9)	(9.5)
Customer contributions received		37.8	44.0
Proceeds from sale of property, plant and equipment		0.4	0.2
Net cash used in investing activities		(194.5)	(164.6)
Net cash flow before financing activities		(2.3)	12.1
Financing activities			
Dividends paid	11	(46.3)	(75.6)
Repayment of external borrowings		(6.7)	(6.5)
Proceeds from borrowings		1.6	2.5
Accretion on index-linked swaps		-	(8.8)
Movement in cash collateral held		(10.6)	10.6
Transfer from money market deposits		-	10.0
Net cash used in financing activities		(62.0)	(67.8)
Net decrease in cash and cash equivalents		(64.3)	(55.7)
Cash and cash equivalents at the beginning of the year	17	87.0	142.7
Cash and cash equivalents at the end of the year	17	22.7	87.0



Notes to the Financial Statements

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

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

The financial statements are prepared on the going concern basis. Further detail on the going concern assessment is contained in the Strategic Report.

1. Adoption of new and revised Standards

New and amended IFRS Standards that are effective for the current year

IFRS 9: Financial Instruments

The Group has applied IFRS 9 during the year, electing not to restate comparatives. IFRS 9 introduced new requirements for:

- classification and measurement of financial assets and financial liabilities,
- impairment of financial assets, and
- hedge accounting.

The impact of these new requirements on the Group is outlined below.

a) Classification and measurement of financial assets

All recognised financial assets within the scope of IFRS 9 are required to be measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets, and their contractual cash flow characteristics.

Specifically:

- Financial assets held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at amortised cost,

- Financial assets held within a business model whose objective is to both collect the contractual cash flows and to sell the financial assets, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI),
- All other financial assets are measured at fair value through profit or loss (FVTPL).

Financial assets that are measured at amortised cost or FVTOCI are subject to impairment (see c) below).

The financial assets of the Group were reviewed and assessed as at 1 April 2018, the transition date, based on the facts and circumstances at that date and it was concluded that the initial application of IFRS 9 had the following impact on the classification and measurement of the Group's financial assets:

- Financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and those cash flows consist solely of payments of principal and interest on the principal amount outstanding.
- The Group's financial assets measured at FVTPL under IAS 39 continue to be measured at FVTPL under IFRS 9.

b) Classification and measurement of financial liabilities

IFRS 9 does not change the classification and measurement of financial liabilities, however, on transition the classification was assessed based on the facts and circumstances at that date. The initial application of IFRS 9 had the following impact on the classification and measurement of the Group's financial liabilities:

- The borrowings designated at FVTPL under IAS 39 were re-assessed against the criteria in IFRS 9 and the facts and circumstances were such that the criteria allowing such designation were not met at the date of initial application because the swaps in place when the initial designation was made have since been closed out and were not in place on transition to IFRS 9. Consequently, the designation was revoked and the relevant borrowings measured at amortised cost. Accordingly, the change introduced by IFRS 9 relating to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer, do not affect the Group.
- The classification and measurements of other financial liabilities was not impacted.

Note e) below tabulates the change in classification of the Group's financial liabilities upon application of IFRS 9.

The change in classification of the borrowings previously designated at FVTPL resulted in a fair value gain of £71m being recognised in the opening retained earnings of the Company with deferred tax of £12m, having a net impact on opening retained earnings of £59m.

c) Impairment of financial assets

IFRS 9 requires an expected credit loss (ECL) model as opposed to an incurred credit loss model under IAS 39, with changes in those expected credit losses recognised at each reporting date, reflecting the change in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

Financial assets that are measured at amortised cost or FVTOCI are subject to impairment. The relevant financial assets of the Group at amortised cost are cash and cash equivalents, inter-company loans and trade receivables and contract assets. The Group has no financial assets at FVTOCI.

IFRS 9 requires the Group to measure the loss allowance at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition, or if the financial asset is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Group is required to measure the loss allowance at an amount equal to 12-months ECL. IFRS 9 requires a simplified approach for trade receivables and contract assets, measuring the loss allowance equal to lifetime ECL.

All inter-company loans have been assessed to have low credit risk. As such, the Group assumes that the credit risk on these financial assets has not increased significantly since initial recognition and recognises 12-month ECLs for these assets.

For trade receivables and contract assets, the Group applies the simplified approach and recognises lifetime ECLs for these assets.

All cash and cash equivalents are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

d) Hedge accounting

The new hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required.

The Group did not designate any hedging relationships under IAS 39 and has not designated any hedging relationships under IFRS 9.

1. Adoption of new and revised Standards (continued)

e) Disclosures in relation to the initial application of IFRS 9

Under IFRS 9, consequential amendments were made to IFRS 7 to require certain disclosures when an entity first applies IFRS 9. The disclosures apply regardless of whether an entity restates comparatives.

The table below shows information relating to those financial liabilities that have been reclassified as a result of transition to IFRS 9.

	Financial liability from FVTPL to amortised cost £m
1 April 2018:	
IAS 39 carrying amount at FVTPL	367.2
Remeasurement	(71.0)
IFRS 9 carrying amount at amortised cost	296.2
Amortisation of premium in year	(4.7)
31 March 2019:	
IFRS 9 carrying amount at amortised cost	291.5

The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

IFRS 15: Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year and has adopted the modified retrospective approach without restatement of comparatives.

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

The main impact of IFRS 15 for the Group is with regards to the customer contributions in respect of connections contracts which was previously accounted for under IFRIC 18 (see Note 2 'Revenue Recognition' for details of this change). The impact of adopting IFRS 15 is not material for the Group.

Amendments to other standards:

Amendments to other IFRS Standards and interpretations issued by the International Accounting Standards Board (IASB) that are effective in the year are listed below; their adoption has not had any material impact on the disclosures or the amounts reported in these financial statements:

- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions,
- IAS 40 (amendments) Transfers of Investment Property,
- Annual Improvements to IFRS Standards 2014-2016 Cycle,
- Amendments to IAS 28 Investments in Associates and Joint Ventures,
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective (and, in some cases, had not yet been adopted by the EU):

- IFRS 16 Leases,
- IFRS 17 Insurance Contracts,
- Amendments to IFRS 9: Prepayment Features with Negative Compensation,
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures,
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs,
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement,
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and
- IFRIC 23 Uncertainty over Income Tax Treatments.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below.

IFRS 16: Leases

The effective date of IFRS 16 is for accounting periods beginning on or after 1 January 2019; the Group will, therefore, apply IFRS 16 in the year ending 31 March 2020. The Group intends to adopt the modified retrospective approach without restatement of comparatives.

Impact of the new definition of a lease:

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 31 March 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and,
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

The Group expects to recognise incremental lease liabilities of approximately £10m and associated right-of-use assets of approximately £9m at 1 April 2019.

There is no deferred tax impact on initial application.

The Group does not expect a material earnings impact to arise as a result of application however, as all future cash flows will be treated as financing there will be an annual improvement to operating cash flows (and consequently, adjusted operating cash flow) in the region of £2m.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently in the current year and the prior year.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair value, and certain property, plant and equipment that were revalued in 1997. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. More details on the fair value measurements of financial instruments are given in Note 20.

Basis of consolidation

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. There have been no acquisitions or disposals of subsidiaries in the current or prior year.

Accounting policies are consistent in all Group companies.

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

Business combinations and goodwill

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

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

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

Investments (Company only)

Investments in subsidiary undertakings are stated at cost less any provisions for permanent diminution in value. Dividends received and receivable are credited to the Company's income statement to the extent that they represent a realised profit for the Company.

