

Company Registration No. 02366949

ELECTRICITY NORTH WEST LIMITED

**Annual Report and Consolidated Financial Statements
for the year ended 31 March 2020**



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 carry electricity from both the national grid and locally connected generation to homes and business across the North West. Our job is to keep electricity flowing safely and reliably 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 region economically.

Service – We invest in our people and train them to be experts who ensure we provide exceptional service.

Innovation – We believe in continuous improvement and lead in energy innovation in our sector.

Move to a low-carbon economy – We are key facilitators in the UK's drive to become carbon neutral by 2050.

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 2020. 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 England, the United Kingdom under the Companies Act 2006.

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 (together, "the Group").

Cautionary statement regarding forward-looking statements

The Chairman's Statement, Chief Executive Officer's Statement and Strategic Report sections 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 2020

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 2020 are not due for submission to Ofgem until July 2020, 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.

Electricity North West Limited**Annual Report and Consolidated Financial Statements for the year ended 31 March 2020**

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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 2020, the fifth year of our eight-year regulatory period.

This report is being published as we face unprecedented times resulting from the COVID-19 pandemic. The essential service that the Company provides of maintaining the electricity supply to homes and business is more important than ever, and highlights the critical role that we play in the economy and lives of those who live in the North West.

The year ended 31 March 2020, which was only marginally impacted by the pandemic, was another successful year, with the Company demonstrating further improvements, and achieving a number of best-ever performances, across the critical areas of safety, network reliability, customer satisfaction and the environmental impact of the business.

The operational performance of the Company is discussed further in the Chief Executive Officer's Statement that follows.

Company ownership

Following a strategic review of their investment by the previous ultimate shareholders of the Group, there was a change in ownership of our parent undertaking during the year.

We welcome Kansai Electric Power Company, who together with Mitsubishi and Daiwa formed KDM Power, Equitix and Swingford Holdings Corporation Limited, as new ultimate shareholders, and are pleased with their commitment to work with the Company to use innovation to ensure that the electricity networks, and the Company in particular, can fully play their role in enabling the transition to the UK Government's Net-Zero target.

Strategic direction

The move to a low-carbon economy continues to gather momentum, with wide social and political support. In June 2019, the Climate Change Act was amended to make the UK the world's first major economy to enshrine in law its commitment to become carbon neutral by 2050. Greater Manchester Combined Authority, a significant stakeholder in our region, has set a

challenging target of the region becoming carbon neutral by 2038 – significantly ahead of the national timescale. The overwhelming momentum in energy is for decarbonisation through electrification, and this presents significant long-term growth opportunities for the sector and, therefore forms a fundamental element of our strategic plans.

The Company is well placed to respond to the low carbon challenge. Innovations such as CLASS and our Smart Street project, for which we won an £18m Innovation Rollout Mechanism award from Ofgem, support the dual challenge of supporting decarbonisation and ensuring customer bills remain as affordable as possible. Our significant investment in the next generation Network Management Systems will enable granular real time control of the network and will position the business for the transition to a Distribution System Operator.

Board membership

The change in ultimate shareholders has brought about a significant change in the composition of Board members. I would like to thank the outgoing shareholder appointed Board members – Hamish Lea-Wilson, John Lynch and Niall Mills. In their place we have five new shareholder appointed directors – Sion Jones, Shinichiro Sumitomo, Genping Pan, Peter O'Flaherty and Yoichi Hamada. I welcome these new appointments which both increase the diversity of the Board and bring expertise in network operation from across the globe.

I would like to thank all members of the Board, along with the Executive team for their ongoing support during this successful year. Finally, I would like to thank all the employees of the Company for their dedication and continued commitment in delivering the vital services we provide, particularly at these extraordinarily challenging times.

Dr John Roberts CBE

Chairman

Chief Executive Officer's Statement

I am pleased to introduce the Annual Report and Consolidated Financial Statements for the year ended 31 March 2020. Our operations and investment plans continue to be led by both stakeholder engagement and our customers' priorities. We have continued to see improvements in reliability and customer satisfaction, and we are supporting more customers in vulnerable situations. In the current Coronavirus pandemic, we know that the region is relying on us now more than ever to power homes and businesses. The improvements in operational and network safety seen in previous years have continued. We are proud to be leading the transition to a low carbon future, whilst limiting the impact on customer bills through innovation.

Our Company purpose states that **'Together we have the energy to transform our communities'**. There is no bigger transformation for the country than the transition to low carbon.

Our leadership role in the region's transition to zero carbon is very clear. Last year we launched our ambitious plan, *'Leading the North West to Zero Carbon'*, setting out how we would decarbonise our own operations and support the transition to the low carbon economy for the rest of the region. Through our leadership and expertise as well as the continued investment in our own network systems, we are uniquely placed to facilitate the growth in low carbon technologies. This work has been the focus for much of the past year.

In February 2020, Ofgem launched its Decarbonisation Action Plan, offering clear regulatory support to the direction in which we are travelling.

Innovation remains key to deliver the scale of change needed at an affordable cost and this continues to be a core value and strength of the business. We were pleased to see our Smart Street innovation receive £18m of Ofgem funding approval in the year. The project will now roll out our innovative Smart Street project to more customers, creating

reductions in these customers' electricity bills of up to £70 per year.

The move to a Distribution System Operator

As we move towards the low carbon future, new electrical demands for electric vehicle charging, heat pumps and increased local renewable generation will necessitate changes in the way we operate the network. These changes will minimise the cost by avoiding vast increases in investment requirements and mitigate the increase in consumer bills.

We will operate our network more dynamically to ensure the appropriate flow and availability of power where and when it is needed in our region. These changes are labelled by the regulator and Government as reflecting the transition of our role from a distribution network operator to distribution system operator (DSO). The development and investment in our new industry-leading computer-controlled Network Management System (NMS) is testament to our preparedness and our ambition in this regard.

The drive towards a low carbon future relies on connecting much more renewable generation and low carbon technology to the network quickly minimising the need for expensive and disruptive network reinforcement with new plant and equipment. New types of flexible connections contracts will allow us to manage flows actively on the network in real time, enabled by additional load measurement sensors at strategic points on the network linked to software algorithms in NMS. We have continued to invest in this operating technology during the year and will see NMS go live in the summer.

The commercial deployment of our innovative Customer Load Active System Services (CLASS) project has successfully completed and we are now fully participating in the National Grid frequency response and fast reserve markets. CLASS uses voltage controllers in substations to manage demand for electricity, reducing the need for additional generation during periods of peak demand. Through reducing the need for further traditional generation, CLASS helps reduce UK carbon emissions as well as contributing to lower customer bills.

Chief Executive Officer's Statement (continued)

Performance overview

We were pleased that our Company is the only network operator group in the country to have achieved green ratings from Ofgem in all categories for the last three consecutive years.

Each year Ofgem rates the networks to show areas of good and poor performance. The six categories are: reliability and availability, connections, social obligations, customer service, environment and safety. Our performance against a wide range of metrics meets or exceeds Ofgem's expectations, and we are delighted that this has been recognised.

We continue to strive to improve our performance and provide the best possible service to our customers in the North West.

The company operates in a high hazard industry and safety remains a priority. The sustained improvement in incident rates, this year seeing the lowest ever lost time incident rate, reflects the enhanced safety culture within the business but we are never complacent.

Reliability continues to be a key priority for our customers, as we are ever more dependent on electricity for all aspects of our lives. Through investment in automation, robust inspection and maintenance programmes and our focus on operational response times we continue to provide industry leading reliability, with a network availability of 99.9%. The numbers of customer interruptions have now reduced by 25% during the current regulatory period (since the year ended March 2016). Our Customer Interruptions (CIs) and Customer Minutes Lost (CMLs) measures were 'best-ever' results at 27.8 and 27.2.

Our customer satisfaction performance has continued to improve in all areas, achieving a significantly improved overall score of 88.5% for the year (2019: 86.5%), close to Ofgem's maximum incentive level of 89%. Customer complaints fell 32% compared to the prior year and complaints resolution performance has also improved significantly, currently achieving

an 84.0% 24-hour resolution performance (2019: 82.1%).

The investments we have made in recent years are allowing us to deliver performance improvements for our customers and to realise cost efficiencies that we share with our customers. Our average domestic bill for 2019/20 was £87, compared to the UK average of £93. Since the start of the regulatory period, we have shared £28m of efficiency savings with our customers.

Our responsibility framework

We have a special position in our region and we believe that it is important that this is reflected in our behaviours. This year we became a real living wage employer and, in further recognition of our activities, were also one of the first six companies to be awarded membership of Greater Manchester Combined Authority's new Good Employment Charter.

Through our diversity and inclusion programme, we are working hard to ensure that our workforce is more representative of the communities we serve, with a particular emphasis on encouraging female representation across the business. Women currently make up 25% of our workforce and we are pleased that, by focusing on supporting women into engineering and leadership roles, 30% of our Senior Leadership team are female. Working with our local communities has also seen a rise in people within black, Asian and minority ethnicities applying for apprenticeships.

On decarbonisation we are working towards achieving a carbon literacy silver standard, up from our current bronze standard, and are working with our supply chain to encourage them to follow our responsible business framework as well as embracing decarbonisation.

Chief Executive Officer's Statement (continued)

We have a number of local initiatives across our region to help local communities. Our new employee-led fundraising initiative focuses on providing grass-roots support to organisations close to our colleagues' hearts with colleagues nominating those charities local to them, to receive donations. Our 'Transforming our spaces' programme to turn substation grounds into usable spaces to brighten communities has also been a great local initiative that we are delighted to see make a difference.

Engaging with our customers and stakeholders

We are driven by the needs and requirements of our customers and other stakeholders. The past year has seen us continue to engage with customers and stakeholders across our region both in respect of the activities that we are planning to take place during our existing price control, RIIO-ED1, as well as increasingly looking forward to planning for our next price control, RIIO-ED2, which will run from 2023 for five years.

The Chief Executive Panel has been a success in bringing together key senior-level stakeholders. We are also pleased to have appointed independent chairs for our other panels covering sustainability, and consumer vulnerability.

This year saw us set up our Customer Engagement Group, a new independent group who will challenge us as we put together our next business plan. We were one of the first DNOs to set up the group, which has now met every month since May 2019, and they have already provided us with some good constructive challenge to our plans. We look forward to working closely with them over the coming year.

As always, there will be a lot to deliver as our successes continue to raise expectations, our role in decarbonisation grows, and yet the pressure on bills remains. For the first time our engagement programme also includes future customers - a key development and reminder that the decisions we make in the next year,

based on input from customers, will have a profound effect on our region for years to come.

We finish the financial year with the country under lockdown due to coronavirus. Whilst many businesses are forced to close, we continue to provide the essential service that we deliver every day of the year, highlighting the absolutely critical role we play in keeping power flowing for the North West. As our revenues are collected, in-part, based on the demand over the network, the economic impact of coronavirus has resulted in a short-term reduction in cashflows. To the extent that we do not collect all our allowed revenues in the year, the regulatory framework adjusts collections in future years, and will not impact our ability to operate. Further details can be found in Going Concern and Viability Statement sections of this report.

Finally, I would like to thank all of our employees, and the trades unions that represent them, who have continued to work to secure our critical infrastructure during these most challenging of times.

Peter Emery

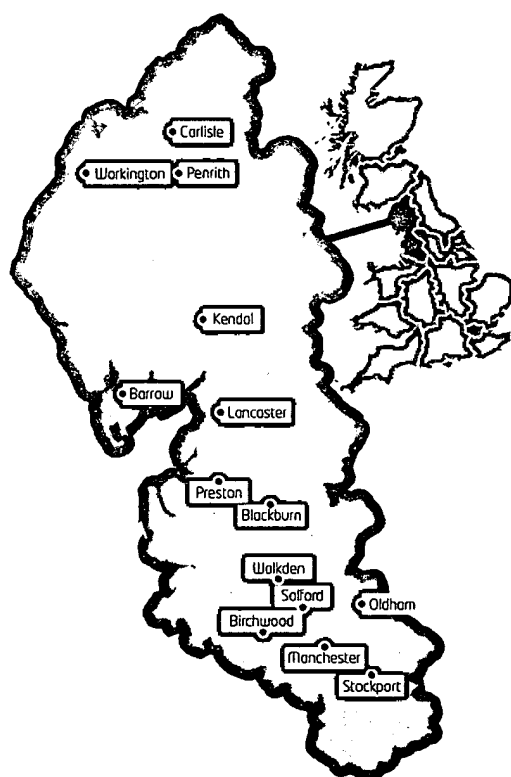
Chief Executive Officer

Strategic Report

Electricity North West Limited ("ENWL" or "the Company") is a private limited company registered in England and Wales, ultimately owned by investors composed of a fund advised by Equitix, a consortium led by KDM Power Limited and Swingford Holdings Corporation Limited, as shown in Note 30.

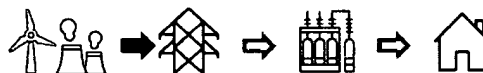
Company Background

Electricity North West Limited is the electricity distribution network operator for the North West of England.



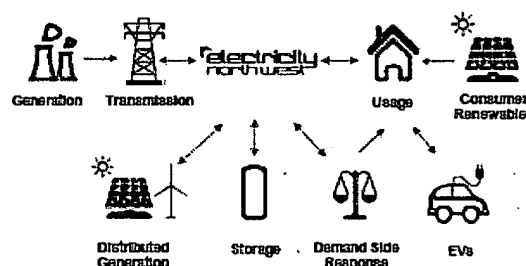
The Company serves approximately 5 million customers at 2.4 million domestic and industrial locations, has circa 1,900 employees and provides a safe and reliable electricity supply, 24 hours a day, seven days a week.

We own, invest in, operate and maintain the network of poles, wires, transformers and cables which carry electricity from both the national grid and locally connected generation to homes and business across the North West, together with the increasingly important telecommunications network that controls the network 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 and storage.



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 the Office of Gas and Electricity Markets (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 £87 per home for the year ended 31 March 2020; this compared to a national average customer bill impact of £93 per home.

Strategic Report (continued)

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 RIIO-ED1 regulatory 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-ED2 which will govern the next price control period, from 2023 to 2028.

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

COVID-19

The COVID-19 pandemic had a limited impact in the financial year being reported on, although it continues to have an impact on our operations at present. As we are deemed a critical service provider by the UK Government, we are required to continue to deliver our essential service to customers. The provision, maintenance and improvement of power supplies to the public over the lockdown period, whilst many are in self-isolation, is more important than ever, particularly for the most vulnerable. To meet this imperative, we rapidly deployed our well-practised incident management processes to reorganise our activities and to continue to operate at the levels of service required, both being cognisant of the increased impact of planned interruptions on our customers and the need to keep our people and the public safe and well.

We continue to monitor the situation closely, and to adapt and respond appropriately. We will continue to ensure that we play our part in supporting our communities through these unprecedented times.

Supporting our colleagues

Our priorities in dealing with the exceptional challenges posed by COVID-19 are ensuring the safety of our colleagues and customers whilst maintaining the reliability of supply.

We have taken steps to protect those of our colleagues who are considered by government to be particularly vulnerable to the effects of the virus. All employees, whose roles permit them to do so effectively, are working from home, and we have significantly increased our IT and other processes to support this. For our colleagues who work in the field, we have

Strategic Report (continued)

COVID-19 (continued)

introduced strict safety and hygiene procedures, with social distancing measures and use of additional personal protective equipment where this is appropriate. For those employees who have not been able to work effectively from home, and to facilitate the return of others in due course, we continue to adapt and introduce new measures to ensure we keep our colleagues safe in our offices and depots

The commitment shown by our colleagues to the business and our customers throughout the pandemic has been exceptional. At the same time, we do recognise the impact that these unprecedented times can have of wellbeing, especially mental wellbeing. In addition to maintaining regular contact with colleagues using video meetings, we continue to support colleagues through our mental wellbeing support mechanisms, including our Employee Assistance Programme which is available to all employees.

Maintaining supplies

In line with our role as an essential service provider, we have continued throughout the pandemic with our essential maintenance of the network, albeit with a view to reducing the length of planned supply interruptions on Customers, as well as responding to power cuts. Our robust business continuity plans have enabled us to respond to the impact of the pandemic quickly and effectively.

During the pandemic, it has been vital that our engineers carry out maintenance and inspections on the power network, to ensure the resilience of our network that we will all need over the coming weeks and months.

We have reviewed our planned programme of essential work and assessed all work on a case-by-case basis to limit the number and impact of planned interruptions. Where possible, we have limited these planned interruptions to last no longer than five hours and the provision of temporary generation where appropriate.

We continue to work closely with Government and Ofgem as well as the industry body, the Energy Networks Association, to ensure a consistent industry-approach.

Supporting our customers and communities

As we normally do 365 days a year, throughout the pandemic we have continued to respond to issues across the network 24 hours a day, 7 days a week, to keep power flowing, including responding to power cuts, wherever and whenever they happen.

We know many of our customers will be facing difficult situations, and continue to provide additional support to those who most need it through our Priority Service Register, which gives free additional support in the event of a power cut. We are also asking any self-isolating customers if they require any help, such as food packages, and, with their permission, passing their details onto trusted partners or befriending services.

Although customers do not pay their bills directly to us, our customer service teams are working hard to direct customers to the help available from their Electricity Suppliers.

Our expertise led us to be chosen to deliver the increased electricity capacity required for the Manchester Nightingale hospital, the region's specialist field hospital needed to respond to the Coronavirus outbreak. We are proud to have helped the Government, the NHS and our community in this work, which we provided without charge.

Our colleagues have continued to show this commitment to the communities we serve, with a number of local initiatives including collecting food and supplies for local foodbanks and hospitals and working in partnerships with the charities, such as the Bread and Butter Trust, to deliver food bundles to families in our region.

Maintaining financial resilience

Our revenues are collected, in-part, based on the demand over the network. With the lockdown, this has naturally fallen, with a short-term reduction in cashflows. To the extent that we do not collect all our allowed revenues in this year, the regulatory framework adjusts collections in future years,

Strategic Report (continued)

COVID-19 (continued)

and therefore this will not have a lasting economic impact on us.

As our cash is collected from energy suppliers, rather than end customers, our exposure to bad debts is more indirect. We continue to work, at the request of Ofgem, with the Industry to implement cash payment mechanisms that support liquidity of the industry, recognising that many customers will be facing financial difficulty.

Our funding position continues to be strong although naturally we are carefully monitoring our liquidity and working capital. As at 31 March 2020, ENWL had £51m of available cash and £20m available but undrawn bank facilities, representing available liquidity of £71m. There is also headroom against all compliance ratios and there are no re-financing obligations due in the next 12 months.

In assessment of the significance and fast developing impact of COVID-19, the Company has considered a number of financial scenarios including the impact of revenue demand projections, supplier payment deferrals, financial performance including incremental operating costs, liquidity management and ratio compliance. These scenarios also consider a number of mitigations that can be deployed including the deferral of capital expenditure and payment of dividends.

Consideration has been given to these scenarios by the Directors in making the going concern and viability assessments and in determining any possible impairment of the Company's assets.

The impact of COVID-19 has been considered in arriving at the value of assets held on the balance sheet at 31 March 2020. Factors considered include the impact of the non payment of debt, for which no adjustments have been made as their values are supported by the cash collected since the year end date, and in valuations of financial instruments and

pension assets. The pension asset valuations have been reviewed by the Company and the Company's actuaries in respect of the significant movements in the financial markets during March. There is, as would be expected, an increased level of uncertainty on these valuations being reported by the professional valuers, in particular in respect of the property valuations as at 31 March. The property assets total £146m of the £1,292m pension assets.

The Board continues to monitor the situation closely, with flexible plans in place to support short term liquidity and ensure the long term stability of the Company.

Other External Factors

Ofgem consultation on the RIIO-ED2 framework is underway. Ofgem's statements on RIIO-ED2 clearly reflect the importance of the electricity distribution sector in enabling the transition to a low carbon economy and also acknowledge the evolution of DNOs to perform Distribution System Operations (DSO) as part of this transition. The next two years will see Ofgem decide on many of the aspects of the RIIO-ED2 price control framework which are to be developed to meet these and other strategic challenges. We continue to engage in, and influence, the RIIO-ED2 process to meet the needs of our customers and other stakeholders.

We also monitor the continuing environment of political and economic uncertainty. With the decisive election result in 2019, there is reduced political uncertainty. Although the outcome from Brexit remains unknown, this is expected to have a limited direct impact aside from a modest increase in stock levels to manage supply chain risk, which has proved helpful in managing the COVID-19 crisis.

Whilst the amount of revenue that we are permitted to collect is determined by Ofgem, the actual amount collected in any given year is significantly driven by demand over the network, with under/ over collections adjusted in subsequent years. The lockdown related to COVID-19 has reduced demand in the early weeks of our financial year to 31 March 2021 by around 20%, which will have a temporary

Strategic Report (continued)

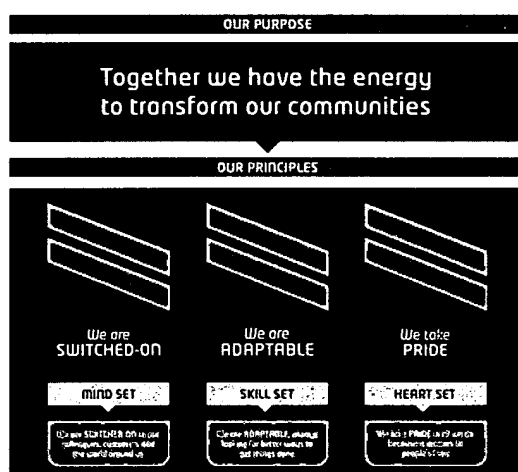
Other External Factors (continued)

impact on cash collections. As the country returns to more normal life we expect to see a significant amount of this demand return.

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.



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. This Purpose is embedded within our business and helps 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 principles are now a well-established touchstone for behaviours 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**

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 remain 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 2020, 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 2020 with a lost time injury frequency rate 0.024 (2019: 0.047) having had just two lost time injuries in the year (2019: 4). This contrasts to 2017 when we had seven lost time injuries and reflects the sustained improvement since we embarked on our safety initiative. The total recordable injury rate was 0.13 (2019: 0.13).

Strategic Report (continued)

Purpose, principles and corporate goals (continued)

Operational safety (continued)

In the year to 31 March 2021 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 learnings obtained through the safety observations and positive challenge reports, leading indicators of safety performance. As our safety journey continues, we are increasingly focused on the quality of, and learning from, safety observations and positive challenges, rather than focusing on the volume of these. Safety observations in the year were recorded at 11,621 (2019: 12,250), plus 2,048 positive challenges (2019: 1,580).

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 investment programme and the associated asset risk management policies which define the programme scope. Safety related investments are reported quarterly to the Board.

During the year ended 31 March 2020 the Company made significant progress in further reducing the risks associated with rising and lateral mains in multi occupancy premises. We have now fitted smart fuse technology in all the buildings in our region identified as highest risk.

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. To achieve our environmental objectives, we monitor environmental related investments to ensure we are on track.

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 2014/15 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, having been reduced by 26% from 2014/15 levels to 18,051 tCO₂e in the year ended 31 March 2020. In addition to this reduction, our CLASS innovation has reduced carbon-based generation in the economy, saving an estimated 2,424 tCO₂e.

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 carbon reduction plan 'Leading the North West to Zero Carbon' sets out our own challenging plans to support this change.

Recognising our role, we have made two depots and two substations carbon neutral during the year, using a range of low carbon technologies that we can use as exemplars to other businesses across the region.

We are rolling out electric vehicle charging points at all of our depots and incentivising our colleagues to change to electric vehicles, as well as helping local authorities and businesses across the region to understand how they can support the mass adoption of this technology.

Because the transition to carbon neutrality is as much about behavioural change as it is about technologies, we will become the first silver accredited carbon literate Distribution Network Operator. We are currently rolling out carbon literacy training to all of our

Strategic Report (continued)

Safety and Environment (continued)

leadership team to ensure our people understand how they can reduce their own carbon emissions both at work and at home.

Our impact is also visual. During the year the Company undergrounded 7.2km of overhead lines and removed 91 poles to improve visual amenity, working with regional stakeholders to identify the schemes of most benefit to our communities, whilst recognising the increase in customer bills that this causes.

Reliability

As we are ever more dependent on electricity, customers say that “keeping the lights on” remains one of their top priorities. 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), with both reliability measures improving in the year.

In the year ended 31 March 2020, the average number of interruptions per 100 customers (CIs) continues to be industry leading, and the best level the Company has ever achieved, at 27.8 (2019: 33.7) 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 2020 was 27.2 (2019: 33.0), which outperformed the target of 43.0 set by Ofgem and was also a Company best-ever performance.

The reliability of the network has been improved 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 99.995%. We continue to focus

on improving 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 by some. 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 aim to reduce the numbers of worst served customers, with the number of customers meeting this Ofgem definition being 268 in the year ended 31 March 2020 (2019: 135). Although we have seen an increase in numbers over the year, we expect to achieve our target of having no customers meeting the definition of ‘worst served’ by 2023.

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 2020, a total network investment programme of £88.8m was delivered (2019: £104.7m). The current network has been installed over many decades and a significant proportion of the programme relates to replacing existing equipment at, or approaching, the end of its life with modern equivalents.

Innovation is 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. During the year,

Strategic Report (continued)

Reliability (continued)

we were awarded £1.2m from Ofgem for discretionary awards (Smart Street and Respond) and a successful innovation roll out mechanism bid of £18m to transfer the Smart Street project to a wider range of customers.

Customer

Delivering excellent customer service is a priority for the Company. Customer satisfaction levels have improved year-on-year throughout RII0-ED1, achieving an overall score of 88.5% in 2020 (2019: 86.5%), ahead of our internal target of 88.3% and a highest ever score for the Company. The relative ranking among the DNOs was 12th out of 14 (2019: 12th) with all DNOs showing very tightly distributed performance.

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 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 2020, 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 481,000 customers this year (2019: 520,000) which exceeded 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.

The number of complaints we receive has reduced significantly during the year, with complaint volumes down 32% compared to the prior year. 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 2.00 (2019: 2.16), with 84.0% of complaints resolved in 24 hours (2019: 82.1%), 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.

Our continued focus on Guaranteed Standards of Performance for Connections during the year has driven a further reduction in the number of failures. However, 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.

Strategic Report (continued)

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 wider levels of employment for the region. We are committed to providing secure, long-term employment and career development opportunities for our employees.

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

Our 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 development of 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 latest survey in October 2019 had an overall employee agreement rate of 76.1%, increasing from 74.9% in April 2019, and 69.4% in September 2018. There is a demonstrable upward trajectory in employee agreement scores and we have beaten our target of 75% agreement in the latest survey.

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

During the year there has been a focus on our diversity and inclusion programme, working hard to ensure that our workforce is more representative of the communities we serve, with a particular emphasis on encouraging female representation across the business. Working with our local communities, including partnerships with local mosques, has also seen a rise in black, Asian and minority ethnic people making apprenticeship applications.

We are committed to rewarding our colleagues equally, regardless of gender. More information on our gender pay gap reporting is available at www.enwl.co.uk.

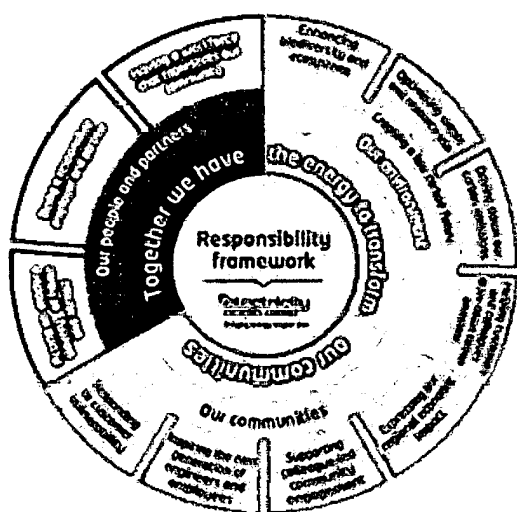
The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, equal consideration is given to applicants with disabilities in the Group's employment criteria. The business will modify equipment and 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.

Strategic Report (continued)

Corporate Social Responsibility

Our Responsibility Framework

Following its launch last year and now embedded within the business our Purpose-Led Responsibility Framework articulates the Company's Corporate Social Responsibility Strategy. The Framework 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.

It has been informed by the requirements of wider external Environmental, Social and Governance (ESG) benchmarks and has been adopted and brought to life by our colleagues.

Highlights from the strategy include:

In **our people and partners** section, we are proud to have introduced a step change in our mental health support programme and a colleague-led diversity and inclusion steering group to support the implementation of our policy to ensure we are working towards having a workforce which reflects the

communities which we serve. This year the Company has also become a Real Living Wage employer and are working with our suppliers to ensure that they also work towards it, ensuring fair pay for all our colleagues and partners.

In **our communities** section, our colleague-led approach to fundraising has seen our eleven local teams support almost 100 charities and local community organisations and continue to develop effective mechanisms to support consumer vulnerability and to prevent fuel poverty through targeted partnerships based on our social data mapping.

In **our environment** section, the Company has committed to an ambitious plan to tackle our operational carbon footprint. We have continued to engage with local schools and science festivals to support electricity and STEM (science, technology, engineering and mathematics) subjects. This year we have introduced a Transforming our Spaces programme, which has brought wildflower planting to nine of our substations that were identified by our colleagues and community, increasing local amenity value and biodiversity.

Responsibility Benchmarks

We have benchmarked our Responsibility approach against the Business in the Community (BITC) Corporate Responsibility Index for a number of years. This year BITC have introduced a new Tracker, which the Company has participated in to continue to inform our future business improvement in this area.

We also assess our responsibility performance against the Global Real Estate Sustainability Benchmark (GRESB). In 2019/20 we achieved a score of 76% (2019: 81%), maintaining our (maximum) five-star rating. We are proud that we hold 3rd position for those global network companies benchmarked, an increase from 4th last year.

Strategic Report (continued)

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.

This year we have continued strong stakeholder engagement during RIIO-ED1 with our advisory panels and were one of the first DNO's to appoint our Customer Engagement Group (CEG) to provide oversight and challenge to our RIIO-ED2 engagement programme.

Ofgem has stated that it is committed to giving customers a stronger voice in setting outputs and shaping and assessing business plans. The CEG has met twelve times throughout the year and we welcome the opportunity to work with the CEG over the coming years to demonstrate how insight from stakeholder engagement is being used to inform our RIIO-ED2 Business Plan. The CEG will also fulfil the oversight function for all network reinforcement decisions in line with the requirements of the Department for Business, Environment and Industrial Strategy (BEIS).

This year the Company has undertaken a best practice review, learning from stakeholder engagement in the water industry. We have also completed research to understand how to best engage with our stakeholders, how to segment our stakeholders and understand their priorities before developing our RIIO-ED2 Business Plan.

We have also continued to embed and enhance stakeholder engagement for RIIO-ED1 working closely with our Consumer Vulnerability, Sustainability and Chief Executive Advisory Panels. We have introduced independent Chairs for our consumer vulnerability and sustainability panels and working with them, have introduced new members to strengthen strategic involvement in key areas.

These panels and our three Regional Advisory Panels, held annually in Greater Manchester,

Lancashire and Cumbria have helped inform our Executive team and business decision-making.

The transition to the low carbon economy and support for vulnerable consumers continue to be priorities for our stakeholders. This is reinforced by our RIIO-ED2 consumer research along with reliability of supply and value for money. This insight will be critical to informing our emerging Business Plan as we progress to the next stage of willingness to pay testing.

To support adherence to these initiatives, the Company has engaged auditors for a non-financial assurance of its Stakeholder Engagement and Customer Vulnerability Submission and its commitment to Accountability Principles for Sustainable Development (AA1000APS).

Strategic Report (continued)

Section 172 Statement

Introduction

Throughout this Annual Report, we discuss how we take into account the likely consequences of long-term decisions; understand the importance of engaging with our employees; the need to foster relationships with stakeholders; understand the impact of our operations on the communities in our region and the environment we depend upon; attribute importance to behaving as a responsible business and the desirability of maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

The impact of the COVID-19 pandemic on the operations and finances of the business, along with the actions taken to support our employees and communities through these unprecedented times is discussed on pages 6 to 8 of the Strategic Report.