Revenue recognition

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

The recognition of revenue from the distribution of electricity includes an assessment of the volume of unbilled energy distributed as at the year end. Non-distribution sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

Where turnover received or receivable in the year exceeds the maximum amount permitted by regulatory agreement, adjustments will be made to future prices to reflect this over-recovery; no liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Incentive income earned or adjustments for under or over spend on totex, or over or under delivery of outputs, all in the financial year are not adjusted as adjustments to revenues in the period. These are adjusted through the regulatory mechanism in revenues two years later. Similarly adjustments in respect of comparable performance measures are reflected in the current year's financial statements.

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. The treatment of revenue from distribution of electricity remains the same under provisions of IFRS 15 and is therefore not impacted by the transition to the new standard.

Customer contributions

The current accounting treatment for customer contributions towards distribution system assets is to defer revenue and release over the life of the asset. The income is released to the statement of profit or loss on a straight line basis, in line with the useful economic life of the distribution system assets.

Customer contributions were previously accounted for under IFRIC 18. From 1 January 2018, IFRS 15 superseded IFRIC 18 and IAS 18. Contributions from customers falls under the scope of the new standard for the accounting year ended 31 March 2019.

Previously, the amortisation of contributions received pre 1 July 2009 was posted in operating costs and the amortisation of contributions received post 1 July 2009 was posted in revenue (per IFRIC 18). From the year ended 31 March 2019 onwards, all amortisation will be recognised in revenue instead of being split between revenue and operating costs. The accounts for the year ended 31 March 2018 have not been restated for this under the modified retrospective approach.

Under IFRS 15, revenue will be recognised as each performance obligation within the contract is satisfied. If performance obligations are not satisfied over time, revenue will not be recognised over time.

Identification of contract with customer: The written quotation provided by ENWL and accepted by the customer (the Agreement), has commercial substance in that ENWL's future cash flows are expected to change as a result and it is considered probable that ENWL will collect the consideration to which it is entitled under the Agreement in exchange for completion of the connection.

Identification of performance obligation: As the performance obligation relating to the ongoing maintenance is not covered by the Agreement, so in relation to the revenue arising from the customer contribution, there is only one performance obligation. This obligation is considered to be distinct because the following criteria are met:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and readily available other resources being the existing network
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The connection is separately identifiable from maintenance as maintenance is not covered by the Agreement.

The existing distribution network is considered to be a readily available resource.

Determination of transaction price: All other factors being equal and the completion of the job is on budget, the expected transaction price will be that of the quoted price in the Agreement. Generally the price is fixed by Ofgem regulations. Variations may arise when the customer has certain specifications and changes are reviewed on a contract by contract basis to establish whether they should be treated as variable consideration. Variable consideration is accounted for based on the best estimate of the transaction price if it is highly probable that the revenue will be received. Given the variations on contracts are relating to a single performance obligation and do not constitute distinct services, these should be accounted for as a continuation of the original contract resulting in additional or reduced revenue.

Allocation of transaction price: For the Agreements being considered there is only one performance obligation to allocate the transaction price to. The transaction price is stated within the Agreement.

Recognition of revenue when performance obligation is satisfied: The performance obligation is regarded as satisfied over time as ENWL creates a bespoke asset for which they have no alternative use other than to provide electricity to the customer's premises. ENWL has an enforceable right to payment for the performance completed to date. Revenue is therefore recognised over the life of the asset.

2. Significant accounting policies (continued)

Refundable customer deposits

Refundable customer deposits received in respect of property, plant and equipment are held as a liability until repayment conditions come into effect and the amounts are repaid to the customer or otherwise credited to customer contributions.

Dividend income

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

Investment income

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

Leases

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

Retirement benefit costs

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

The defined benefit retirement benefit scheme is provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2016; agreed actuarial valuations are carried out thereafter at intervals of not more than three years.

Results are affected by the actuarial assumptions used, which are disclosed in Note 21. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Defined benefit costs are split into three categories:

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

Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

IFRIC14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction' was published by the interpretations committee of the International Accounting Standards Board in July 2007 and was adopted during the year ended 31 March 2008. IFRIC14 provides guidance on the extent to which a pension scheme surplus should be recognised as an asset and may also require additional liabilities to be recognised where minimum funding requirements exist. Legal opinion was obtained that a pension surplus could be recovered on wind up of the scheme and could, therefore, be recognised, along with associated liabilities.

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 Scheme.

Taxation

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

Current taxation

Current tax is based on taxable profit for the year and is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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

Intangible assets

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

Amortisation periods for categories of intangible assets are:

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

The Licence has an indefinite useful economic life and, therefore, is tested annually for impairment.

Property, plant and equipment

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

Operational structures

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

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

2. Significant accounting policies (continued)

Assets other than operational structures

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial year in which they are incurred.

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

Other assets are depreciated by writing off their cost evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

Buildings	30-60 years
Fixtures and equipment, vehicles and other	2-40 years

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

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

Impairment of tangible and intangible fixed assets

Tangible and intangible assets are reviewed for impairment at each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

The recoverable amount is the higher of fair value less costs of disposal, and value in use. Value in use represents the net present value of expected future cash flows, discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the reversal is recognised immediately in profit or loss and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Research and development

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on weighted average cost and includes expenditure incurred in acquiring the inventories, conversion costs and other costs in bringing them to their present location and condition. Net realisable value represents the estimated selling price, net of estimated costs of selling.

Financial instruments

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

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

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

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

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

2. Significant accounting policies (continued)

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. The Group has no financial assets purchased or originated credit-impaired, or that have subsequently become credit-impaired.

Interest income is recognised in profit or loss and is included in the 'Investment income' line item.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically, the financial assets held by the Group classified as at FVTPL are derivatives and are stated at fair value, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. Fair value is determined in the manner described in Note 20.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets; the Group holds no lease receivables or financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

a) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default and the debtor has a strong capacity to meet its contractual cash flow obligations in the near term.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

b) Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

c) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

d) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. The exposure at default is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

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

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 liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2. Significant accounting policies (continued)

Equity instruments

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

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The Group has no financial liabilities designated at FVTPL. Fair value is determined in the manner described in Note 20.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not at FVTPL are measured subsequently at amortised cost using the effective interest method.

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

Trade payables

Trade payables are stated at their nominal value.

Derecognition of financial liabilities

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

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

Derivative financial instruments

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

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated in a hedging relationship.

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

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, 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.

Hedge accounting

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Group's accounting policies

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

Revenue recognition

The principal direct customers of the business are the electricity supply companies that utilise the Group's distribution network to distribute electricity from generators to the end consumer. Revenue from such activity is known as 'use of system'. The amount billed reflects the volume of electricity distributed, including estimates of the units distributed to customers. Revenue is gradually adjusted to reflect actual usage in the period over which the meters are read. In addition, the revenue includes estimates made for the number of units distributed over the period for which industry data is not yet available, which on average is between one and two months prior to the reporting date. The estimated units are based on historical consumption data profiles.

Property, Plant and Equipment

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

Taxation

Assessing the outcome of uncertain tax positions such as the tax treatment of provisions requires judgements to be made regarding the application of tax law and the results of negotiations with, and enquiries from, tax authorities.

Accounting for provisions and contingencies

The Group is subject to a number of claims, incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business.