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of Electricity North West Limited consider, both individually and together, that they have acted in a way they consider to be in good faith and would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in decisions taken during the year ended 31 March 2020. In particular, this can be demonstrated by reference to our RIIO-ED1 'Well Justified Business Plan' for the period 2015-2023 and our plans for RIIO-ED2:

- Our plan was designed to have a long-term beneficial impact on the Company to contribute to its success in delivering a first-class service and ensuring the network is more reliable for customers in the North West of England to 2023 and beyond. We will continue to operate our business in line with our regulatory targets. Our plan is centered around four

key themes: customer service, reliability affordability and sustainability (see our 'Well Justified Business Plan' for 2015-2023 <https://www.enwl.co.uk/about-us/regulatory-information/business-plan/>).

The Directors continue to monitor and approve key strategic decisions to deliver this plan, and to support the transition to a low carbon economy.

Employee engagement and reward

Our employees are fundamental to the delivery of our plan. We aim to be a responsible employer and we are delighted that all our hard work meant we were selected, along with only five other employers, to be the first to move from being a supporter to members of the Greater Manchester Good Employment Charter. Our values resonate with those of the Charter and the membership recognises our efforts in providing good workplace practices and commitment to continually improving employment standards within our organisation and helping others to do the same.

Our business model is to employ directly with over 90% of our workforce permanent members of our team with clear and consistent terms and conditions so our colleagues understand their rights and benefits whilst in employment with us. We do not use zero-hour contracts as we recognise the value to our people of ensuring that they have security of income and are able to manage non-work commitments.

We are proud to be accredited as a Living Wage employer since 2019. Over the next few years, we will be dedicated to using our influence to help and support our contractors and suppliers and other employers in the North West to become Living Wage employers in turn.

Safety is a key priority, it is embedded in everything we do as a business. Our Safety Output delivers absolute compliance with all relevant legislation and regulation - see Chief Executive Officer's Statement and Strategic Report. We have dedicated Occupational Health partners, health surveillance, health

Strategic Report (continued)

Section 172 Statement (continued)

checks and both company-funded and voluntary medical plans, discounted gym memberships and dental care to help our employees stay physically healthy and support them if they become unwell. In 2018 the Company launched a new approach to mental wellbeing and we were recognised as a Time to Change employer, with a focus on tackling discrimination and stigma on mental health in our workplace. Guidance and support for managers was rolled out and we had 50 volunteers step forward to become Wellbeing Champions. We have bought in Cognitive Behavioural Therapy and we are developing partnerships with mental health charities which can support the work we want to do. Our Mental Health Steering Group is led by one of our Executive Team and drives the continual improvement for mental health that we wish to achieve as an organisation for our people.

We work closely with our four recognised Trade Unions; Unite, Prospect, Unison and GMB, and consult and engage with them in partnership. They are a key means of engaging with our people, but we also undertake employment surveys twice a year, where individuals can anonymously rate our performance on a wider range of issues, which in turn informs and influences the work we do.

Each year our Chief Executive and members of the Executive Leadership team undertake a roadshow, where they visit every depot and office to deliver updates on the company performance, our plan for the year ahead and invite questions and engagement direct from our employees. Recognition and reward are also fundamental to how we engage with our people, highlighting our purpose and principles. Through our spotlight awards we recognise three individuals and one team every month that have gone above and beyond for their colleagues and for our communities.

We also make significant investment in training and development of employees and in developing managers into leaders.

We have a dedicated Steering Group, led by a member of the Executive Team which focuses on addressing the diversity challenges we have as a business and as a sector. We have established partnerships with six local schools and two local mosques to raise awareness of what we do. We are a Forces Friendly employer, we have signed the social mobility pledge and we are a disability confident employer. We are working incredibly hard to encourage those from a diverse range of backgrounds to potentially consider us as a future employer and for us to become representative of the communities we serve.

Engagement with suppliers and customers

Our plan was informed by extensive engagement with customers, enabling us to gain an understanding of their views and priorities. We have created an independent customer engagement group to ensure our future business plans address the needs and preferences of our customers and puts stakeholder needs at the heart of our decision-making.

We also aim to act responsibly in how we engage with our suppliers and regulators which are integral to the successful delivery of our plan. We operate with openness and transparency to develop a first-class supply chain; one that is high performing, ethical and safe, whilst ensuring human rights are adhered to and supporting a sustainable environment. We aim to conduct all of our business relationships with integrity and expect the same from our suppliers. We work closely with a range of suppliers and contractors from many different countries, all of whom are required to adhere to our supply chain charter that is available at www.enwl.co.uk/about-us/information-for-employees/our-supply-chain-charter/

Low carbon initiatives

Our plan takes into account the impact of the Company's operations on the community and environment and our wider societal responsibilities, and in particular how we impact the regions we serve in the North West of England. We are determined to make a positive contribution to our environment and

Strategic Report (continued)

Section 172 Statement (continued)

our 'Leading the North West to Zero Carbon' plan sets out how we are investing £63.5million between 2019-2023 to drive down our carbon emissions and help business, our customers and our colleagues to do the same. Some of the work delivered so far is summarised below.

In 2019 we became the region's first company to purchase two state-of-the-art electric mini diggers which have zero exhaust emissions. Each vehicle reduces our carbon emissions by 65 tonnes CO₂ equivalent (tCO₂e) a year. Since then we have purchased two more. As well as the environmental advantages associated with reduced carbon emissions, they are also five times quieter than traditional diesel vehicles which reduces noise disturbance for customers and allows for better communication between our engineers; this is safer for them and the public. We are able to charge these vehicles at our depots using electricity generated from renewable sources.

To support and encourage colleagues to make the change to electric vehicles (EVs), we are investing in charging infrastructure and incentivising colleagues to adopt EVs. 98 new EV charge points will be installed at our sites for company and private vehicle use to add to the 15 we already have in place. We are also working with the landlords of the sites we lease to make EV charging available there.

Electricity for our operational substations and most of our offices and depots is 100% renewable and is generated locally at Walney Wind Farm, off the coast of Cumbria, saving 5,492 tCO₂e per year. However, our aim is to achieve 'net zero carbon' by transforming our estate to be as energy efficient as possible, and to install onsite generation to meet most of our own energy demand. Starting with the completion of two zero carbon exemplar depots in 2020, we will test and demonstrate a number of solutions to assess their suitability and relative benefits, which will help other businesses in the North West understand what is achievable. More information can be found

at www.enwl.co.uk/zero-carbon/leading-the-north-west-to-zero-carbon/

Responsible business

As a Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours (see Corporate Governance Report). In doing so, this will contribute to the delivery of our plan. The intention is to grow and maintain our reputation, through both the construction and delivery of our plan, in a way that reflects our responsible behavior.

As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan.

COVID-19

The impact of the COVID-19 pandemic is discussed in detail within the Strategic Report. We have continued to provide support to our employees and communities through these unprecedented times as we continue to deliver our essential services to customers. No employees have been furloughed.

Strategic Report (continued)**Anti-corruption and anti-bribery**

At ENWL 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:

Turnover

2020 - 139 leavers (2019: 178 leavers)

Training courses delivered

2020 – 309* (2019: 316*)

Training course attendees

2020 – 8,729 (2019: 9,012)

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

Workforce composition at the year end 31 March:

	2020	2020	2019	2019
	Males	Females	Males	Females
Total employees	1,442	486	1,420	482
	75%	25%	75%	25%
Senior managers	34	11	35	15
	76%	24%	70%	30%
Executive leadership team*	7	1	7	1
	87%	13%	87%	13%
Non-Executive Directors	9	2	9	2
	82%	18%	82%	18%

* The Executive leadership team figure includes two Executive Directors.

Environment

We take our responsibility for the protection of the environment affected by our activities very seriously; indeed, it is one of our core values. To this end, we are committed to achieving the highest possible standards of environmental performance.

We minimise emissions and spills, and are investing to remove potentially damaging equipment, and enhance the environment by undergrounding overhead cables.

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

- 17.1 km of fluid filled cable was removed and replaced with modern equivalent.
- Overall leakage of oil from cables was 21,616 litres which is a significant improvement over the previous year's performance of 55,829 litres. This meets the target of less than 30,000 litres per year by the end of RIIO-ED1 target and will need to be maintained or improved further.
- 7.2 km of overhead line in National Parks and Areas of Outstanding Natural Beauty were replaced with 8.6km of underground cable.
- In the previous financial year, we launched our 'Leading the North West to Zero Carbon' plan, which sets out how we will spend £63.5m in RIIO-ED1 decarbonising

Strategic Report (continued)**Environment (continued)**

our own operations, and helping businesses, customers and colleagues across the region to do the same.

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 18,051 tCO₂e (tonnes of CO₂ equivalent), a 12% reduction on the prior year figure of 20,417 tCO₂e.

During the year the Company continued to implement energy efficiency measures, through the refurbishment of its buildings, and the replacement of fleet vehicles and company cars with more efficient vehicles. We have also increased the number of electrical vehicle charging points across our depots.

There has been an increase of 87% for emissions of SF₆. However, over 50% of the emissions of SF₆ were from the first four months of the year, after which the approach to leaks was adapted and losses started to reduce.

A total of 18,957,071 kWh of electricity, equal to 4,845 tCO₂e, was purchased by the Company for its own use, including for the purposes of transportation. The tCO₂e was calculated by multiplying the total consumption in kWh by the UK Government Conversion Factors for greenhouse gas emissions.

There was 39,515,185 kWh of energy consumed from the combustion of gas and consumption of fuel for operational transport. This is calculated by multiplying the litres of gas oil and diesel consumed by the conversion

factor provided in the UK Government Conversion Factors for greenhouse gas emissions.

The Group's annual emissions are equivalent to 8.77 tCO₂e per employee.

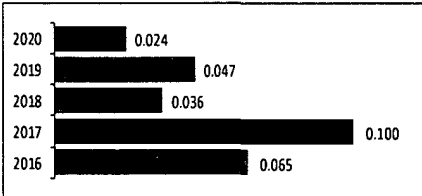
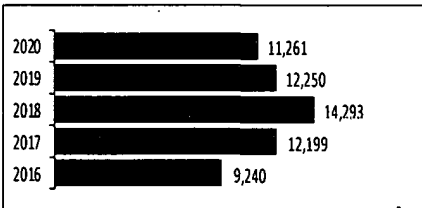
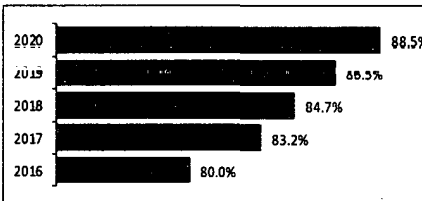
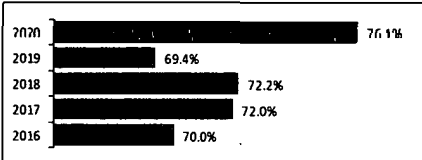
Electricity losses are measured as the difference between energy entering the network (generation) and energy exiting the network (demand). Whilst it is impossible to eliminate these losses, we do take steps to minimise them and we will be taking measures to reduce losses as part of our commitment to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

	2020 tCO ₂ e	2019 tCO ₂ e
Scope 1		
Operational transport	7,393	7,870
Business transport - road	1,343	1,319
Fugitive emissions	1,788	954
Fuel combustion	2,560	4,435
	13,084	14,578
Scope 2		
Buildings energy usage	4,845	5,773
Scope 3		
Business transport - rail	22	22
Business transport - air	100	44
	122	66
Business Carbon Footprint (excl. losses)	18,051	20,417
Electrical losses ¹	293,794	347,010
Business Carbon Footprint (incl. losses)	311,845	367,427

¹ 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).

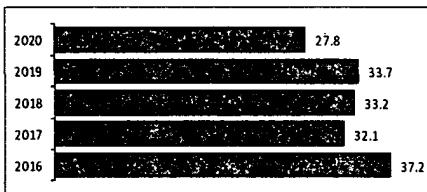
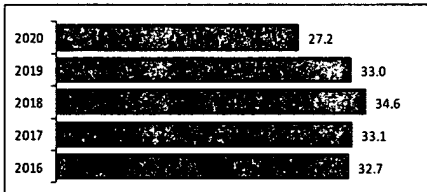

Strategic Report (continued)

Key Performance Indicators

	KPI	Definition and comment	Performance												
Safety	Lost time incident frequency rate	<p>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.</p> <p>Performance: During the year the Company saw a reduction in lost time incidents, with two employee lost time incidents and none involving contractor employees (2019: four). The corresponding lost time incident frequency rate was 0.024 (2019: 0.047).</p>	0.024  <table><thead><tr><th>Year</th><th>Frequency Rate</th></tr></thead><tbody><tr><td>2020</td><td>0.024</td></tr><tr><td>2019</td><td>0.047</td></tr><tr><td>2018</td><td>0.036</td></tr><tr><td>2017</td><td>0.100</td></tr><tr><td>2016</td><td>0.065</td></tr></tbody></table>	Year	Frequency Rate	2020	0.024	2019	0.047	2018	0.036	2017	0.100	2016	0.065
	Year	Frequency Rate													
2020	0.024														
2019	0.047														
2018	0.036														
2017	0.100														
2016	0.065														
Safety observation reporting	<p>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.</p> <p>Performance: In the year, the number of safety observations reported was 11,261 (2019: 12,250), well above the target of 8,000. During the year we have continued to place greater emphasis on improving the quality and level of 'behavioural challenge', rather than simply overall volumes.</p>	11,261 safety observations  <table><thead><tr><th>Year</th><th>Count</th></tr></thead><tbody><tr><td>2020</td><td>11,261</td></tr><tr><td>2019</td><td>12,250</td></tr><tr><td>2018</td><td>14,293</td></tr><tr><td>2017</td><td>12,199</td></tr><tr><td>2016</td><td>9,240</td></tr></tbody></table>	Year	Count	2020	11,261	2019	12,250	2018	14,293	2017	12,199	2016	9,240	
Year	Count														
2020	11,261														
2019	12,250														
2018	14,293														
2017	12,199														
2016	9,240														
Customer	Overall customer satisfaction	<p>Definition: The overall customer satisfaction score is a composite score from Ofgem surveys that assesses levels of customer satisfaction for connections quotations and delivery, interruptions and general enquiries.</p> <p>Performance: Overall satisfaction improved to 88.5% for the year, an all-time high and up from 86.5% in the prior year. It reflects the ongoing focus on improvement actions.</p>	88.5%  <table><thead><tr><th>Year</th><th>Score (%)</th></tr></thead><tbody><tr><td>2020</td><td>88.5%</td></tr><tr><td>2019</td><td>86.5%</td></tr><tr><td>2018</td><td>84.7%</td></tr><tr><td>2017</td><td>83.2%</td></tr><tr><td>2016</td><td>80.0%</td></tr></tbody></table>	Year	Score (%)	2020	88.5%	2019	86.5%	2018	84.7%	2017	83.2%	2016	80.0%
Year	Score (%)														
2020	88.5%														
2019	86.5%														
2018	84.7%														
2017	83.2%														
2016	80.0%														
People	Employee engagement	<p>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'.</p> <p>Performance: Overall employee engagement achieved 76.1% for the year, an increase from 69.4% in the prior year.</p>	76.1% Climate score  <table><thead><tr><th>Year</th><th>Score (%)</th></tr></thead><tbody><tr><td>2020</td><td>76.1%</td></tr><tr><td>2019</td><td>69.4%</td></tr><tr><td>2018</td><td>72.2%</td></tr><tr><td>2017</td><td>72.0%</td></tr><tr><td>2016</td><td>70.0%</td></tr></tbody></table>	Year	Score (%)	2020	76.1%	2019	69.4%	2018	72.2%	2017	72.0%	2016	70.0%
Year	Score (%)														
2020	76.1%														
2019	69.4%														
2018	72.2%														
2017	72.0%														
2016	70.0%														

Strategic Report (continued)

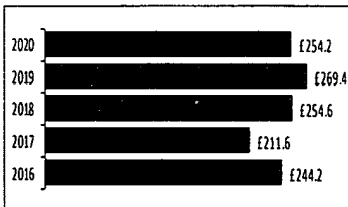
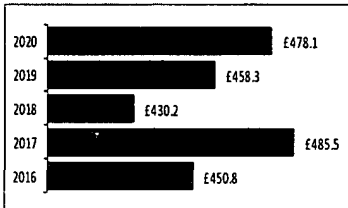
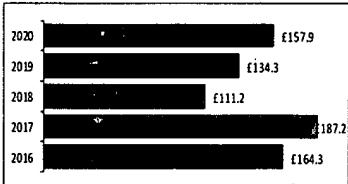
Key Performance Indicators (continued)

	KPI	Definition and comment	Performance												
Reliability	Customer interruptions (CIs) ²	<p>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. It excludes exceptional events.</p> <p>Performance: The result of 27.8 for the year significantly outperforms the Ofgem target of 46.9. The score reflects a Company best interruptions performance following significant investment in network automation.</p>	27.8 CIs  <table><tr><th>Year</th><th>CIs</th></tr><tr><td>2020</td><td>27.8</td></tr><tr><td>2019</td><td>33.7</td></tr><tr><td>2018</td><td>33.2</td></tr><tr><td>2017</td><td>32.1</td></tr><tr><td>2016</td><td>37.2</td></tr></table>	Year	CIs	2020	27.8	2019	33.7	2018	33.2	2017	32.1	2016	37.2
	Year	CIs													
2020	27.8														
2019	33.7														
2018	33.2														
2017	32.1														
2016	37.2														
Customer minutes lost (CMLs) ²	<p>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.</p> <p>Performance: The result of 27.2 for the year is another Company best-ever performance, improving from 33.0 in the prior year and significantly outperforming the Ofgem target of 42.0.</p>	27.2 CMLs  <table><tr><th>Year</th><th>CMLs</th></tr><tr><td>2020</td><td>27.2</td></tr><tr><td>2019</td><td>33.0</td></tr><tr><td>2018</td><td>34.6</td></tr><tr><td>2017</td><td>33.1</td></tr><tr><td>2016</td><td>32.7</td></tr></table>	Year	CMLs	2020	27.2	2019	33.0	2018	34.6	2017	33.1	2016	32.7	
Year	CMLs														
2020	27.2														
2019	33.0														
2018	34.6														
2017	33.1														
2016	32.7														
Sustainability	Carbon footprint (excluding electrical losses)	<p>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.</p> <p>Performance: Our carbon footprint continues on a downward trajectory, reducing by 12% from the prior year. 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.</p>	18,051 tCO ₂ e  <table><tr><th>Year</th><th>Carbon Footprint (tCO₂e)</th></tr><tr><td>2020</td><td>18,051</td></tr><tr><td>2019</td><td>20,417</td></tr><tr><td>2018</td><td>20,599</td></tr><tr><td>2017</td><td>21,012</td></tr><tr><td>2016</td><td>23,133</td></tr></table>	Year	Carbon Footprint (tCO ₂ e)	2020	18,051	2019	20,417	2018	20,599	2017	21,012	2016	23,133
Year	Carbon Footprint (tCO ₂ e)														
2020	18,051														
2019	20,417														
2018	20,599														
2017	21,012														
2016	23,133														

² The year ended 31 March 2020 figure includes assumptions for exclusion of exceptional events and is yet to be audited by Ofgem.

Strategic Report (continued)

Key Performance Indicators (continued)

	KPI	Definition and comment	Performance												
Financial KPIs	Total Expenditure ³	<p>Definition: Totex is a key financial measure for the business. It is a regulatory 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.</p> <p>Performance: Totex for the year ending 31 March 2020 was £254.2m compared to an Ofgem allowance of £274.4m in outturn prices. Expenditure was lower than the allowance in the year, as we are benefitting from proactive investments made earlier in ED1 to improve cost and incentives performance.</p>	<p>£254.2m</p>  <table><tr><th>Year</th><th>Total Expenditure (£m)</th></tr><tr><td>2020</td><td>£254.2</td></tr><tr><td>2019</td><td>£269.4</td></tr><tr><td>2018</td><td>£254.6</td></tr><tr><td>2017</td><td>£211.6</td></tr><tr><td>2016</td><td>£244.2</td></tr></table>	Year	Total Expenditure (£m)	2020	£254.2	2019	£269.4	2018	£254.6	2017	£211.6	2016	£244.2
	Year	Total Expenditure (£m)													
	2020	£254.2													
2019	£269.4														
2018	£254.6														
2017	£211.6														
2016	£244.2														
Revenue	<p>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 RIIO-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.</p> <p>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 £9.7m (2019: £0.4m). This will be corrected through adjustments in pricing in two years' time.</p>	<p>£478.1m</p>  <table><tr><th>Year</th><th>Revenue (£m)</th></tr><tr><td>2020</td><td>£478.1</td></tr><tr><td>2019</td><td>£458.3</td></tr><tr><td>2018</td><td>£430.2</td></tr><tr><td>2017</td><td>£485.5</td></tr><tr><td>2016</td><td>£450.8</td></tr></table>	Year	Revenue (£m)	2020	£478.1	2019	£458.3	2018	£430.2	2017	£485.5	2016	£450.8	
Year	Revenue (£m)														
2020	£478.1														
2019	£458.3														
2018	£430.2														
2017	£485.5														
2016	£450.8														
Profit before tax and fair value movements (PBTFV)	<p>Definition: PBTFV is the profit before tax of £146m (2019: £87m) adding back the £12m FV loss (2019: £47m loss), per Note 9.</p> <p>Performance: PBTFV has increased to £157.9m (2019: £135m), 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 comparison with allowances.</p>	<p>£157.9m</p>  <table><tr><th>Year</th><th>PBTFV (£m)</th></tr><tr><td>2020</td><td>£157.9</td></tr><tr><td>2019</td><td>£134.3</td></tr><tr><td>2018</td><td>£111.2</td></tr><tr><td>2017</td><td>£187.2</td></tr><tr><td>2016</td><td>£164.3</td></tr></table>	Year	PBTFV (£m)	2020	£157.9	2019	£134.3	2018	£111.2	2017	£187.2	2016	£164.3	
Year	PBTFV (£m)														
2020	£157.9														
2019	£134.3														
2018	£111.2														
2017	£187.2														
2016	£164.3														

³ 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 2019 has been updated to reflect the Ofgem annual submission.

Strategic Report (continued)

Key Performance Indicators (continued)

Financial KPIs	KPI	Definition and comment	Performance												
	Net debt	<p>Definition: Net debt includes the total borrowings of £1,206m (2019: £1,169m) per Note 19, net of cash and cash equivalents and money market deposits of £56m (2019: £23m) per Note 17.</p> <p>Performance: There is no significant movement in the net debt position compared to the prior year.</p>	<p>£1,149m</p> <table><tr><th>Year</th><th>Net debt (£m)</th></tr><tr><td>2020</td><td>£1,149.3</td></tr><tr><td>2019</td><td>£1,145.9</td></tr><tr><td>2018</td><td>£1,150.3</td></tr><tr><td>2017</td><td>£1,096.4</td></tr><tr><td>2016</td><td>£1,090.2</td></tr></table>	Year	Net debt (£m)	2020	£1,149.3	2019	£1,145.9	2018	£1,150.3	2017	£1,096.4	2016	£1,090.2
	Year	Net debt (£m)													
	2020	£1,149.3													
	2019	£1,145.9													
2018	£1,150.3														
2017	£1,096.4														
2016	£1,090.2														
RAV gearing	<p>Definition: RAV gearing is measured as borrowings at nominal value, plus inflation-linked debt accretion where applicable, net of cash and short-term deposits divided by the estimated RAV of £1,896m at March 2020 (2019: £1,820m), as defined by the Financing Agreements.</p> <p>Performance: The RAV gearing is under the targeted Ofgem level of 65%.</p>	<p>62%</p> <table><tr><th>Year</th><th>RAV gearing (%)</th></tr><tr><td>2020</td><td>62%</td></tr><tr><td>2019</td><td>64%</td></tr><tr><td>2018</td><td>62%</td></tr><tr><td>2017</td><td>60%</td></tr><tr><td>2016</td><td>62%</td></tr></table>	Year	RAV gearing (%)	2020	62%	2019	64%	2018	62%	2017	60%	2016	62%	
Year	RAV gearing (%)														
2020	62%														
2019	64%														
2018	62%														
2017	60%														
2016	62%														
Interest cover	<p>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.</p> <p>Performance: Interest cover has increased due to the £21m increase in Operating Profit, with the interest expense (excluding inflation movements on inflation-linked instruments and FV movements) remaining broadly in-line with the prior year.</p>	<p>4.6 times</p> <table><tr><th>Year</th><th>Interest cover (times)</th></tr><tr><td>2020</td><td>4.6</td></tr><tr><td>2019</td><td>4.2</td></tr><tr><td>2018</td><td>3.7</td></tr><tr><td>2017</td><td>5.5</td></tr><tr><td>2016</td><td>4.5</td></tr></table>	Year	Interest cover (times)	2020	4.6	2019	4.2	2018	3.7	2017	5.5	2016	4.5	
Year	Interest cover (times)														
2020	4.6														
2019	4.2														
2018	3.7														
2017	5.5														
2016	4.5														
Capital expenditure	<p>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.</p> <p>Performance: We continue to invest to improve the quality and reliability of the network. The reduction in spend compared to the prior year reflects the phasing of our capital programme across RIIO-ED1.</p>	<p>£218.5m</p> <table><tr><th>Year</th><th>Capital expenditure (£m)</th></tr><tr><td>2020</td><td>£218.5</td></tr><tr><td>2019</td><td>£241.4</td></tr><tr><td>2018</td><td>£218.5</td></tr><tr><td>2017</td><td>£210.5</td></tr><tr><td>2016</td><td>£221.3</td></tr></table>	Year	Capital expenditure (£m)	2020	£218.5	2019	£241.4	2018	£218.5	2017	£210.5	2016	£221.3	
Year	Capital expenditure (£m)														
2020	£218.5														
2019	£241.4														
2018	£218.5														
2017	£210.5														
2016	£221.3														

Strategic Report (continued)

Financial Performance

Overall performance reporting

Base revenue is fixed at the start of 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 or overspend against allowances in earlier years, including incentives or penalties earned for performance. Actual revenues in any given year reflect these adjusted 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 adjusted allowed revenues based upon demand in the year, as well as the impact of forecast variations arising from 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 investments, 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, but 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 (RoRE) (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 75), 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, consumers 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 Regulated Asset Value (RAV) which is essentially equivalent to the net book value of the fixed assets of the business, calculated in regulatory terms. Ofgem assumes that this RAV is financed 65% by debt and 35% by equity, 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% p.a. 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 the RIIO framework. 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).

Strategic Report (continued)**Financial Performance (continued)****Return on Regulated Equity (continued)**

After taking into account the timing of expenditures against the timing of allowances and outputs (referred to as an enduring value calculation), our average post-financing RoRE for the first five years of RIIO-ED1 is at an annual rate of 7.5% on an actual equity basis.

In broad terms, this figure reflects the 6.0% allowed return, with incentives for improved performance adding an additional 2.2% and 1.4% 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 7.5% per annum, real, after tax and interest.

RORE Components Expressed on notional and actual equity basis	ED1 to 2020 £m
Notional equity returns	
Allowed Equity Return	6.0%
Totex outperformance	1.4%
Incentive performance	2.2%
RoRE - Operational performance (notional)	9.6%
Debt performance	(1.1)%
Tax performance	(0.2)%
RoRE (Notional regulatory equity)	8.3%
Adjustment to actual equity	(0.8)%
RoRE (Actual equity)	7.5%

	2020 £m	2019[*] £m	2018 £m	2017 £m	2016 £m
Profit after tax	102.1	71.8	116.3	71.0	117.0
Adjustments:					
RAV	(32.8)	(57.2)	(55.8)	(49.6)	(60.9)
Deferred Taxation	12.4	(6.9)	5.9	(26.1)	(25.6)
Indexation and Fair Value Movements	32.6	70.0	6.0	136.8	50.9
Movement in Other Regulatory Balances	(64.9)	(14.7)	(24.2)	(97.5)	(54.5)
Post - financing return	53.0	63.0	48.2	34.6	26.9
Average return for the RIIO-ED1 period	45.2				
Average RAV balance	1,739.9				
Average debt balance	1,068.7				
RoRE (actual regulatory equity)	7.5%				

**A prior year comparative of RoRE is not provided in the table above as 2020 represents a five-year trailing average and 2019 represents four-year trailing average (2019: 6.2%).*

Strategic Report (continued)

Financial Performance (continued)

Reconciliation of statutory profit to regulatory performance

The 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 adjustments⁴ 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.

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 39%, 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 8.1% to an actual equity return of 7.5%.

⁴ Regulatory adjustments for the year ended 31 March 2020 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.

Strategic Report (continued)**Financial Performance (continued)****Financial reporting measures****Adoption of IFRS 16 'Leases'**

The Group has adopted IFRS 16 'Leases' during the year. IFRS 16 has resulted in an opening reserves adjustment of £0.2m, along with incremental lease liabilities of £5.5m and right of use assets of £5.1m at 31 March 2020. More details of the impact of IFRS 16 can be found in Notes 1 and 20.

Revenue

Revenue has increased to £478m (2019: £458m) during the year, in line with the allowed Distribution Use of System (DUoS) revenue under the RIIO-ED1 price control.

The allowed revenue is recovered against an estimated level of electricity demand across the network. Given the difficulty of predicting this demand each year we end up with either an over or an under recovery against planned revenue. These over or under recoveries are reflected in the Consolidated Statement of Comprehensive Income for the period and will be corrected in future periods through the Ofgem price setting mechanism.

For the year 31 March 2020 there was an over recovery of DUoS revenue of £9.7m against plan before adjustment for RPI indexation (2019: £0.4m over-recovery), reflecting variability against forecast in consumption volumes year on year. This over recovery will be corrected through adjustments in revenues to be received in two years' time, in accordance with Ofgem's methodology.

Operating profit

Operating profit has increased to £212m (2019: £191m) primarily as a result of the increased revenue detailed above.

Profit before tax and fair value movements

Profit before tax and fair value movements has increased to £157m (2019: £134m), mainly as a result of the increased operating profit detailed above.

Taxation

Corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the period. The deferred tax is calculated based on the expected future tax rates.

The overall taxation charge for the year has increased from £15m in 2019 to £44m in 2020, mainly as a result of an increase in the deferred tax rates from 17% to 19%.

Dividends and dividend policy

The Group's dividend policy is to distribute the maximum amount of available cash, whilst maintaining its targeted 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 2020, the Company proposed and paid a final dividend for the year ended 31 March 2019 of £17m, paid in June 2019, and an interim dividend of £21m that was paid in December 2019. In the year ended 31 March 2019 the Company declared 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. The Directors have not proposed a final dividend of for the year ended 31 March 2020 given the COVID-19 situation.

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 2020 was £5,226m (2019: £5,014m), with a net book value of £3,362m (2019: £3,260m). In the year ended 31 March 2020, the Group invested £217m (2019: £232m) in property, plant and equipment in a large number of projects to reinforce and improve the network, and £8m (2019: £9m) in IT systems.

Strategic Report (continued)

Financial Performance (continued)

Property, plant and equipment and software (continued)

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, has a net deficit at 31 March 2020 of £26m (2019: £33m surplus). The main reasons for the movement are reductions in scheme asset values, changes in financial and future mortality assumptions, and changes driven by the impact of pensioner buy-in during the year.

During the year, the scheme completed a pensioner buy-in for around 80% of the its pensioner liabilities. This has the effect of removing longevity and investment risks for this part of the membership. The gross liability remains recognised on the balance sheet, with an equivalent insurance asset recognised. The impact of the purchase of the pensioner buy-in has been recognised as part of Other Comprehensive Income in the year.

The most recent triennial funding valuation of the scheme was carried out as at 31 March 2019 and identified a shortfall of £69.5m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2019 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions in the period to March 2023.

Cash flow before financing activities

Net cash inflow before financing activities in the year was £47m (2019: £2m inflow), reflecting both the increased revenue and the decreased asset investment.