The Group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable judgements are made by management after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Impairment of tangible and intangible assets (including goodwill)

Management assesses the recoverability of tangible and intangible assets on an annual basis. Determining whether any of those assets are impaired requires an estimation of the value in use of the asset to the Group. This value in use calculation requires the Group to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value for the asset and compare that to its carrying value. This concluded that no impairment loss is required against those assets. Details of the impairment loss calculation are set out in Note 13.

Key sources of estimation uncertainty

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

Fair values of derivative financial instruments

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

Retirement benefit schemes

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

4. Revenue

Group	2019 £m	2018 £m
Revenue	458.3	430.2

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is therefore regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues from three customers (2018: three), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £174.3m (2018: £189.5m). No other customer represented more than 10% of revenues either this year or in the prior year.

In the current year £17.3m (2018: £6.4m) of customer contributions amortisation has been amortised through revenue in line with IFRS 15.

5. Operating profit

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

Group	2019 £m	2018 £m
Employee costs (see Note 6)	58.1	51.5
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
Owned assets (Note 13)	110.7	108.3
Amortisation of intangible assets		
Software (see Note 12)	6.2	5.5
Customer contributions ¹ (see Note 24)	-	(10.5)
Depreciation and amortisation expense (net)	116.9	103.3
Other income		
Profit on disposal of property, plant and equipment	(0.4)	(0.2)
Provision charge/ (credit) (Note 22)	0.7	(0.2)
Other operating costs include:		
Research and development	2.9	3.4
Write down of inventories to net realisable value	-	0.1
Operating leases:		
vehicles	1.1	1.1
land and buildings	0.6	0.5
hire of plant and machinery	0.1	1.7

¹ In 2019, all customer contributions (£17.3m) were amortised through revenue in line with IFRS 15 (see Note 4 for details). In 2018, £6.4m of customer contributions were amortised through revenue in line with IFRIC 18.

Analysis of the auditor's remuneration is as follows:

Group	2019 £m	2018 £m
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 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.

6. Employee costs

Group	2019 £m	2018 £m
Wages and salaries	94.8	86.4
Social security costs	10.3	9.5
Pension costs (see Note 21)	21.2	19.7
Employee costs (including Directors' remuneration)	126.3	115.6
Costs transferred directly to fixed assets	(68.2)	(64.1)
Charged to operating expenses	58.1	51.5

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

Group	2019 Number	2018 Number
Electricity distribution	1,880	1,795

7. Directors' remuneration

Group	2019 £m	2018 £m
Salaries and other short-term employee benefits	1.2	1.1
Accrued bonus	0.4	0.4
Amounts receivable under long-term incentive schemes	0.4	0.4
Total fees	2.0	1.9

The aggregate emoluments of the Directors in 2019 amounted to £2,043,000 (2018: £1,934,000). Emoluments comprise salaries, fees, taxable benefits, compensation for loss of office and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid Director in 2019 in respect of services to the Group amounted to £955,000 (2018: £894,000). Under the Executive Incentive Plan bonuses are awarded and either paid in the following financial year (accrued bonus) or paid in subsequent years (amounts receivable under long-term incentive schemes). There were no amounts payable for compensation for loss of office in the year (2018: £nil). Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in Note 30.

The pension contributions for the highest paid Director for 31 March 2019 were £nil (2018: £nil). The accrued pension at 31 March 2019 for the highest paid Director was £nil (2018: £nil).

As at 31 March 2019 the Directors have no interests in the ordinary shares of the Company (2018: same).

8. Investment income

Group	2019 £m	2018 £m
Interest receivable on short-term bank deposits held at amortised cost	0.4	1.0
Total investment income	0.4	1.0

9. Finance expense (net)

Group	2019 £m	2018 £m
Interest payable		
Interest payable on Group borrowings (Note 30)	14.7	14.7
Interest payable on borrowings held at amortised cost	41.2	23.0
Interest payable on borrowings designated at FVTPL	-	22.2
Net receipts on derivatives held for trading	(9.9)	(11.0)
Other finance charges related to index-linked debt (Note 19)	11.4	15.3
Accretion on index-linked swaps	-	8.8
Interest cost on pension plan obligations (Note 21)	0.3	1.1
Capitalisation of borrowing costs under IAS 23	(1.1)	(1.0)
Total interest expense	56.6	73.1
Fair value movements on financial instruments:		
Fair value movement on borrowings designated at FVTPL	-	(23.8)
Fair value movement on derivatives held for trading	47.3	(6.3)
Total fair value movements	47.3	(30.1)
Total finance expense (net)	103.9	43.0

Borrowing costs capitalised in the year under IAS 23 were £1.1m (2018: £1.0m), using an average annual capitalisation rate of 4.1% (2018: 4.8%), derived from the total general borrowing costs for the year divided by the average total general borrowings outstanding for the year.

The designation to measure the £250m 8.875% 2026 bond was at fair value revoked at the start of the year on the adoption of IFRS 9 (see Note 1 for more details); in the current year, this bond is measured at amortised cost.

The fair value movements on the derivatives are derived using a discounted cash flow technique using both market expectations of future interest rates and future inflation levels, obtained from Bloomberg, and calibrations to observable market transactions evidencing fair value; these are Level 2 inputs and Level 3 inputs under IFRS 13. Note 20 provides more detail on this.

There has been £nil (2018: £8.8m) 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 2022. No swaps have been entered or closed out in the year (2018: same).

10. Taxation

Group	2019 £m	2018 £m
Current tax		
Current year	21.9	21.1
Prior year	(1.6)	(0.8)
	20.3	20.3
Deferred tax		
Current year	(5.4)	5.6
Prior year	0.3	(0.9)
Impact of change in future tax rates	-	-
	(5.1)	4.7
Tax charge for the year	15.2	25.0

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. The Government announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020. The legislation has been given effect by the Finance Act 2019 which was substantively enacted on 12 February 2019. Deferred tax is calculated using the rate at which it is expected to reverse. Accordingly, the deferred tax has been calculated on the basis that it will reverse in future at the 17% rate.

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

Group	2019 £m	2018 £m
Profit before tax	87.0	141.3
Tax at the UK corporation tax rate of 19% (2018: 19%)	16.5	26.9
Prior year tax adjustments	(1.3)	(1.7)
Reduction in current year deferred tax due to rate change	0.6	(0.7)
Non-taxable expense	(0.6)	0.5
Tax charge for the year	15.2	25.0

11. Dividends

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

Group	2019 £m	2018 £m
Final dividends for the year ended 31 March 2018 of 3.36 pence per share (31 March 2017 of 2.52 pence per share)	16.0	12.0
Interim dividends for the year ended 31 March 2019 of 6.35 pence per share (31 March 2018: 13.34 pence)	30.3	63.6
	46.3	75.6

In the year ended 31 March 2019, the Company declared interim dividends of £30.3m, which were paid in December 2018 (31 March 2018: £63.6m). The final dividend for the year ended 31 March 2018 of £16.0m was paid in June 2019; the final dividend for the year ended 31 March 2017 of £12.0m was paid in June 2018.

At the Board meeting in May 2019 the Directors proposed a final dividend of £16.9m for the year ended 31 March 2019, subject to approval by equity holders of the Company; that is not a liability in the financial statements at 31 March 2019.