Treasury policy and operations

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Board. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available in line with the treasury policy and to maintain the agreed targeted headroom on key financial ratios.

Long-term borrowings are mainly at fixed rates that 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 the conversion of debt instrument raised at fixed rates of interest to RPI-linked cashflows, better to match the Ofgem debt allowance structure. 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).

Cash flows are in sterling, other than sundry purchases of plant denominated in foreign currencies and some assets of the defined benefit pension scheme which are managed by the pension scheme investment managers. The Group has no other material exposure to foreign currency exchange movements.

Liquidity

The Group's primary sources of liquidity are operating cash flows, cash balances and funding raised through external borrowings.

Group budgets for the year-ending 31 March 2021, forecasts to the end of the current price review in 2023 and longer-term forecasts to 2048 are used to assess the liquidity needs of the Group.

Strategic Report (continued)**Financial Performance (continued)****Short-term liquidity**

Short-term liquidity requirements are met from the Group's operating cash flows, cash balances, short-term deposits and unutilised committed borrowing facilities.

As at 31 March 2020, the unutilised committed facilities were £20m (2019: £50m) and, together with £56m (2019: £23m) of cash and short-term deposits, provide short-term liquidity for the Group.

Utilisation of undrawn facilities is with reference to Regulatory Asset Value (RAV) gearing restrictions for the Group. Actual and forecast RAV gearing is monitored by the Board.

Long-term liquidity

Where a liquidity need cannot be met by existing resources as outlined above, for example the refinancing of existing debt or a demand for additional borrowing, the Group treasury function starts the process of raising the required debt at least 12 months ahead of the requirement.

The Group's long-term debt is comprised of a combination of fixed, floating and index-linked debt, taking derivatives into account, 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; ENWL has been 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 in the Financial Investor Relations section of the Company's website www.enwl.co.uk.

Net debt

Net Debt	2020 £m	2019 £m
Cash and deposits	56	23
Borrowings	(1,206)	(1,169)
Net debt	(1,150)	(1,146)

Included within the total borrowings figure are £77m of loans from the parent company North West Electricity Networks plc (NWEN plc), due to mature in March 2023 (2019: £75m) and a £199m loan from an affiliated company ENW Finance plc, maturing in July 2021 (2019: £199m).

Of the external debt, £7.0m (2019: £6.8m) is due to be repaid within the next year, comprising European Investment Bank (EIB) loans that have an amortising repayment profile. £1.9m of leases is due to be repaid within the year.

All other borrowings are repayable after more than one year and include bonds with long-term maturities of £634m (2019: £635m), bank loans of £282m (2019: £253m) and leases of £4m (2019: nil).

Note 19 provides more details on the borrowings.

Derivatives

The Group uses derivatives economically to hedge exposure to fluctuations in market rates over the medium to long term; inflation swaps to convert fixed rate debt to index-linked borrowing. All derivatives relate directly to underlying debt. At 31 March 2020 there were no formal hedging relationships in the Group (2019: same).

The proportion of post-hedging borrowings at fixed, floating and index-linked rates of interest is maintained in line with target levels set in the Treasury Policy and is monitored by the Board, with reference to the projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

Strategic Report (continued)

Financial Performance (continued)

Fair values

The derivatives are accounted for at fair value through profit or loss ("FVTPL"), with fair value movements going through the Statement of Comprehensive Income.

These fair value movements are non-cash and will reverse over the life of the financial instrument, but can be significant and result in material volatility in the Statement of Comprehensive Income.

In the current year, net fair value losses totalling £31m have been recognised in the Statement of Comprehensive Income (2019: losses of £47m), which relates entirely to non-cash movements.

The fair value movements in the year were primarily driven by the significant changes in market expectations of future interest rate and inflation rates.

Additionally, the re-measurement of the defined benefit pension scheme under IAS 19 has resulted in a £74m loss (2019: £41m gain) booked directly to equity.

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 2021 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.
- Assessment of the significance and rapid development of the COVID-19 impact. The Directors have considered a number of financial scenarios including the impact of revenue demand projections, supplier payment deferrals, financial performance including incremental operating costs, liquidity management and ratio compliance.
- Short-term liquidity requirements are forecast to be met from the Group's operating cash flows and short-term deposit balances. A further £20m 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 2021 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.

Strategic Report (continued)

Going concern (continued)

The going concern basis has been adopted by the Directors, with consideration of the guidance given in 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009, together with the updated guidance issued in 2016.

The Board continues to monitor the situation closely, with flexible plans in place to support short term liquidity and long term stability of the Company.

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 considered the impact of the COVID-19 pandemic on operations and liquidity and has also considered the current political environment, including potential changes in future government policy as well as the impact from 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. The Company is in advanced discussions regarding refinancing of inter-group debt that is due to mature in July 2021. 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.

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

Strategic Report (continued)

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.

As a result of these processes together with the information and assurance provided by the day to day internal control processes, the information provided by the Executive Leadership Team of ENWL and the in-depth reporting required by Ofgem, both the Audit Committee of ENWL and the Board are satisfied that the Annual Report and Consolidated Financial Statements taken as a whole, provide a fair, balanced and understandable assessment of the Group's position at 31 March 2020.

Strategic Report (continued)

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 Champions and Co-ordinators.

The Company's approach to risk appetite goes to the heart of achieving our company goals.

The electricity industry is embarking on a journey of unprecedented change. 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 are only accepted when within the risk appetite criteria, and when further mitigation of the risk is not considered cost effective (or is not possible).

Our appetite for risk is measured using a framework which is reviewed annually by the Board. 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.

Risk appetite varies in these areas, but in line with the framework, the Company generally operates within a 'cautious' to 'very cautious' risk range, given that the achievement of the stretching business plan would not be possible

without a level of measured risk taking. In **Sustainability**, a 'very cautious' risk appetite is adopted, given our desire to ensure that the company maintains its reputation for compliance and an ethical way of doing business, as well as the role the Company has in the low carbon transition. Similarly, in relation to **People**, the Company recognises the value of its people and the organisational climate in order to deliver effectively for our customers so a cautious to very cautious approach is adopted. In relation to **Safety**, the Company adopts a risk averse position on the basis that sound working practices that protect our employees and the general public are a key priority for the business and an important part of ensuring that we undertake our activities safely.

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.

Strategic Report (continued)**Risk Management (continued)****Principal risks and uncertainties**

The risk of a widespread outbreak of COVID-19, and the associated disruption to the business, and cyber/physical security threat are considered the most significant risks that we face currently.

	Risk	Mitigations
COVID-19	COVID-19: Certain aspects of ENWL's activities are affected by the impact of Coronavirus/COVID-19 and the mitigation measures put in place by the UK Government.	<ul style="list-style-type: none"> ENWL is recognised as a Critical National Infrastructure provider and is in regular dialogue with both the UK Government and the Regulator to minimise the effect of the mitigation measures on its abilities to provide an essential service to its customers. Building on existing Business Continuity and Emergency plans ENWL began planning for the potential impact of an outbreak in the UK commencing early in 2020, with further steps then taken as the situation evolved. An Executive steering group is in place, chaired by the Director responsible for Business Continuity in the business, and includes representation from across the organisation, including the CEO. Control measures have been implemented to the extent possible to minimise the potential impact of the situation on ENWL's activities and are monitored by this Steering Group.
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.	<ul style="list-style-type: none"> 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.
Customer	Meeting our customers' expectations: Failure to meet the required level of customer satisfaction performance and to achieve output deliverables, costs and efficiencies against the commitments made to our customers in the RIIO-ED1 period.	<ul style="list-style-type: none"> A programme of improvement activities described in more detail on page 12 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.

Strategic Report (continued)**Risk Management (continued)**

	Risk	Mitigations
People	Developing our people: Having an inadequately skilled and experienced workforce to deliver business objectives.	<ul style="list-style-type: none"> Resource and succession plans are in place, which are subject to periodic Executive and Board 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	<ul style="list-style-type: none"> 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. We are corporate members of the Institute of Business Ethics.
Reliability	Cyber and physical security threat: Breach of our security regime and access to key network security systems by an internal/external party.	<ul style="list-style-type: none"> 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. Use of e-learning to promote awareness of Cyber issues for all employees
	Personal data: Breach of regulations relating to data protection and privacy	<ul style="list-style-type: none"> We continue to review and enhance the mitigations in this area, in particular to do with the General Data Protection Regulation (GDPR) requirements.


Strategic Report (continued)**Risk Management (continued)**

Sustainability	<p>Government and regulator policy: The Company is subject to a high degree of political, regulatory and legislative intervention, which can impact both the current RIIO-ED1 period, and the settlement for RIIO-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.</p>	<ul style="list-style-type: none"> • 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.
	<p>Business resilience: Events outside of our control, for example extreme weather or medical emergencies, affecting large areas, may negatively impact the business.</p>	<ul style="list-style-type: none"> • 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.
	<p>Regulation and compliance risk: Compliance failure leading to an adverse effect on the business.</p>	<ul style="list-style-type: none"> • 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 areas, including fraud, regulatory compliance and business processes. • Established controls in place, including segregation of duties and restricted access to systems.

Strategic Report (continued)**Risk Management (continued)**

	Risk	Mitigations
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.	<ul style="list-style-type: none"> • 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, who also engage professional advisors.
	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 performance (CMLs).	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ Fault response times and team performance are closely monitored. ○ Supply interruptions planned to minimise customer impact. ○ Network automation to minimise the effect of faults. ○ Significant expenditure on routine maintenance to reduce the causes of network interruption. ○ Initiatives to improve dispatch and mobilisation of response teams.
	Macro-economic factors: Factors, such as Retail Price Index (RPI), may impact negatively on the business.	<ul style="list-style-type: none"> • 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.

The Strategic Report, outlined on pages 5 to 38, has been approved by the Board of Directors and signed on behalf of the Board on 3 June 2020.


 D. Brocksom
 Director

Corporate Governance Report

As is required by the Company's regulator, Ofgem, the Company reports on how the principles and provisions of the UK Corporate Governance Code ("the Code") have been applied during the year. There are some limited areas of non-compliance, all of which are considered appropriate to the privately owned status of the Company and are explained on page 46.

The Board

Board Members at 31 March 2020

John Roberts CBE

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. John's excellence in his field has led to many honours, in particular he was awarded a CBE for his services to the utilities industry.

Anne Baldock

Independent Non-Executive Director
Appointed on 26 September 2018

Anne Baldock was previously a partner for 22 years and global head of the Projects, Energy and Infrastructure Group at the international law firm Allen & Overy LLP. She has extensive experience in advising energy companies, charities and governmental boards on significant contracts and projects. Now retired as a solicitor, Anne has a portfolio of Non-Executive Director positions, currently sitting on the Board of Low Carbon Contracts Company Limited and East West Rail Limited.

Alistair Buchanan, CBE

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, W.H. Ireland Group plc and Atlas Holdings plc.

Susan Cooklin

Independent Non-Executive Director
Appointed on 25 July 2018

Susan Cooklin is the Managing Director of Route Services at Network Rail running a portfolio of 60 services and leading a directorate of 5,000 staff. Over the last 15 years she has held senior executive roles in both IT and business operations within FTSE top 20 companies in the UK, specialising in transformational change. 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. She is currently Chair of Network Rail Consulting Limited. Susan was listed by Computer Weekly as the seventh most influential woman in UK IT. From 2013 - 2017 she ran 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 2015, Chairman of Challenger - Europe with particular responsibility for Challenger's European Infrastructure investments. Prior to that, he was Managing Partner of Rutland Partners LLP, the Private Equity fund, and a founding director of Rutland Trust plc. Chris has a degree in Economics and qualified as a Chartered Accountant with Deloitte Haskins & Sells (now PricewaterhouseCoopers LLP 'PwC'). He has substantial experience in general management, investment banking and private equity in the manufacturing and infrastructure sectors.

**Corporate Governance Report
(continued)**

The Board (continued)

Rob Holden

Independent Non-Executive Director

Appointed on 1 January 2016

Rob Holden combines a portfolio of Non-Executive Directorships with consultancy roles. As well as his Board role with the Nuclear Decommission Authority, he is currently Chairman of London City Airport and the Submarine Delivery Authority. His advisory assignments in the UK have included work on HS2, Thames Tideway Tunnel, the Type 26 Global Combat Ship 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. Rob is a Chartered Accountant who qualified with Arthur Young & Co (now Ernst & Young LLP).

Achal Bhuwania

Non-Executive Director

Appointed on 23 January 2020

Achal Bhuwania is employed by Equitix Limited as Deputy Chief Investment Officer. Achal has more than 14 years experience in the finance and infrastructure sector with additional experience in the transport, social infrastructure, utility infrastructure, waste-to-energy and renewables sectors. He holds a first-class BCom (Hons) degree in Accounting, Economics and Commerce from Shri Ram College of Commerce (Delhi University, India) and completed his Chartered Accountancy qualification with the Institute of Chartered Accountants of India.

Sion Jones

Non-Executive Director

Appointed on 20 August 2019

Sion Jones is employed by Equitix Limited as Chief Operating Officer. He is approved by the Financial Conduct Authority and oversees the portfolio of managed funds. Prior to joining Equitix, Sion was a partner at King Sturge where he was responsible for asset and project company management. There he established the Corporate Finance division of King Sturge

with responsibility for creating institutional and private equity real estate investment vehicles. Sion has a BSc Honours in Chemistry from the University of Southampton. He is a CFA charter holder and holds an Investment Management Certificate and a Certificate in Securities from the Chartered Institute for Securities & Investment.

Genping Pan

Non-Executive Director

Appointed 12 December 2019

Genping Pan is the Chief Investment Officer at CNIC. He has been actively involved in overseas investment projects and business operations and management for over 10 years, and has gained extensive experience in investment management, capital operation and financial management. Positions previously held by Pan include Finance Manager of Oasis Oil Co. Ltd, Chief Accountant of PetroChina (Venezuela) and Financial Director of China Huaming International Investment Corporation.

Shinichiro Sumitomo

Non-Executive Director

Appointed 8 January 2020

Shinichiro Sumitomo is employed by the Kansai Electric Power Company which is one of the leading electric utility companies based in Osaka, Japan. He is the General Manager for Asset Management of European and American Assets. Since he joined Kansai Electric 25 years ago, he has gained 15 years experience in overseas investment in power assets including a hydropower project in the Philippines, fossil power projects in the south-east Asia region and in the United States, and renewable power projects in Europe.

Corporate Governance Report (continued)

The Board (continued)

Yoshihiro Yamabayashi
Non-Executive Director
Appointed 20 August 2019

Yoshihiro Yamabayashi is employed by the Kansai Electric Power Company where he is the Executive Officer of International Business and the Co-operation Division. He has more than 30 years experience in the power industry, both in Japan and overseas, including 16 years in business development in countries outside Japan. He was also the managing director of an IPP hydro project in Lao PDR for five years. He holds a B.E in Civil Engineering from the University of Tokyo.

Peter Emery
Chief Executive Officer
Appointed on 27 May 2016

Peter is a graduate engineer with 35 years' experience in the Energy Sector. He spent twenty years with Esso and ExxonMobil specialising in strategic planning and operational management, culminating in the appointment to the position of Operations Manager at Fawley Refinery, with full operational responsibility for the UK's largest refinery (330k barrels per day) and a member of ExxonMobil's European Leadership Team for Refining and Supply.

In 2004 he joined the Board of Drax Power Limited, the owner of the largest power station in the UK (4,000 MW), as Production Director. He was a member of the executive team which completed the successful IPO (Initial Public Offering) on the London Stock Exchange in December 2005. After the flotation, Peter played a leading role in converting Drax into a major renewable generator and was Chairman of Capture Power, the joint venture vehicle responsible for the development of the White Rose Carbon Capture and Storage Project.

In 2016 he was appointed as Chief Executive Officer of Electricity North West Limited. The focus of his work is to improve customer service and the operational performance of the business, whilst reducing the cost to serve. He is

also leading the change to a Distribution System Operator (DSO) enabling the transition to a low carbon economy in the North West. He is a member of the Greater Manchester Green City Region Partnership and the Greater Manchester Strategic Infrastructure Board which are helping the City region secure carbon neutrality by 2038.

In September 2012, Peter was appointed as a Non-Executive Director of N.G. Bailey Group Limited, a privately owned major electrical and mechanical contractor based at Denton near Ilkley, West Yorkshire. In 2014 he was appointed to the Board of The York, North Yorkshire and East Riding Local Enterprise Partnership (LEP) where he is currently the Vice Chair. 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.

Shareholder appointed directors

Sion Jones, Yoshihiro Yamabayashi, Shinichiro Sumitomo and Genping Pan are shareholder appointed directors and have appointed alternate directors during their time as Board members. Sion Jones's alternate is Peter O'Flaherty. Yoshihiro Yamabayashi's alternate is Fukashi Kumara and Hisatugu Nakamura is the alternate to Shinichiro Sumitomo. Genping Pan's alternate is Hailin Yu. Alternate directors attend board meetings where the principal director would be otherwise unable to attend.

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year.

Corporate Governance Report (continued)**The Board (continued)****Attendance at Board meetings (continued)**

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

Board Member	ENWL Board	Audit Committee	Remuneration Committee	Nominations Committee	Health, Safety and Environment Committee
Attended / Scheduled					
John Roberts	7/7	3/3	2/3	1/1	-
Anne Baldock	7/7	-	2/3	-	3/3
Alistair Buchanan	5/7	-	-	-	-
Susan Cooklin	7/7	3/3	-	-	-
Chris Dowling	6/7	3/3	-	1/1	-
Rob Holden	6/7	-	-	-	3/3
Achal Bhuwania	1/1	-	-	-	1/1
Sion Jones**	4/4	1/1	-	-	1/1
Genping Pan ***	1/1	1/1	-	-	-
Shinichiro Sumitomo****	1/1	1/1	-	-	1/1
Yoshihiro Yamabayashi ****	4/4	1/1	-	-	1/1
Hamish Lea-Wilson	3/3	2/2	2/3	-	-
John Lynch	3/3	1/1	3/3	1/1	-
Niall Mills*	5/7	-	2/3	1/1	1/1
Mark Scarsella	3/3	1/1	-	-	-
Peter Emery	7/7	-	-	-	3/3
David Brocksom	7/7	-	-	-	-

Corporate Governance Report (continued)

The Board (continued)

Attendance at Board meetings (continued)

*At two Board meetings and the 1 April 2019 Nomination Committee meeting Hamish Lea-Wilson attended as an alternate Director in place of Niall Mills.

**At the 7th February 2020 Board meeting and Audit Committee meeting Peter O'Flaherty attended as an alternate Director in place of Sion Jones. Peter also attended as alternate Director in place of Sion Jones and Achal Bhuvania at the 23rd March 2020 Health, Safety and Environment Committee meeting.

***At the 7th February 2020 Audit Committee Zechao Liu attended as alternate Director in place of Genping Pan.

****At the 25th October 2019 meeting Toru Kuwahara attended as an alternate Director in place of Yoshihiro Yamabayashi. At the 23rd March 2020 Health Safety and Environment Committee meeting Fukashi Kumura attended as an alternate Director in place of Yoshihiro Yamabayashi and Shinichiro Sumitomo.

Corporate Governance Report (continued)

The Board (continued)

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, regulatory 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 six Non-Executive Directors considered under the Code to be independent, one of whom is the Chairman, and five Non-Executive Directors representing the four shareholders, together with two Executive Directors. The Directors' biographies are on pages 39 to 41.

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 operational 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.

Corporate Governance Report (continued)

The Board (continued)

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. Following the completion of the sale of the shares by the Shareholders to new shareholders, Lintstock Ltd have been engaged to undertake a second evaluation from November 2020. This will constitute the first evaluation of the Board and its composition under the new ownership.

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.

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 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 six 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 five other Non-Executive Directors are appointed by the Company's shareholders as their representatives. The expected time commitment required from Non-Executive Directors is (minimum) 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 will be discussed again 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.

Corporate Governance Report (continued)

The Board (continued)

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.

Constitution of the Board

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

In addition to the two Sufficiently Independent Directors required by Ofgem, there are four further Independent Non-Executive Directors. The Board considers that the six 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.

Publication of the terms and conditions of Non-Executive Directors

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

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

Engagement with stakeholders

As a privately-owned company, the Company does not have a large or dispersed shareholder base with which to communicate formally, nor are there any minority shareholders. Therefore, Annual General Meetings are not held.

Shareholders:

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

The Company works closely with its shareholders and all 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.

Workforce:

The Board has not utilised the methods in the code for engagement with the workforce. However, the workforce has a strong Trades Union representation and regular meetings of engagement take place both with representatives and directly through workforce meeting with the leadership team.

Corporate Governance Report (continued)

Engagement with stakeholders (continued)

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, along with research of customers' opinions.

Our stakeholder engagement strategy is outlined on page 15.

The Company has appointed Jeff Halliwell to Chair our Customer Engagement Group (CEG). Jeff appointed the members of the Group and held its inauguration meeting in May 2019, since which time it has met monthly.

The role of the CEG is to independently scrutinise our stakeholder engagement work. In doing so, the Group has access to the Board and the Executive Leadership Team and can question them about how stakeholder engagement insight is being used to inform our RII0-ED2 Business Plan. The CEG also fulfils 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 five standing Committees and one ad-hoc Committee:

Standard Committees meeting on a regular pre-planned cycle

Audit Committee*
Remuneration Committee*
Nominations Committee*
Health, Safety and Environment Committee*
Use of Systems Pricing Committee

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

Financing Committee

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

The Use of Systems Pricing Committee and the Financing Committee meet annually (or more frequently as necessary) to approve detail about system pricing contained in Licence Condition 14 and financing transactions respectively.

*The terms of reference and membership of all these Committees were reviewed and amended during the year to ensure effective operation.

Corporate Governance Report (continued)

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 42.

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.
- 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 2020 Annual Report and Consolidated Financial Statements and the September 2019 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.
- Review of the length of tenure of the current external audit firm and making a recommendation as to the timeline for re-tendering this service.
- Factors emerging from the Covid-19 pandemic, including the impact on the internal control framework, including the potential for enhanced cyber risk, and a review of the going concern and viability disclosures in this context.

During the year ended 31 March 2020, the Committee revised its terms of reference and its membership to reflect the changing requirements of the Corporate Governance Code and to ensure that the membership of the Committee consists of independent non-executive directors, and that the Chair of the Board was not a member of the Committee.

Corporate Governance Report (continued)

The significant issues considered by the Committee during the approval of the financial statements to 31 March 2020 were:

- 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 this 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.
- 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.
- The level of estimation in assessing the balance disclosed for group pension scheme assets, the valuation of which was negatively impacted by COVID-19 effect on asset prices immediately prior to the balance sheet date.
- The adoption of the new IFRS 16 accounting standard effective during the year and the impact on the financial statements.

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 eighteenth conducted by Deloitte LLP.

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 Company have commenced the process to appoint new external auditors, with a view to making a new appointment for the year-ending 31 March 2022.

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

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, North West Electricity Networks (Jersey) Limited.

Corporate Governance Report (continued)

Internal control framework

The Committee, on behalf of the Board, is responsible for reviewing the Company's internal control framework. This review is consistent with the Code and covers all material areas of the Group, including risk management and compliance with controls. Further details of risk management and internal controls are set out on pages 34 to 38.

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:

- 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.

The Directors' statement on a fair, balanced and understandable Annual Report and Consolidated Financial Statements is set out on page 50.

Corporate Governance Report (continued)

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 42.

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 44, the Board is committed to diversity in its broadest sense and the Nominations Committee ensures this remains central to recruitment and succession planning. Progress is reviewed periodically by the Board.

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 Sion Jones, Non-Executive Director. Composition of the Committee and attendance by individual members is detailed on page 42.

Role of the Committee

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

The Committee is of the opinion that the remuneration structure, designed for the RIIO-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.

Corporate Governance Report (continued)

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.	<p>The EIP works on a balanced scorecard approach, containing short-term metrics to evaluate in-year performance and longer-term measures promoting a strategic focus and sustainable performance.</p> <p>Partial payments are made each year based on achievement against the balanced scorecard, with additional payments made following years 4 and 8 of the regulatory period to ensure the balance of short and long-term incentivisation is retained.</p> <p>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 the earning of bonuses.</p>
Pension	Directors are offered the same level of defined contribution benefits as all other employees, or a taxable payment in lieu.	No Director is a member of the defined benefit scheme which is now closed to new members.

Corporate Governance Report (continued)

CEO pay ratio

Under new regulations, effective for financial years commencing on or after 1 January 2019, companies with more than 250 employees and which are quoted on the UK Official List are required to publish information on their CEO pay ratio. The requirement is to publish total CEO remuneration compared to the 25th, 50th and 75th percentile total remuneration of full-time equivalent UK employees.

There are three methodologies that companies can choose to report their pay ratio, known as Option A, B and C. The government preference, and most accurate reporting method, is Option A. ENWL have elected to use this method, which enables us to compare total remuneration for the financial year ended 31 March 2020, in line with the pay gap requirements.

The table below sets out this information for total remuneration⁵ (which is inclusive of bonus, long term incentive payments, additional allowances or payments, benefit in kind and employer pension contributions).

Bonus payments are linked closely to Company performance and the timing of maturity of long term incentive arrangements, so may fluctuate year on year. We have, therefore, also included a comparison of total remuneration excluding bonus and long-term incentive awards.

The movement in the ratio from the prior year represents the timing of awards under long term incentive bonus plans, with a significant element of these awards linked to Company performance. The pay excluding bonus is consistent with the prior year ratio.

		25 th percentile	50 th percentile	75 th percentile
2020	Pay excluding bonus	1:12	1:9	1:6
2020	Total remuneration including bonus	1:41	1:29	1:21
2019	Pay excluding bonus	1:12	1:9	1:6
2019	Total remuneration including bonus	1:21	1:15	1:11

This is the first year we have published our Executive Pay Gap, and we will benchmark this against other similar organisations when the data becomes publicly available to be consistent with our remuneration policy.

Employee total remuneration is shown in the table below.

		25 th percentile	50 th percentile	75 th percentile
2020	Pay excluding bonus	£36,279	£52,093	£71,597
2020	Total remuneration	£37,687	£53,829	£74,598
2019	Pay excluding bonus	£36,278	£51,780	£72,522
2019	Total remuneration	£37,473	£53,504	£74,341

⁵ The remuneration of employees who did not receive a full year's pay have been excluded to ensure the comparison is fair and equitable. For example, employees

on reduced pay due to statutory absence, those with part year service have been excluded.

Corporate Governance Report (continued)

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 these areas. 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 42.

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 Safety and Policy who attends every meeting.

The Health and Safety committee, when it met on 23 March 2020, received and considered an update on the Company's evolving Covid-19 health and safety strategy. The Board continue to be regularly updated on the situation.

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 2020.

Information contained in Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report. Specifically, this relates to:

- information in respect of employee matters (including actions taken to introduce, maintain or develop arrangements aimed at employees, details on how the directors have engaged with employees and had regard to employee interests, our approach to investing in and rewarding the workforce, employee diversity and the employment, training and advancement of disabled persons)
- likely future developments
- risk management
- details on how the directors have had regard to the need to foster business relationships with stakeholders
- greenhouse gas emissions

Dividends

During the year ended 31 March 2020, the Company proposed and paid a final dividend for the year ended 31 March 2019 of £17m, paid in June 2019, and an interim dividend of £21m that was paid in December 2019. In the year ended 31 March 2019 the Company declared 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. The Directors have not proposed a final dividend for the year ended 31 March 2020.

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

Ultimate parent undertaking and controlling party

The immediate parent undertaking is NWEN plc, a company incorporated and registered in the United Kingdom. The ultimate parent undertaking is North West Electricity Networks (Jersey) Limited ("NWEN (Jersey)"), a company incorporated and registered in Jersey. Following a staged acquisition, there was a change in ownership of the shares in NWEN (Jersey) during the year and, therefore, a change in the ultimate controlling parties of the Company.

Following completion of the sale on 3 December 2019, the ultimate shareholdings are:

- KDM Power Limited (40.0%);
- Equitix ENW 6 Limited (25.0%)
- Equitix MA North HoldCo Limited (15.0%)
- Swingford Holding Corporation Limited (20.0%)

Directors

The Directors of the Company during the year ended 31 March 2020 and to date are set out below. Directors served for the whole year, and to the date of this report, except where otherwise indicated.

Executive Directors

D Brocksom

P Emery

Non-executive Directors

Dr J Roberts

A E Baldock

A Buchanan

S Cooklin

C B Dowling

R D Holden

S Jones (appointed 20 August 2019)

G Pan (appointed 12 December 2019)

S Sumitomo (appointed 8 January 2020)

P O'Flaherty (appointed 1 April 2020)

Y Hamada (appointed 1 April 2020)

Directors' Report (continued)

Non-executive Directors (continued)

H Lea-Wilson (resigned 20 August 2019)

J E Lynch (resigned 10 September 2019)

N P Mills (resigned 12 December 2019)

M Scarsella (appointed 10 September 2019, resigned 12 December 2019)

Y Yamabayashi (appointed 20 August 2019, resigned 1 April 2020)

A Bhuwania (appointed 23 January 2020, resigned 1 April 2020)

Alternate Directors during the year were:

A Bhuwania

G Blackburn

K Fukushima

F Kumura

T Kuwahara

H Lea-Wilson

Z Liu

H Nakamura

T Pedraza

H Yu

Sion Jones, Yoichi Hamada, Shinichiro Sumitomo and Genping Pan are shareholder appointed directors and have appointed alternate Directors during their time as Board members. Sion Jones's alternate is Achal Bhuwania. Yoichi Hamada's alternate is Kaoru Fukushima and Shinichiro Sumitomo's alternate is Fukashi Kumura. Hailin Yu is the alternate to Genping Pan.

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) Ltd ("NWEN (Jersey)") and is for the benefit of that company and all its subsidiaries.

People

The Group's policies on employee consultation and involvement, 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.

Engagement with employees

Details of Director engagement with employees can be found within the Strategic Report.

Engagement with suppliers, customers and others

Details of the Directors' approach to fostering the Company's business relationships with suppliers, customers and others can be found within 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 2020 the Group incurred £3.1m of expenditure on research and development (2019: £2.9m), see Note 5.

Greenhouse gas emissions

Further details on greenhouse gas emissions are provided in the Business Carbon Footprint section of the Strategic Report.

Directors' Report (continued)

Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 during the year. IFRS 16 has resulted in an opening reserves adjustment of £0.2m, along with incremental lease liabilities of £5.5m and right of use assets of £5.1m at 31 March 2020. More details of the impact of IFRS 16 can be found in Notes 1 and 12.

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 21.

Capital structure

The Company's capital structure is set out in Note 29.

Events after the Balance Sheet date

Since the balance sheet date, the COVID-19 situation has continued to unfold. We have outlined our responses to the pandemic within the Strategic Report. The financial impact will be a short-term reduction to revenue and cashflows, but allowed revenues will be adjusted in future years to collect any shortfall. On 2 June 2020, Ofgem issued an open letter on relaxing payment charges, intended to provide support where necessary for energy suppliers who face cash flow challenges as a result of COVID-19. ENWL will follow the guidance in the letter which may result in the deferral of some cash collections from electricity suppliers due over the summer period 2020. The impact of the scheme has been considered in the scenarios reviewed to determine the going concern and viability of the Company. The impact of the scheme will be to defer cash payments within the financial year ending 30 March 2020, with an estimated impact of up to £20m in timing of cash collections in year.

Future developments

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

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 and to establish that the Company's auditor is aware of that information.

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

Independent auditor

The Audit Committee have decided to commence a procurement exercise to review the provision of audit services for the Group. Deloitte LLP, Statutory Auditor, Manchester, United Kingdom has expressed its willingness to continue in office as auditor of the Group until such appointment is made. 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
Borron Street
Stockport
Cheshire
SK1 2JD

Registered number: 02366949

Approved by the Board on 3 June 2020 and signed on its behalf by:


D Brockson
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 IFRS 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 the Company 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 3 June 2020 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 Ltd

In our opinion:

- the financial statements of Electricity North West Limited (the 'parent company', 'ENWL') 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 2020 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 and company statement of profit or loss and other comprehensive income;
- the consolidated and company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated and company cash flow statements; 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.