12. Intangible assets and goodwill

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
Cost				
At 1 April 2017	10.1	74.7	17.2	102.0
Additions	-	1.9	7.7	9.6
Transfers	-	1.4	(1.4)	-
At 31 March 2018	10.1	78.0	23.5	111.6
Additions	-	1.6	7.3	8.9
Transfers	-	2.7	(2.7)	-
At 31 March 2019	10.1	82.3	28.1	120.5
Amortisation				
At 1 April 2017	-	56.5	-	56.5
Charge for the year	-	5.5	-	5.5
At 31 March 2018	-	62.0	-	62.0
Charge for the year	-	6.2	-	6.2
At 31 March 2019	-	68.2	-	68.2
Net book value				
At 31 March 2019	10.1	14.1	28.1	52.3
At 31 March 2018	10.1	16.0	23.5	49.6

In the Company, goodwill arose on the acquisition of assets and liabilities of Electricity North West Number 1 Company Ltd 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 2019, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £9.5m (2018: £5.6m).

At each balance sheet date the Group reviews the carrying amounts of its goodwill and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss (see Note 13).

13. Property, plant and equipment

Group and Company	Operational structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets under the course of construction £m	Total £m
Cost or valuation					
At 1 April 2017	4,330.8	32.1	103.4	119.3	4,585.6
Additions	146.2	0.9	12.5	49.3	208.9
Transfers	35.2	0.5	1.5	(37.2)	-
Disposals	(5.4)	-	(0.9)	-	(6.3)
At 31 March 2018	4,506.8	33.5	116.5	131.4	4,788.2
Additions	176.5	0.2	9.5	46.3	232.5
Transfers	26.8	-	3.3	(30.1)	-
Disposals	(5.7)	-	(1.3)	-	(7.0)
At 31 March 2019	4,704.4	33.7	128.0	147.6	5,013.7
Accumulated depreciation and impairment					
At 1 April 2017	1,469.1	8.2	71.0	-	1,548.3
Charge for the year	95.0	1.1	12.2	-	108.3
Disposals	(5.4)	-	(0.9)	-	(6.3)
At 31 March 2018	1,558.7	9.3	82.3	-	1,650.3
Charge for the year	97.4	1.1	12.2	-	110.7
Disposals	(5.7)	-	(1.3)	-	(7.0)
At 31 March 2019	1,650.4	10.4	93.2	-	1,754.0
Net book value					
At 31 March 2019	3,054.0	23.3	34.8	147.6	3,259.7
At 31 March 2018	2,948.1	24.2	34.2	131.4	3,137.9

At 31 March 2019, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £86.6m (2018: £87.8m).

At 31 March 2019, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £3,153.3m (2018: £3,028.9m). The revaluation reserve is disclosed in Note 27, net of deferred tax. The revaluation reserve arose following North West Water's acquisition of Norweb, in 1997.

13. Property, plant and equipment (continued)

Impairment testing of intangible assets and property plant and equipment

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

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

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

The Group has prepared cash flow forecasts for a 28 year period, including a terminal value, which represents the planning horizon used for management purposes being aligned to the end of an eight year RIIO regulatory period. The rate used to discount cash flows was 6.20% (2018: 6.37%) reflecting an assumed level of risk associated with the cash flows generated from the licence. Cash flow projections for the five year period to 2023 are based on the Ofgem final determination and the Company's latest approved business plan (2018: same) and reflect recent RPI forecasts. Forecasts beyond this point are projected forward based on expected levels of expenditure to maintain the health of the network and long-term inflation assumptions. The forecasts have been sensitised to a change in the discount rate of 1% either way and that analysis indicates that there is sufficient headroom and that no impairment would be required.

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

14. Investments

	Group £m	Company £m
At 31 March 2018 and 31 March 2019	-	15.4

Details of the investments as at 31 March 2019, all of which were incorporated in the UK, and the principal place of business of each is in the UK, are as follows.

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

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

15. Inventories

Group and Company	2019 £m	2018 £m
Raw materials and consumables	12.2	10.5

16. Trade and other receivables

Group and Company	2019 £m	2018 £m
Trade receivables	5.3	10.6
Amounts owed by affiliated undertakings (Note 30)	4.5	5.3
Prepayments and accrued income	47.9	47.5
Balance at 31 March	57.7	63.4

The average credit period taken on sales is 14 days (2018: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £1.3m (2018: £0.9m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

Of the Group trade receivables, 69% (2018: 31%) are past due but not impaired. A balance of £1.7m (2018: £2.8m) is less than 30 days past due; a balance of £3.1m is greater than 30 days past due at 31 March 2019 (2018: £1.5m), against which an allowance for doubtful debt of £1.3m (2018: £0.9m) has been made.

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

Group and Company	2019 £m	2018 £m
Balance at 1 April	0.9	0.8
Charged to the Income Statement	0.4	0.1
Balance at 31 March	1.3	0.9

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 2019 £2.2m (2018: £1.7m) of cash had been received as security.

The RAV is calculated using the methodology set by Ofgem for each year of RIIO-ED1 (1 April 2016 to 31 March 2023) and is £1,820m (2018: £1,758m) for the year ended 31 March 2019 based on the actual retail price index (RPI) for March.

At 31 March 2019 £133.8m (2018: £138.6m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £6.9m (2018: £13.9m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

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

17. Cash and cash equivalents and money market deposits

Group and Company	2019 £m	2018 £m
Cash and cash equivalents	22.7	87.0
Balance at 31 March	22.7	87.0

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 cash and cash equivalents amount is disclosed gross of any collateral held on derivatives. At 31 March 2019, the group held £nil (2018: £10.6m) as collateral in relation to derivative financial instruments (see Notes 18 & 20).

The effective interest rate on all short-term deposits was a weighted average of 0.79% (2018: 0.65%) and these deposits had an average maturity of 1 day (2018: 1 day).

18. Trade and other payables

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Trade payables	13.9	13.9	10.9	10.9
Refundable customer deposits (Note 25)	2.2	2.2	1.7	1.7
Other taxation and social security	8.5	8.5	10.5	10.5
Amounts owed to affiliated undertakings (Note 30)	3.8	3.8	3.4	3.4
Amounts owed to subsidiary undertakings (Note 30)	-	15.4	-	15.4
Customer contributions (Note 24)	24.6	24.6	28.7	28.7
Obligation to return cash collateral (Note 20)	-	-	10.6	10.6
Accruals and deferred income	67.6	67.9	76.8	77.1
Balance at 31 March	120.6	136.3	142.6	158.3

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 19 days from receipt of invoice (2018: 15 days).

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

19. Borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to credit risk, liquidity risk and market risk see Note 20.

Group and Company	2019 £m	2018 £m
Current liabilities		
Bank and other term borrowings	6.8	6.6
Non-current liabilities		
Bonds	634.8	705.6
Bank and other term borrowings	253.0	253.2
Amounts owed to parent undertaking (Note 30)	75.3	73.7
Amounts owed to affiliated undertaking (Note 30)	198.7	198.2
	1,161.8	1,230.7
Total borrowings	1,168.6	1,237.3

Carrying value by category

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

Group and Company	Nominal value £m	Interest rate %	Maturity year	2019 Carrying value £m	2018 Carrying value £m
Borrowings designated at FVTPL					
Bond	250.0	8.875%	2026	-	367.2
Borrowings measured at amortised cost					
Bond	200.0	8.875%	2026	197.1	196.8
Bond	250.0	8.875%	2026	291.5	-
Index-linked bond	100.0	1.4746%+RPI	2046	146.3	141.6
Index-linked loan	135.0	1.5911%+RPI	2024	168.8	164.4
Index-linked loan	50.0	0.38%+RPI	2032	44.1	46.3
Index-linked loan	50.0	0%+RPI	2033	46.9	49.1
Amortising costs re: long-term loan		Libor+0.35%	2022	(0.1)	-
Amounts owed to parent undertaking		2.70%	2023	75.3	73.7
Amounts owed to affiliated* undertaking	200.0	6.125%	2021	198.7	198.2
				1,168.6	870.1
Total borrowings				1,168.6	1,237.3

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

The designation to measure the £250m 8.875% 2026 bond was revoked at the start of the year, on adoption of IFRS 9 (see Note 1 for more details); in the current year, this bond is measured at amortised cost.