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

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Treasury – accounting • Inappropriate capitalisation of costs • Valuation of pension assets <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> ⚠ Newly identified ⬆ Increased level of risk ↔ Similar level of risk ⬇ Decreased level of risk
Materiality	<p>The materiality that we used for the Group financial statements was £5.2m which was determined on the basis of 3.3% of adjusted profit before tax.</p>
Scoping	<p>All audit work for the Group was performed directly by the Group engagement team.</p>
Significant changes in our approach	<p>The timing of the Group's year end, relative to the Covid-19 pandemic related UK lock-down, means the impact of the pandemic in the Group was not significant in the financial year being audited.</p> <p>Covid-19 has however increased the level of risk and volatility as at the year-end of certain markets to which ENWL is exposed. This includes property markets where the Group's pension scheme assets are partially invested. As a result we have considered the valuation of pension assets as a key audit matter due to external valuers including material uncertainty clauses in property asset valuations as at 31 March 2020 in response to the market volatility and uncertainty caused by Covid-19. There are no other changes in our approach except for the addition of the new key audit matter in the current year.</p>

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

Conclusions relating to going concern

<p>We are required by ISAs (UK) to report in respect of the following matters where:</p> <ul style="list-style-type: none">• 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.	<p>We have nothing to report in respect of these matters.</p>
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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.

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

Treasury accounting

Key audit matter description	<p>Treasury is a complex area and includes the accounting for material financial instruments including index-linked swaps. 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. We focus our work on the assumptions in management's derivative valuation model and a recalculation of fair value of the index-linked swap portfolio, including any credit adjustment made under IFRS 13.</p> <p>As at 31 March 2020 ENWL held derivative financial instruments, being a portfolio of index-linked swaps, with a fair value of £416.9m (2019: £404.6m) as disclosed in note 21 to the financial statements. Total fair value movements in the year were £12.3m loss (2019: £47.3m loss) as per note 9 to the financial statements.</p> <p>See also the Audit Committee's Report on page 49 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 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the inputs used within the calculation of the fair value of derivatives.</p> <p>In performing the procedures below, we involved our financial instrument specialists due to the complexity of the financial instruments held in the Group.</p> <p>We performed work on management's derivative valuation model and the assumptions employed, and performed a recalculation of fair value of the index-linked swap portfolio, including an assessment of the application of credit risk under IFRS 13.</p>
Key observations	<p>From the work performed we are satisfied that the valuation of the Group's portfolio index-linked swaps is appropriately stated as at 31 March 2020.</p>

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

Inappropriate capitalisation of costs <>

Key audit matter description	<p>This key audit matter relates to the judgmental overhead absorption percentage rates applied to costs initially recorded as overhead expenditure and subsequently capitalised into fixed assets. In particular we focus on those judgmental areas of overhead absorption, for example employee costs and fault costs, where the split between capital projects and repair and maintenance is judgemental.</p> <p>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 £130.2m in the year (2019: £126.3m), of which £73.2m (2019: £68.2m) has been capitalised directly to fixed assets. Fault costs totalled £33.0m (2019: £35.7m) of which £21.3m (2019: £22.9m) had been capitalised.</p> <p>See also the Audit Committee's Report on page 49 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.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the inputs used within the calculation of overhead absorption rates for employee costs and judgemental areas such as fault costs.</p> <p>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 reviewed the key assumptions made by management including testing on a sample basis to appropriate support.</p> <p>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.</p>
Key observations	<p>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 as at 31 March 2020.</p>

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

Pension asset valuation

Key audit matter description	<p>The retirement benefit obligation includes assets totalling £1,291.7m of which £146.4m (11.3%) are property assets.</p> <p>Consistent with guidance provided by the Royal Institute of Chartered Surveyors, the external valuers' reports to the investment managers, which management uses to estimate the fair value of the assets in the Group's balance sheet, have reported a "material valuation uncertainty" in their valuation reports for property assets. This uncertainty clause is based on Covid-19 bringing an increased level of risk and volatility to certain markets as at 31 March 2020.</p> <p>Given the range of estimation uncertainty, we identified a key audit matter associated with the valuation of property assets.</p> <p>The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 49. See also the accounting policy for retirement benefit obligations in note 2 to the financial statements, the key source of estimation uncertainty in note 3 and the further detail provided in note 22 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of management's relevant controls over the valuation of the pension scheme assets.</p> <p>We obtained specific details from the investment managers for the property funds of the material uncertainty clause in the valuers' reports, and reviewed a summary of the assets in the funds, analysed by sector and also by length of unexpired leases.</p> <p>We read the valuation reports in order to assess whether the valuation approach was in accordance with RICS guidance and suitable for use in determining the carrying value in the balance sheet.</p> <p>We obtained explanations from the valuers and management, relating to specific considerations regarding to the Covid-19 pandemic, and any events subsequent to 31 March 2020 of relevance to the market and associated valuation trends.</p> <p>We involved our real estate specialist in reviewing the material uncertainty clause used by the Valuers, where relevant, and considered the assets in the fund by sector and also by length of unexpired income.</p>
Key observations	<p>From the work performed we are satisfied that the valuations of the property assets within the retirement benefit pension asset funds are reasonable as at 31 March 2020.</p>

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

Our application of materiality

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	£5.2m (2019: £5.05m)	£5.19m (£5.04m)
Basis for determining materiality	3.3% of adjusted pre-tax profit, being profit pre-tax and fair value movements (2019: 3.6% of adjusted pre-tax profit).	Parent company materiality equates to 99% of net assets (2019: same), which is capped at 99% of Group materiality (2019: same).
Rationale for the benchmark applied	<p>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.</p> <p>Adjusted pre-tax profit is further determined to be a key metric used by the users of the financial statements of regulated utilities.</p>	

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the group's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2019: £0.1m), 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.

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

An overview of the scope of our audit

The scope of our audit work was determined by obtaining an understanding of the group and its environment, and assessing the risks of material misstatement at the group level. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

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 entities within the Group, we performed a full scope 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 £5.19m.

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.

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

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 and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC'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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, real estate and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the inappropriate capitalisation of costs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence.

Audit response to risks identified

As a result of performing the above, we identified the inappropriate capitalisation of costs as a key audit matter related to the potential risk of fraud. 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 that 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external 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 the licensing authority Ofgem; 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 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.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report 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 18 years, covering the years ending 31 March 2003 to 31 March 2020.

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).

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

Use of our report

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



Christopher Robertson (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Manchester, United Kingdom

3 June 2020

Financial Statements**Consolidated and Company Statement of Profit or Loss and Other Comprehensive Income**

for the year ended 31 March 2020

	Note	Group and Company 2020 £m	Group and Company 2019 £m
Revenue	4	478.1	458.3
Employee costs	5,6	(57.0)	(58.1)
Depreciation and amortisation expense	5	(121.4)	(116.9)
Other operating costs		(87.5)	(92.8)
Total operating expenses		(265.9)	(267.8)
Operating profit	5	212.2	190.5
Investment income	8	0.1	0.4
Finance expense	9	(66.7)	(103.9)
Profit before taxation		145.6	87.0
Taxation	10	(43.5)	(15.2)
Profit for the year attributable to equity shareholders of the Company		102.1	71.8
Other comprehensive (expense)/ income:			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of net defined benefit scheme	23	(74.1)	41.4
Deferred tax on re-measurement of defined benefit scheme	24	14.0	(7.0)
Adjustment of brought forward deferred tax due to change in future tax rates	24	1.7	-
Other comprehensive (expense)/ income for the year		(58.4)	34.4
Total comprehensive income for the year attributable to shareholders of the Company		43.7	106.2

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

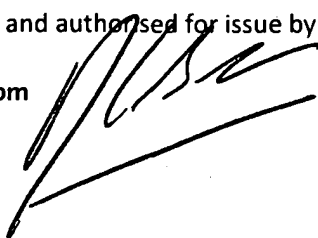
Consolidated and Company Statement of Financial Position

as at 31 March 2020

	Note	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	12	53.8	53.8	52.3	52.3
Property, plant and equipment	13	3,361.6	3,361.6	3,259.7	3,259.7
Retirement benefit surplus	22	-	-	32.8	32.8
Investments	14	-	15.4	-	15.4
		3,415.4	3,430.8	3,344.8	3,360.2
Current assets					
Inventories	15	10.8	10.8	12.2	12.2
Trade and other receivables	16	63.4	63.4	57.7	57.7
Cash and cash equivalents	17,21	56.2	56.2	22.7	22.7
		130.4	130.4	92.6	92.6
Total assets		3,545.8	3,561.2	3,437.4	3,452.8
LIABILITIES					
Current liabilities					
Trade and other payables	18	(126.2)	(141.9)	(120.6)	(136.3)
Current income tax liabilities		(4.8)	(4.8)	(6.6)	(6.6)
Borrowings	19	(8.9)	(8.9)	(6.8)	(6.8)
Provisions	23	(0.1)	(0.1)	(0.8)	(0.8)
		(140.0)	(155.7)	(134.8)	(150.5)
Net current liabilities		(9.6)	(25.3)	(42.2)	(57.9)
Non-current liabilities					
Borrowings	19	(1,196.7)	(1,196.7)	(1,161.8)	(1,161.8)
Derivative financial instruments	21	(416.9)	(416.9)	(404.6)	(404.6)
Provisions	23	(1.7)	(1.7)	(2.2)	(2.2)
Retirement benefit deficit	22	(26.3)	(26.3)	-	-
Deferred tax	24	(155.8)	(155.8)	(150.1)	(150.1)
Customer contributions	25	(656.1)	(656.1)	(637.2)	(637.2)
		(2,453.5)	(2,453.5)	(2,355.9)	(2,355.9)
Total liabilities		(2,593.5)	(2,609.2)	(2,490.7)	(2,506.4)
Total net assets		952.3	952.0	946.7	946.4
EQUITY					
Called up share capital	27,28	238.4	238.4	238.4	238.4
Share premium account	28	4.4	4.4	4.4	4.4
Revaluation reserve	28	84.1	84.1	88.2	88.2
Capital redemption reserve	28	8.6	8.6	8.6	8.6
Retained earnings	28	616.8	616.5	607.1	606.8
Total equity		952.3	952.0	946.7	946.4

The financial statements of Electricity North West Limited (registered number 02366949) were approved and authorised for issue by the Board of Directors on 3 June 2020 signed on its behalf by:

D Brocksom
Director



Consolidated Statement of Changes in Equity

for the year ended 31 March 2020

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 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 adjustment	-	-	-	-	(12.0)	(12.0)
Opening reserves	238.4	4.4	90.3	8.6	545.1	886.8
Profit for the year	-	-	-	-	71.8	71.8
Other comprehensive income for the year	-	-	-	-	34.4	34.4
Transfer from revaluation reserve	-	-	(2.1)	-	2.1	-
	-	-	(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
Opening adjustment on transition to IFRS 16 (Note 1)	-	-	-	-	0.2	0.2
Tax impact on opening adjustment	-	-	-	-	-	-
Opening reserves	238.4	4.4	88.2	8.6	607.3	946.9
Profit for the year	-	-	-	-	102.1	102.1
Other comprehensive expense for the year	-	-	-	-	(58.4)	(58.4)
Transfer from revaluation reserve	-	-	(4.1)	-	4.1	-
	-	-	(4.1)	-	47.8	43.7
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(38.3)	(38.3)
At 31 March 2020	238.4	4.4	84.1	8.6	616.8	952.3

Company Statement of Changes in Equity

for the year ended 31 March 2020

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 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 adjustment	-	-	-	-	(12.0)	(12.0)
Opening reserves					544.8	886.5
Profit for the year	-	-	-	-	71.8	71.8
Other comprehensive income for the year	-	-	-	-	34.4	34.4
Transfer from revaluation reserve	-	-	(2.1)	-	2.1	-
	-	-	(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
Opening adjustment on transition to IFRS 16 (Note 1)	-	-	-	-	0.2	0.2
Tax impact on opening adjustment	-	-	-	-	-	-
Opening reserves	238.4	4.4	88.2	8.6	607.0	946.6
Profit for the year	-	-	-	-	102.1	102.1
Other comprehensive expense for the year	-	-	-	-	(58.4)	(58.4)
Transfer from revaluation reserve	-	-	(4.1)	-	4.1	-
	-	-	(4.1)	-	47.8	43.7
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(38.3)	(38.3)
At 31 March 2020	238.4	4.4	84.1	8.6	616.5	952.0

Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2020

	Note	Group and Company 2020 £m	Group and Company 2019 £m
Operating activities			
Cash generated from operations	32	297.6	267.6
Interest paid		(48.9)	(48.3)
Tax paid		(23.8)	(27.1)
Net cash generated from operating activities		224.9	192.2
Investing activities			
Interest received and similar income		0.1	0.4
Purchase of property, plant and equipment		(202.6)	(224.2)
Purchase of intangible assets		(8.0)	(8.9)
Customer contributions received		32.9	37.8
Proceeds from sale of property, plant and equipment		0.6	0.4
Net cash used in investing activities		(177.0)	(194.5)
Net cash flow before financing activities		47.9	(2.3)
Financing activities			
Proceeds from external borrowings		30.0	-
Repayment of external borrowings		(7.0)	(6.7)
Repayment of lease liabilities – (Note 1)		(1.2)	-
Movement of inter-company loan from parent		2.1	1.6
Movement in cash collateral held		-	(10.6)
Dividends paid	11	(38.3)	(46.3)
Net cash used in financing activities		(14.4)	(62.0)
Net increase/(decrease) in cash and cash equivalents		33.5	(64.3)
Cash and cash equivalents at the beginning of the year	17	22.7	87.0
Cash and cash equivalents at the end of the year	17	56.2	22.7

Notes to the Financial Statements

Electricity North West Limited is a company incorporated in the United Kingdom and registered in England and Wales 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 16: Leases

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) which is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 April 2019.

The Group has applied IFRS 16 using the modified retrospective approach, with no restatement of the comparative information.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 April 2019. In preparation for the first-time application of IFRS 16, the Group carried out an implementation project. The project has shown that the new definition in IFRS 16 does not significantly change the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Notes to the Financial Statements (continued)**1. Adoption of new and revised Standards (continued)**

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current year.

Impact on profit or loss	2020
	£m
Increase in depreciation of right-of-use asset (Note 13)	(1.2)
Increase in finance costs (Note 9)	(0.3)
Decrease in other expenses – total lease payments, capital and interest	1.4
(Decrease) in profit for the year	(0.1)

Impact on assets, liabilities and equity	31 March 2020
	£m
Opening right-of-use assets (Note 13)	6.3
Depreciation (Note 13)	(1.2)
Net impact on total assets (Note 13)	5.1
Opening lease liabilities (Note 19)	(6.7)
Finance costs – interest payable on leases (Note 9)	(0.3)
Lease payments – capital (Note 20)	1.2
Lease payments – interest	0.3
Net impact on total liabilities (Note 20)	(5.5)

Opening reserves	0.2
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Expenses relating to short-term leases which are kept off the balance sheet for the year were £0.2m (2019: nil).

Notes to the Financial Statements (continued)

1. Adoption of new and revised Standards (continued)

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under IFRS 16, lessees must present: Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of financing activities); and Cash payments for the principal portion for a lease liability, as part of financing activities.

The adoption of IFRS 16 did not have an impact on net cash flows.

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 9 (amendments) *Prepayment Features with Negative Compensation*,
- IAS 28 (amendments) *Long-term Interests in Associates and Joint Ventures*,
- *Annual Improvements to IFRS Standards 2015-2017 Cycle*,
- IAS 19 (amendments) *Employee Benefits Plan Amendment, Curtailment or Settlement*,
- IFRIC 23 *Uncertainty over Income Tax Treatments*.

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 17 *Insurance Contracts*,
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*,
- Amendments to IFRS 3: *Definition of business*,
- Amendments to IAS 1 and IAS 8: *Definition of material*,
- *Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards*.

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.

Notes to the Financial Statements (continued)

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 certain 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 21.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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. This amortisation of contributions received is recognised in revenue.

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

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Customer contributions (continued)

Identification of performance obligation: As the performance obligation relating to the ongoing maintenance is not covered by the Agreement, 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.