19. Borrowings (continued)

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

Group and Company	2019 £m	2018 £m
At 1 April	1,237.3	1,249.1
Remeasurement on transition to IFRS 9 (see Note 1)	(71.0)	-
Fair value movement on borrowings designated at FVTPL	-	(23.8)
Repayments	(6.7)	(6.5)
Increased inter-company borrowings	1.6	2.5
Indexation (Note 9)	11.4	15.3
Amortisation of transaction costs, bond discounts and premiums	(4.0)	0.7
At 31 March	1,168.6	1,237.3

As at 31 March 2019 all loans and borrowings are unsecured and are in sterling. There were no formal bank overdraft facilities in place (2018: same). The fair values of the Group's financial instruments are shown in Note 20.

Borrowing facilities

The Group and Company had £50m (2018: £25m) in unutilised committed bank facilities at 31 March 2019; £nil (2018: £nil) expires within one year, £nil (2018: £nil) expires after one year but less than two years and £50m (2018: £25m) expires in more than two years.

20. Financial instruments

The Group uses financial instruments to invest liquid asset balances, raise funding and manage the risks arising from its operations.

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

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

The accounting policy for derivatives is provided in Note 2.

Control over financial instruments

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

Risk management

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

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Group's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee.

The Group's processes for managing risk and the methods used to measure risk have not changed since the prior year. In the year, the Group's policies in relation to the management of credit risk, risk limits and minimum credit ratings of counterparties have been reviewed and updated as appropriate 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.

20. Financial instruments (continued)

Treasury activities

The counterparties under treasury activities consist of financial institutions. In accordance with IFRS, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and a credit risk adjustment is made where required (see the section on Fair Values below). The exposure to counterparty credit risk is updated at each reporting date. 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.

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 2019, none (2018: 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, including cash and cash equivalents, money market deposits and derivative asset positions (prior to IFRS 13 credit risk adjustment):

Group and Company	2019 £m	2019 %	2018 £m	2018 %
AAA	13.3	25.7	32.7	26.4
AA	-	-	-	-
AA-	3.7	7.2	5.9	4.8
A+	10.0	19.3	26.4	21.2
A	24.7	47.8	59.0	47.6
	51.7	100.0	124.0	100.0

Trade receivables

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. Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers; there are only three (2018: three) principal customers, see Note 4. 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. 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, including closely monitoring the credit worthiness of each of these customers.

At 31 March 2019 there was £4.8m receivables past due (2018: £4.3m) against which an allowance for doubtful debts of £1.3m has been made (2018: £0.9m).

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the Statement of Financial Position. For trade receivables, the value is net of any collateral held in cash deposits (see Note 16 for further details).

Group and Company	2019 £m	2018 £m
Trade receivables (Note 16)	5.3	10.7
Amounts owed by Group undertakings (Note 16)	4.5	5.2
Cash and cash equivalents (Note 17)	22.7	87.0
Balance at 31 March	32.5	102.9

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 28 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 remainder of the current Regulatory Period ending 31 March 2023, which is updated and approved annually by the Board. The Board has approved a liquidity framework within which the business operates, including the maintenance of a minimum of 18 months liquidity.

Available liquidity at 31 March was as follows:

Group and Company	2019 £m	2018 £m
Cash and cash equivalents	22.7	87.0
Committed undrawn bank facilities	50.0	25.0
Balance at 31 March	72.7	112.0

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 unrepresented cheques. There was no formal bank overdraft facility in place during the year (2018: none).

At 31 March 2019, the Group and Company had committed undrawn bank facilities of £50.0m (2018: £25.0m), including £nil (2018: £nil) expiring within one year, £nil (2018: £25.0m) expiring after one year but less than two years and £50.0m (2018: £nil) expiring 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 financial liabilities, including principal and interest payable under financial liabilities and derivative financial instruments on an undiscounted basis. Derivative cash flows have been shown net; all other cash flows are shown gross.

20. Financial instruments (continued)

Group and Company at 31 March 2019

	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
Trade payables	(13.9)	-	-	-	-	(13.9)
Refundable customer deposits	(2.2)	-	-	-	-	(2.2)
Amounts owed to parent undertaking	(2.0)	(2.0)	(2.0)	(77.9)	-	(83.9)
Amounts owed to affiliated companies	(12.3)	(12.3)	(206.1)	-	-	(230.7)
Bonds	(42.1)	(42.1)	(42.1)	(42.1)	(769.1)	(937.5)
Borrowings and overdrafts	(9.6)	(9.6)	(9.6)	(9.6)	(236.3)	(274.7)
Derivative financial instruments	9.8	9.8	4.7	(8.0)	(266.2)	(249.9)
Cash collateral	-	-	-	-	-	-
	(72.3)	(56.2)	(255.1)	(137.6)	(1,271.6)	(1,792.8)

Group and Company at 31 March 2018

	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
Trade payables	(10.9)	-	-	-	-	(10.9)
Refundable customer deposits	(1.7)	-	-	-	-	(1.7)
Amounts owed to parent undertaking	(2.0)	(2.0)	(2.0)	(2.0)	(76.3)	(84.3)
Amounts owed to affiliated companies	(12.3)	(12.3)	(12.3)	(206.1)	-	(243.0)
Bonds	(42.1)	(42.1)	(42.1)	(42.1)	(806.3)	(974.7)
Borrowings and overdrafts	(9.4)	(9.4)	(9.4)	(9.4)	(239.9)	(277.5)
Derivative financial instruments	10.1	10.1	10.1	4.8	(134.6)	(99.5)
Cash collateral	(10.6)	-	-	-	-	(10.6)
	(78.9)	(55.7)	(55.7)	(254.8)	(1,257.1)	(1,702.2)

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, and these are explained below.

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 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 following sensitivity analysis is used by Group management to monitor interest rate risk and 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 sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve.

20. Financial instruments (continued)

Group and Company	2019			2018		
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	-	-	-	(11.9)	11.4	22.4
Inflation-linked swaps	(66.7)	46.3	94.5	(58.1)	51.9	98.6
Total finance expense impact	(66.7)	46.3	94.5	(70.0)	63.3	121.0

The debt held at FVTPL in the prior year has been reclassified as at amortised cost upon transition to IFRS 9 (see Note 1 for more details).

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 2019, the Group had no floating rate borrowings (2018: 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.

Group and Company	2019			2018		
Change in inflation rates	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Inflation-linked swaps	42.8	(45.3)	(100.6)	70.5	(77.7)	(163.6)
Total finance expense impact	42.8	(45.3)	(100.6)	70.5	(77.7)	(163.6)

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 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.

Group and Company	2019			2018		
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	2.1	(2.1)	(4.1)	2.0	(2.0)	(4.1)
Inflation-linked swaps	0.1	(0.1)	(0.1)	0.1	(0.1)	(0.1)
Total finance expense impact	2.2	(2.2)	(4.2)	2.1	(2.1)	(4.2)

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 2019, the Group's derivatives are not designated in formal hedging relationships (2018: none), and instead are measured at fair value through the Income Statement.

20. Financial instruments (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the Statement of Financial Position date. Cash and cash equivalents, trade and other receivables and trade and other payables are excluded as the book values approximate to the fair values because of their short-term nature.

Group and Company	2019 Carrying value £m	2019 Fair value £m	2018 Carrying value £m	2018 Fair value £m
Non-current liabilities				
Borrowings designated at FVTPL (Note 19)	-	-	(367.2)	(367.2)
Borrowings measured at amortised cost (Note 19)	(887.8)	(1,127.5)	(591.6)	(766.0)
Amounts due to parent undertaking (Note 19)	(75.3)	(75.3)	(73.7)	(73.7)
Amounts due to affiliated companies (Note 19)	(198.7)	(221.2)	(198.2)	(229.2)
Derivative financial instruments (Note 19)	(404.6)	(404.6)	(357.3)	(357.3)
	(1,566.4)	(1,828.6)	(1,588.0)	(1,793.4)
Current liabilities				
Borrowings measured at amortised cost (Note 19)	(6.8)	(6.8)	(6.6)	(6.6)
	(1,573.2)	(1,835.4)	(1,594.6)	(1,800.0)

The value of derivatives is disclosed gross of any collateral held. At 31 March 2019, the group held £nil (2018: £10.6m) as collateral in relation to derivative financial instruments, included within current liabilities (see Note 18). The cash collateral does not meet the offsetting criteria in IAS 32:42, but it can be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

Fair value measurements recognised in the Statement of Financial Position

Financial instruments that are measured subsequent to initial recognition at fair value are 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).

Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy above).

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 above) 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 2019, is £100.5m (2018: £93.1m), of which £100.3m (2018: £91.6m) is classed as Level 3.

On entering certain derivatives, the valuation technique used resulted in a fair value loss. As this, however, was neither evidenced by a quoted price nor based on a valuation technique using only data from observable markets, this loss on initial recognition was not recognised. This was supported by the transaction price of nil. This difference is being recognised in profit or loss on a straight-line basis over the life of the derivatives. The aggregate difference yet to be recognised in profit or loss is £60.7m (2018: £64.8m). The movement in the period all relates to the straight-line release to profit or loss.

Group	2019 £m	2018 £m
FV of derivatives pre IFRS 13 adjustment	(565.8)	(515.2)
CVA/DVA	100.5	93.1
Day 1 adjustments	60.7	64.8
IFRS 13 FV of derivatives	(404.6)	(357.3)

20. Financial instruments (continued)

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:

Group and Company at 31 March 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial liabilities				
- £300m notional inflation-linked swaps	-	(9.2)	(395.4)	(404.6)
Financial liabilities designated at FVTPL	-	-	-	-
	-	(9.2)	(395.4)	(404.6)

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

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

Group and Company	2019 £m	2018 £m
At 1 April	(322.7)	(244.3)
Transfers into Level 3 from Level 2	(30.0)	(95.5)
Transfers from Level 3 into Level 2	2.3	-
Total gains or losses in profit or loss;		
- On transfers into Level 3 from Level 2	(8.2)	1.5
- On instruments carried forward in Level 3	(36.8)	15.6
At 31 March	(395.4)	(322.7)

In the prior year, inflation-linked swaps with fair values of £105.7m were restructured. Prior to restructure, all £105.7m was classified as Level 2; upon restructure £95.5m was transferred from Level 2 to Level 3, principally due to a change in the significance of the unobservable inputs used to derive Electricity North West's credit curve for the DVA, as described in this section above. On restructure, there was no change in the fair values of the swaps, as evidenced by £nil cash exchange.

The movement in the fair values of the derivative portfolio was solely due to fair value movements; there were no additional swaps entered, nor any swaps closed out, during the year.

The following table 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.

	2019 -10bps £m	2019 +10bps £m	2018 -10bps £m	2018 +10bps £m
Group and Company				
Inflation-linked swaps	(2.2)	2.1	(2.0)	1.9

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

Group and Company at 31 March 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Borrowings measured at amortised cost	(1,127.5)	-	-	(1,127.5)
Amounts due to affiliated companies	(221.2)	-	-	(221.2)
	(1,348.7)	-	-	(1,348.7)

Group and Company at 31 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Borrowings measured at amortised cost	(766.0)	-	-	(766.0)
Amounts due to affiliated companies	(229.2)	-	-	(229.2)
	(995.2)	-	-	(995.2)

21. Retirement benefit schemes

Group and Company

Nature of scheme

The Group's defined benefit arrangement is the Electricity North West Group of the ESPS ("the Scheme") and forms part of the Electricity Supply Pension Scheme (ESPS). Up to 31 March 2011 the Scheme was split into two sections. However, following the 'hive-up' of the assets and liabilities of Electricity North West Number 1 Company Ltd to the Company and the termination of the Asset Services Agreement between the two companies on 31 March 2011, the two sections were merged as at that date.

The Scheme contains both a defined benefit section and a defined contribution section. The defined benefit section of the Scheme closed to new entrants on 1 September 2006, with new employees of the Group subsequently provided with access to the defined contribution section.

The defined benefit section is a UK funded final salary arrangement providing pensions and lump sums to members and dependants. The defined benefit section is a separate fund that is legally separated from the entity. The Trustee board of the Scheme is composed of representatives from both the employer and members of the Scheme. Under the Pensions Act 2004 at least one third of the Trustee Board must be member nominated and the Trustee Board has made the necessary arrangements to fulfil this obligation. The Trustee Board of the Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e. active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme.

During the year the Group made contributions of £30.8m (2018: £30.3m) to the defined benefit section of the Scheme. This includes £17.8m of deficit contributions. The Group estimates that contributions for the year ending 31 March 2020 will amount to around £31.7m which includes £18.3m of expected deficit contribution payments. The total defined benefit pension expense for the year was £21.2m (2018: £17.6m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2019 contributions of £2.5m (2018: £2.7m) relating to the current reporting period had not been paid over to the defined benefit Scheme.

Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

IFRIC14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction' was published by the interpretations committee of the International Accounting Standards Board in July 2007 and was adopted during the year ended 31 March 2008. IFRIC14 provides guidance on the extent to which a pension scheme surplus should be recognised as an asset and may also require additional liabilities to be recognised where minimum funding requirements exist. Legal opinion was obtained that a pension surplus could be recovered on wind up of the scheme and could, therefore, be recognised, along with associated liabilities.

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.

Funding the liabilities

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation was carried out as at 31 March 2016 and identified a shortfall of £142.6m against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2016 Actuarial valuation the Group agreed to remove the shortfall by paying annual contributions to 2023.

The results of the 2016 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2019 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 surplus under IAS 19 (revised 2011) of £32.8m is included in the Statement of Financial Position at 31 March 2019 (2018: deficit of £18.2m).

The weighted average duration of the defined benefit obligation is approximately 19 years (2018: 18 years).

Investment strategy

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

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

Other risks

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

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

Winding up

Although currently there are no plans to do so, the Scheme could be wound up in which case the benefits would have to be bought out with an insurance company. The cost of buying-out benefits would be significantly more than the defined benefit surplus 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 2019 was £4.9m (2018: £4.0m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2019 contributions of £nil (2018: £nil) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

21. Retirement benefit schemes (continued)

Defined Benefits employee benefits

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

Group and Company	2019 £m	2018 £m
At 1 April	(18.2)	(58.0)
Expense recognised in the Income Statement	(21.2)	(17.6)
Contributions paid	30.8	30.3
Total re-measurement included in Other Comprehensive Income	41.4	27.1
At 31 March	32.8	(18.2)

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

Group and Company	2019 £m	2018 £m
At 1 April	1,388.2	1,430.4
Current service cost	15.5	15.3
Interest expense	35.4	34.9
Member contributions	1.7	1.7
Past service costs:		
Augmentation	0.6	0.4
GMP equalisation	4.1	-
Re-measurement:		
Effect of changes in demographic assumptions	(68.2)	-
Effect of changes in financial assumptions	71.3	(25.0)
Effect of experience adjustments	-	-
Benefits paid	(76.5)	(69.5)
At 31 March	1,372.1	1,388.2

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

Group and Company	2019 £m	2018 £m
Liabilities owing to active members	473.6	453.8
Liabilities owing to deferred members	70.5	70.5
Liabilities owing to pensioner members	828.0	863.9
Total liability at 31 March	1,372.1	1,388.2

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

Group and Company	2019 £m	2018 £m
At 1 April	1,370.0	1,372.4
Interest income	35.1	33.8
Return on plan assets (net of interest income)	44.5	2.0
Company contributions	30.8	30.3
Member contributions	1.7	1.7
Benefits paid	(76.5)	(69.5)
Scheme administration expenses	(0.7)	(0.7)
At 31 March	1,404.9	1,370.0

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

Group and Company	2019 £m	2018 £m
Current service cost	(15.5)	(15.3)
Past service cost:		
Augmentation	(0.6)	(0.4)
GMP equalisation	(4.1)	-
Interest income on plan assets	35.1	33.8
Interest (expense) on Scheme obligations	(35.4)	(34.9)
Administration expenses	(0.7)	(0.8)
Net pension expense before taxation	(21.2)	(17.6)

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 net finance expense (Note 9).

Past-service costs of £4.1m have been recognised relating to the estimated cost of equalising Guaranteed Minimum Pensions (GMPs) earned after 17 May 1990 between men and women. The Scheme has to provide GMPs which, as a result of statutory rules, have been calculated differently for men and women. Although equal treatment in pension provision for males and females has been required since 1990, there has been uncertainty on whether, and how, pension schemes are required to equalise GMPs. A High Court judgement on the Lloyds Banking Group hearing was published on 26 October 2018. The judgement confirmed that GMPs earned from 1990 must be equalised and highlighted an acceptable range of methods. The estimated cost of this equalisation is £4.1m. This represents the Directors' best estimate of the cost, based on actuarial advice. However, the final cost will differ from this amount when the actual method of equalisation is agreed with the Trustee and subsequently implemented.

21. Retirement benefit schemes (continued)

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

Group and Company	2019 %	2018 %
Discount rate	2.40	2.60
Pensionable salary increases	3.25	3.10
Pension increases	3.10	3.05
Price inflation (RPI)	3.25	3.10

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

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

Group and Company	2019 Years	2018 Years
Male life expectancy at age 60		
Retired member	26.8	28.0
Non-retired member (current age 45)	27.3	28.8

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of Scheme assets. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase.

Group and Company	2019 £m	2018 £m
Increase in Defined Benefit Obligation		
Discount rate: decrease by 25 basis points	65.0	65.5
Price inflation: increase by 25 basis points	60.6	61.4
Life expectancy: increase longevity by 1 year	52.5	45.5

As at 31 March 2019, the fair value of the Scheme's assets and liabilities recognised in the Statement of Financial Position were as follows:

Group and Company At 31 March	Scheme assets 2019 %	Value 2019 £m	Scheme assets 2018 %	Value 2018 £m
Cash and Cash equivalents	1.0	13.6	3.7	51.3
Equity instruments	2.7	38.3	10.0	137.0
Debt instruments	84.5	1,187.1	74.0	1,013.2
Real estate	10.0	140.6	10.6	145.0
Distressed debt	1.7	23.5	1.6	21.9
Hedge funds	0.1	1.8	0.1	1.6
Total fair value of assets	100.0	1,404.9	100.0	1,370.0
Present value of liabilities		(1,372.1)		(1,388.2)
Net retirement benefit obligation		32.8		(18.2)

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

22. Provisions

Group and Company	2019 £m	2018 £m
At 1 April	3.1	4.0
Charged/(credited) to the income statement (Note 5)	0.7	(0.2)
Utilisation of provision	(0.8)	(0.7)
At 31 March	3.0	3.1

Group and Company	2019 £m	2018 £m
Current	0.8	0.8
Non-current	2.2	2.3
At 31 March	3.0	3.1

During the year ended 31 March 2019 a provision was created in connection with a portfolio of retail properties for which the Company was liable under privity of contract. The combined closing provision of £1.1m at 31 March 2019 (2018: £1.5m) 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.

The Company is part of a Covenanter Group (CG) which is party to a Deed of Covenant under which certain guarantees over the benefits of members of the EATL Group of the Electricity Supply Pension Scheme have been given. The closing provision at 31 March 2019 of £1.9m (2018: £1.6m) on a discounted basis relates to the Company's 6.7% share of the liabilities.

23. Deferred tax

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

Group and Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2017	193.9	(10.0)	(57.2)	126.7
Charged/(credited) to the Income Statement	0.4	2.2	2.1	4.7
Deferred tax on re-measurement of defined benefit pension schemes	-	4.6	-	4.6
At 1 April 2018	194.3	(3.2)	(55.1)	136.0
Opening reserve adjustment on transition to IFRS 9			12.2	12.2
Charged/(credited) to the Income Statement	0.8	1.6	(7.5)	(5.1)
Deferred tax on re-measurement of defined benefit pension schemes	-	7.0	-	7.0
At 31 March 2019	195.1	5.4	(50.5)	150.1

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

24. Customer contributions

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

Group and Company	2019 £m	2018 £m
At 1 April	641.3	614.2
Additions during the year	37.8	44.0
Amortisation	-	(10.5)
Amortised through revenue ¹	(17.3)	(6.4)
At 31 March	661.8	641.3
Split:		
Amounts due in less than one year (see Note 18)	24.6	28.7
Amounts due after more than one year	637.2	612.6
At 31 March	661.8	641.3

¹In the year 2019, £nil (2018: £6.4m) of customer contributions amortisation was amortised through revenue in line with IFRIC 18. In 2019, all customer contributions amortisation has been posted through revenue in line with IFRS 15 (see Note 4 for details).

25. Refundable customer deposits

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

Group and Company	2019 £m	2018 £m
Amounts due in less than one year (see Note 18)	2.2	1.7
Amounts due after more than one year	-	-
At 31 March	2.2	1.7

26. Called up share capital

Company	2019 £	2018 £
Authorised:		
569,999,996 (2018: same) 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
At 31 March	285,000,001	285,000,001

Company	2019 £	2018 £
Allotted, called up and fully paid:		
476,821,341 (2018: same) ordinary shares of 50 pence each	238,410,671	238,410,671
4 'A' ordinary shares of 50 pence each	2	2
At 31 March	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.

27. Shareholders' equity

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 1 April 2018	238.4	4.4	90.3	8.6	486.1	827.8
Opening adjustment on transition to IFRS 9	-	-	-	-	71.0	71.0
Tax impact on opening reserve adjustment on transition to IFRS 9	-	-	-	-	(12.0)	(12.0)
					59.0	59.0
Profit for the year	-	-	-	-	71.8	71.8
Transfer from revaluation reserve	-	-	(2.1)	-	2.1	-
Other comprehensive income for the year	-	-	-	-	41.4	41.4
Tax on components of comprehensive income	-	-	-	-	(7.0)	(7.0)
Total comprehensive income for the year	-	-	(2.1)	-	108.3	106.2
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(46.3)	(46.3)
At 31 March 2019	238.4	4.4	88.2	8.6	607.1	946.7

Company	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption £m	Retained earnings £m	Total equity £m
At 1 April 2018	238.4	4.4	90.3	8.6	485.8	827.5
Opening adjustment on transition to IFRS 9	-	-	-	-	71.0	71.0
Tax impact on opening reserve adjustment on transition to IFRS 9	-	-	-	-	(12.0)	(12.0)
					59.0	59.0
Profit for the year	-	-	-	-	71.8	71.8
Transfer from revaluation reserve	-	-	(2.1)	-	2.1	-
Other comprehensive income for the year	-	-	-	-	41.4	41.4
Tax on components of comprehensive income	-	-	-	-	(7.0)	(7.0)
Total comprehensive income for the year	-	-	(2.1)	-	108.3	106.2
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(46.3)	(46.3)
At 31 March 2019	238.4	4.4	88.2	8.6	606.8	946.4

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.

28. Capital structure

Details of the authorised and allotted share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 26. The Company has Ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The Company also has 'A' ordinary shares which rank *pari passu* in all respects, save that dividends may be declared on one class of shares without being declared on the other.

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

There are no specific restrictions on the size of a holding or on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions in the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid up. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, copies of which are available on request; and in the Corporate Governance Report on pages 31 to 43.

29. Ultimate parent undertaking and controlling party

The immediate parent undertaking is North West Electricity Networks plc, a company incorporated and registered in the United Kingdom. The address of the immediate parent undertaking is 304 Bridgewater Place, Birchwood Park, Warrington, England WA3 6XG. The ultimate parent undertaking is NWEN (Jersey), a company incorporated and registered in Jersey. The address of the ultimate parent company is: 44 Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG.

This Group is the smallest group in which the results of the Company are consolidated. The largest group in which the results of the Company are consolidated is that headed by NWEN (Jersey).

First State Investments Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ('EDIF') and IIF Int'l Holding GP Ltd ('IIF') have been identified as ultimate controlling parties. They are advised by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.

30. Related party transactions

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

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Recharges to:				
Electricity North West (Construction and Maintenance) Ltd	1.6	1.6	0.6	0.6
Electricity North West Services Ltd	1.8	1.8	1.6	1.6
Recharges from:				
Electricity North West (Construction and Maintenance) Ltd	(0.1)	(0.1)	(0.1)	(0.1)
Electricity North West Services Ltd	(7.6)	(7.6)	(4.8)	(4.8)
Interest payable to:				
North West Electricity Networks plc	(2.0)	(2.0)	(2.0)	(2.0)
ENW Finance plc	(12.3)	(12.3)	(12.4)	(12.4)
Dividends paid to North West Electricity Networks plc	(46.3)	(46.3)	(75.6)	(75.6)
Directors' remuneration (Note 7)	(2.1)	(2.1)	(1.9)	(1.9)
Directors' services	(0.2)	(0.2)	(0.2)	(0.2)

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

30. Related party transactions (continued)

Amounts outstanding with related parties are as follows:

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Amounts owed by:				
North West Electricity Networks plc	3.5	3.5	3.3	3.3
Electricity North West (Construction and Maintenance) Ltd	0.4	0.4	0.2	0.2
Electricity North West Services Ltd	0.3	0.3	1.3	1.3
Electricity North West Property Ltd	-	-	0.1	0.1
North West Electricity Networks (Jersey) Ltd	0.1	0.1	0.1	0.1
North West Electricity Networks (Holdings) Ltd	0.2	0.2	0.2	0.2
Total (Note 16)	4.5	4.5	5.2	5.2
Amounts owed to:				
Electricity North West Number 1 Company Ltd (Note 18)	-	(15.4)	-	(15.4)
Electricity North West Services Ltd	(0.7)	(0.7)	(0.3)	(0.3)
Interest payable to:				
North West Electricity Networks plc	(0.6)	(0.5)	(0.5)	(0.5)
ENW Finance plc	(2.5)	(2.5)	(2.5)	(2.5)
Total (Note 18)	(3.8)	(3.8)	(3.3)	(3.3)
Borrowings payable to:				
North West Electricity Networks plc (Note 19)	(75.3)	(75.3)	(73.7)	(73.7)
ENW Finance plc (Note 19)	(198.7)	(198.7)	(198.2)	(198.2)
Group tax relief to:				
North West Electricity Networks plc	(5.0)	(5.0)	(5.6)	(5.6)
Electricity North West Services Ltd	-	-	(0.1)	(0.1)

The loan from North West Electricity Networks plc accrues weighted average interest at 2.70% (2018: 2.70%) and is repayable in March 2023. The loan from ENW Finance plc accrues interest at 6.125% (2018: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2018: £0.1m) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party as per Note 29.

Fees of £0.1m (2018: £0.1m) were payable to IIF Int'l Holding GP Ltd ('IIF') in respect of the provision of Directors' services which is identified as a related party as per Note 29.

31. Cash generated from operations

Group and Company	2019 £m	2018 £m
Operating profit	190.5	183.3
Adjustments for:		
Depreciation of property, plant and equipment	110.7	108.3
Amortisation of intangible assets	6.2	5.5
Amortisation of customer contributions	(17.6)	(16.9)
Profit on disposal of property, plant and equipment	(0.4)	(0.2)
Cash contributions in excess of pension charge to operating profit	(18.0)	(22.4)
Operating cash flows before movements in working capital	271.4	257.6
Changes in working capital		
(Increase)/decrease in inventories	(1.8)	(0.9)
(Increase)/decrease in trade and other receivables	5.0	(2.9)
Decrease in payables and provisions	(7.0)	(14.8)
Cash generated from operations	267.6	239.0

32. Operating leases

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

	Land and buildings 2019 £m	Plant and machinery 2019 £m	Vehicles 2019 £m	Land and buildings 2018 £m	Plant and machinery 2018 £m	Vehicles 2018 £m
Not later than one year	0.7	0.1	1.1	0.7	0.1	1.1
Later than one year and not later than five years	2.3	0.3	3.2	1.2	0.3	3.3
Later than five years	1.8	2.4	-	1.9	2.5	-
	4.8	2.8	4.3	3.8	2.9	4.4

Glossary

BEIS	Department for Business, Energy and Industrial Strategy
BITC	Business in the Community
CEG	Customer Engagement Group
CI	Customer Interruptions
CLASS	Customer Load Active System Services
CML	Customer Minutes Lost
CSAT	Customer Satisfaction
CVA/DVA	Credit/Debit Valuation Adjustment
DNO	Distribution Network Operator
DSO	Distribution System Operator
DUoS	Distribution Use Of System
ECL	Expected Credit Losses
ENWL	Electricity North West Limited
ESPS	Electricity Supply Pension Scheme
FVTPL	Fair Value Through Profit or Loss
GDPR	General Data Protection Regulation
GEMA	Gas and Electricity Markets Authority
GMP	Guaranteed Minimum Pensions
GRESB	Global Real Estate Sustainability Benchmark
IFRS	International Financial Reporting Standard
KPI	Key Performance Indicators
Ofgem	Office of Gas and Electricity Markets
PBTFV	Profit before tax and fair value movements
PPE	Property, Plant and Equipment
PSR	Priority Services Register
RAV	Regulatory Asset Value
RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RIIO – ED2	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 2
RoRE	Return on Regulated Equity
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).
tCO ₂ e	Tonnes of Carbon Dioxide Equivalent
Totex	Total expenditure



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