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 accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Leases

The Group has adopted IFRS 16 ('Leases') during the year. The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using either the rate implicit in the lease, or our incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Retirement benefit costs

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

The defined benefit retirement benefit scheme is provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2019; 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 22. 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, when a defined benefit asset exists, as was the case in the prior year, 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.

The COVID-19 pandemic began to unfold in early 2020 and continues to progress. The negative impact on asset valuations through March was significant. For traded asset classes, a value as at 31 March was available and has been used in the pension scheme asset valuation. However, the scheme also contains a number of unquoted asset classes, especially in real estate, the valuation of which is less certain. Independent investment manager expertise has guided the asset valuations used for these less liquid assets.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Taxation

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

Current taxation

Current tax is based on taxable profit for the year and is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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 a result of the revaluation, it is transferred from the revaluation reserve to retained earnings on an annual basis.

Assets other than operational structures

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Impairment of tangible and intangible fixed assets

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

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

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

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

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

Research and development

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

Inventories

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

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

Financial instruments

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

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

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

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

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

Financial assets

All 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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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).

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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 21.

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 expected credit losses (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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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.

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 21.

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 initially recorded at fair value and subsequently at amortised cost.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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 21.

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.

Notes to the Financial Statements (continued)

2. Significant accounting policies (continued)

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.

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. See Note 6 for details on value of employee costs capitalised in the year.

Notes to the Financial Statements (continued)

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

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.

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.

Fair values of derivative financial instruments

In estimating the fair value of derivative financial instruments, the Group uses market-observable data (Level 1 and 2 inputs) to the extent it is available. Where such data is not available, certain estimates (Level 3 inputs) regarding inputs to the valuation are required to be made. Level 3 inputs form a significant part of the fair value of the financial instruments held by the Group. Information about the valuation techniques and inputs used are disclosed in Note 21.

Retirement benefit schemes

The Group's defined benefit obligation is derived using various assumptions, as disclosed in Note 22. Results can be affected significantly by the assumptions used, which management decide based on advice by a firm of actuaries.

The valuation of the assets held within the scheme has been impacted by the COVID-19 pandemic. Where available, market data is used to value assets, however for some less liquid assets, up-to-date data is not available, certain estimates regarding inputs to the valuation are required to be made, as disclosed in Note 22.

Notes to the Financial Statements (continued)**4. Revenue**

Group	2020 £m	2019 £m
Revenue	478.1	458.3

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 (2019: three), each of which represented more than 10% of the total revenue. Revenue from these customers totalled £171.7m (2019: £174.3m). No other customer represented more than 10% of revenues either this year or in the prior year.

In the current year £18.3m (2019: £17.3m) of customer contributions amortisation has been amortised through revenue in line with IFRS 15.

Notes to the Financial Statements (continued)**5. Operating profit**

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

Group	2020 £m	2019 £m
Employee costs (Note 6)	57.0	58.1
Depreciation and amortisation expense		
Depreciation of property, plant and equipment		
Owned and right-of-use assets (Note 13)	114.9	110.7
Amortisation of intangible assets		
Software (see Note 12)	6.5	6.2
Depreciation and amortisation expense	121.4	116.9
Other income		
Profit on disposal of property, plant and equipment	(0.6)	(0.4)
Provision (credit)/charge (Note 23)	(0.2)	0.5
Other operating costs include:		
Research and development	3.1	2.9

Analysis of the auditor's remuneration is as follows:

Group	2020 £m	2019 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	0.1	0.1
Total audit fees	0.1	0.1
Audit-related assurance services	0.1	0.1
Total fees	0.2	0.2

Notes to the Financial Statements (continued)**6. Employee costs**

Group	2020 £m	2019 £m
Wages and salaries	97.8	94.8
Social security costs	10.7	10.3
Pension costs (see Note 22)	21.7	21.2
Employee costs (including Directors' remuneration)	130.2	126.3
Costs transferred directly to fixed assets	(73.2)	(68.2)
Charged to operating expenses	57.0	58.1

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

Group	2020 Number	2019 Number
Electricity distribution	1,913	1,880

7. Directors' remuneration

Group	2020 £m	2019 £m
Salaries and other short-term employee benefits	1.2	1.2
Accrued bonus	0.5	0.4
Amounts receivable under long-term incentive schemes	0.5	0.4
Total fees	2.2	2.0

The aggregate emoluments of the Directors in 2020 amounted to £2,171,000 (2019: £2,043,000). Emoluments comprise salaries, fees, taxable benefits, and the value of short-term and long-term incentive awards. The aggregated emoluments of the highest paid Director in 2020 in respect of services to the Group amounted to £1,025,000 (2019: £955,000). 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 (2019: £nil). Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in Note 31.

The pension contributions for the highest paid Director for 31 March 2020 were £nil (2019: £nil). The accrued pension at 31 March 2020 for the highest paid Director was £nil (2019: £nil).

As at 31 March 2020 the Directors have no interests in the ordinary shares of the Company (2019: same).

Notes to the Financial Statements (continued)**8. Investment income**

Group	2020 £m	2019 £m
Interest receivable on short-term bank deposits	0.1	0.4
Total investment income	0.1	0.4

9. Finance expense

Group	2020 £m	2019 £m
Interest payable:		
Interest payable on Group borrowings (Note 31)	14.5	14.7
Interest on borrowings held at amortised cost	41.2	41.2
Net interest settlements on derivatives	(9.7)	(9.9)
Indexation of index-linked debt (Note 19)	10.2	11.4
Interest payable on leases	0.3	-
Interest cost/ (credit) on pension plan obligations (Note 22)	(1.0)	0.3
Capitalisation of borrowing costs under IAS 23	(1.1)	(1.1)
Total interest expense	54.4	56.6
Fair value movements on financial instruments:		
Fair value movement on derivatives	12.3	47.3
Total fair value movements	12.3	47.3
Total finance expense	66.7	103.9

Borrowing costs capitalised in the year under IAS 23 were £1.1m (2019: £1.1m), using an average annual capitalisation rate of 4.0% (2019: 4.1%), derived from the total general borrowing costs for the year divided by the average total general borrowings outstanding for the year.

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 21 provides more detail on this.

There has been £nil (2019: £nil) 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 (2019: same).

Notes to the Financial Statements (continued)**10. Taxation**

Group	2020 £m	2019 £m
Current tax		
Current year	23.5	21.9
Adjustments in respect of prior year	(1.5)	(1.6)
	22.0	20.3
Deferred tax (Note 24)		
Current year	0.6	(5.4)
Adjustments in respect of prior year	1.5	0.3
Impact of change in future tax rates	19.4	-
	21.5	(5.1)
Tax charge for the year	43.5	15.2

Corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the year. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. This was substantively enacted on 17 March 2020.

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 19% (2019: 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	2020 £m	2019 £m
Profit before tax	145.6	87.0
Tax at the UK corporation tax rate of 19% (2019: 19%)	27.7	16.5
Non-taxable (income)	(0.5)	(0.6)
Reduction in current year deferred tax due to rate change	-	0.6
Prior year tax adjustments	-	(1.3)
Impact from change in future tax rates	19.4	-
Release of provision	(3.1)	-
Tax charge for the year	43.5	15.2

Notes to the Financial Statements (continued)**11. Dividends**

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

Group and Company	2020 £m	2019 £m
Final dividends for the year ended 31 March 2019 of 3.54 (31 March 2018 of 3.36 pence per share)	16.9	16.0
Interim dividends for the year ended 31 March 2020 of 4.49 pence per share (31 March 2019: 6.35 pence)	21.4	30.3
	38.3	46.3

In the year ended 31 March 2020, the Company declared interim dividends of £21.4m, which were paid in December 2019 (2019: £30.3m). The final dividend for the year ended 31 March 2019 of £16.9m was paid in June 2019; the final dividend for the year ended 31 March 2018 of £16.0m was paid in June 2018.

The Directors do not propose a final dividend for the year ended 31 March 2020.

Notes to the Financial Statements (continued)**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 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
Additions	-	1.0	7.0	8.0
Transfers	-	6.9	(6.9)	-
At 31 March 2020	10.1	90.2	28.2	128.5
Amortisation				
At 1 April 2018	-	62.0	-	62.0
Charge for the year	-	6.2	-	6.2
At 31 March 2019	-	68.2	-	68.2
Charge for the year	-	6.5	-	6.5
At 31 March 2020	-	74.7	-	74.7
Net book value				
At 31 March 2020	10.1	15.5	28.2	53.8
At 31 March 2019	10.1	14.1	28.1	52.3

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 2020, the Group and Company had entered into contractual commitments for the acquisition of software amounting to £9.2m (2019: £9.5m).

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

Notes to the Financial Statements (continued)**13. Property, plant and equipment**

Group and Company	Operational Structures £m	Non-operational land and buildings £m	Fixtures, equipment, vehicles and other £m	Assets under the course of construction £m	Right of use assets* £m	Total £m
Cost or valuation						
At 1 April 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
Adoption of IFRS 16	-	-	-	-	6.3	6.3
Additions	174.4	0.3	13.4	22.4	-	210.5
Transfers	40.5	0.2	9.0	(49.7)	-	-
Disposals	(3.8)	-	(0.8)	-	-	(4.6)
At 31 March 2020	4,915.5	34.2	149.6	120.3	6.3	5,225.9
Accumulated depreciation and impairment						
At 1 April 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
Charge for the year	100.3	1.0	12.4	-	1.2	114.9
Disposals	(3.8)	-	(0.8)	-	-	(4.6)
At 31 March 2020	1,746.9	11.4	104.8	-	1.2	1,864.3
Net book value						
At 31 March 2020	3,168.6	22.8	44.8	120.3	5.1	3,361.6
At 31 March 2019	3,054.0	23.3	34.8	147.6	-	3,259.7

*IFRS 16 was implemented by the Group on 1 April 2019 recognising opening right-of-use assets of £6.3m and depreciation on those assets of £1.2m (see Note 1).

At 31 March 2020, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £99.6m (2019: £86.6m).

At 31 March 2020, 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 £3,257.9m (2019: £3,153.3m). The revaluation reserve is disclosed in Note 28, net of deferred tax. The revaluation reserve arose following North West Water's acquisition of Norweb, in 1997.

Notes to the Financial Statements (continued)

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 5.84% (2019: 6.20%) reflecting an assumed level of risk associated with the cash flows generated from the licence. Cash flow projections for the three-year period to 2023 are based on the Ofgem final determination and the Company's latest approved business plan (2019: 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, excluding any long-term growth factors that we'd normally assume in future regulatory periods. The forecasts have been sensitised to an increase in the discount rate of 0.5%, 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.

Notes to the Financial Statements (continued)**14. Investments**

	Group £m	Company £m
At 31 March 2019 and 31 March 2020	-	15.4

Investments in subsidiary undertakings are stated at cost less any provisions for permanent diminution in value. Cost of investment relates wholly to the shareholding in the Company's direct subsidiary, Electricity North West Number 1 Company Limited.

Details of the investments as at 31 March 2020, 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 Limited	Ordinary shares of £1 each	100%	Dormant
Joint venture			
Nor.Web DPL Limited	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 of the investments above is Borron Street, Stockport, SK1 2JD, with the exception of Nor.Web DPL Limited whose registered office is 304 Bridgewater Place, Birchwood Park, Warrington, WA3 6XG.

15. Inventories

Group and Company	2020 £m	2019 £m
Raw material and consumables	10.8	12.2

Notes to the Financial Statements (continued)**16. Trade and other receivables**

Group and Company	2020 £m	2019 £m
Trade receivables	7.9	5.3
Amounts owed by affiliated undertakings (Note 31)	5.8	4.5
Prepayments and accrued income	49.7	47.9
Balance at 31 March	63.4	57.7

The average credit period taken on sales is 14 days (2019: 14 days). Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £1.3m (2019: £1.3m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

At 31 March 2020, 44% of the Group trade receivables are past due but not impaired (2019: 69%). A balance of £2.4m (2019: £1.7m) is less than 30 days past due; a balance of £2.2m is greater than 30 days past due (2019: £3.1m), against which an allowance for doubtful debt of £1.3m (2019: £1.3m) has been made.

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

Group and Company	2020 £m	2019 £m
Balance at 1 April	1.3	0.9
Amounts written off in the year	(0.3)	-
Amounts recognised in the income statement	0.3	0.4
Balance at 31 March	1.3	1.3

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

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 2020 £3.3m (2019: £2.2m) 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 for the year ended 31 March 2020 is £1,896m (2019: £1,820m) based on the actual retail price index (RPI) for March.

Notes to the Financial Statements (continued)**16. Trade and other receivables (continued)**

At 31 March 2020 £132.0m (2019: £133.8m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £7.2m (2019: £6.9m). 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

	2020	2019
Group and Company	£m	£m
Cash and cash equivalents	56.2	22.7
Balance at 31 March	56.2	22.7

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

The effective interest rate on all short-term deposits was a weighted average of 0.48% (2019: 0.79%) and these deposits had an average maturity of 1 day (2019: 1 day).

Notes to the Financial Statements (continued)**18. Trade and other payables**

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Trade payables	13.8	13.8	13.9	13.9
Amounts owed to affiliated undertakings (Note 31)	3.9	3.9	3.8	3.8
Amounts owed to subsidiary undertakings (Note 31)	-	15.4	-	15.4
Other taxation and social security	13.7	13.7	8.5	8.5
Customer contributions (Note 25)	20.3	20.3	24.6	24.6
Refundable customer deposits (Note 26)	3.3	3.3	2.2	2.2
Accruals and deferred income	71.2	71.5	67.6	67.9
Balance at 31 March	126.2	141.9	120.6	136.3

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 (2019: 19 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 financial risk management and exposure to credit risk, liquidity risk and market risk see Note 21.

Group and Company	2020 £m	2019 £m
Current liabilities		
Bank and other term borrowings	7.0	6.8
Lease liabilities (Note 20)	1.9	-
	8.9	6.8
Non-current liabilities		
Bonds	634.4	634.8
Bank and other term borrowings	282.0	253.0
Lease liabilities (Note 20)	3.6	-
Amounts owed to parent undertaking (Note 31)	77.4	75.3
Amounts owed to affiliated undertaking (Note 31)	199.3	198.7
	1,196.7	1,161.8
Total borrowings	1,205.6	1,168.6

Notes to the Financial Statements (continued)**19. Borrowings (continued)****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	2020 Carrying value £m	2019 Carrying value £m
Borrowings measured at amortised cost:					
Bond	200.0	8.875%	2026	197.5	197.1
Bond	250.0	8.875%	2026	286.5	291.5
Index-linked bond	100.0	1.4746%+RPI	2046	150.4	146.3
Index-linked loan	135.0	1.5911%+RPI	2024	172.5	168.8
Index-linked loan	50.0	0.38% +RPI	2032	41.8	44.1
Index-linked loan	50.0	0%+RPI	2033	44.8	46.9
Revolving credit facility	50.0	Libor+0.35%	2022	29.9	(0.1)
Lease liabilities (Note 20)				5.5	-
Amounts owed to parent undertaking	125.0	2.65%	2023	77.4	75.3
Amounts owed to affiliated undertaking	200.0	6.125%	2021	199.3	198.7
Total borrowings				1,205.6	1,168.6

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

Group and Company	2020 £m	2019 £m
At 1 April	1,168.6	1,237.3
Remeasurement on transition to IFRS 9	-	(71.0)
Recognition of lease liabilities on transition to IFRS 16 (Note 1)	6.7	-
Proceeds from external borrowings	30.0	-
Repayments of external borrowings	(7.0)	(6.7)
Repayments of lease liabilities – capital (Note 1)	(1.2)	-
Movement of inter-company loan from parent	2.1	1.6
Indexation (Note 9)	10.2	11.4
Amortisation of transaction costs, bond discounts and premiums	(3.8)	(4.0)
At 31 March	1,205.6	1,168.6

Notes to the Financial Statements (continued)**19. Borrowings (continued)**

As at 31 March 2020 all loans and borrowings are unsecured and are in sterling (2019: same). There were no formal bank overdraft facilities in place (2019: same). The fair values of the Group's financial instruments are shown in Note 21.

Borrowing facilities

The Group and Company had £20m (2019: £50m) unutilised committed bank facilities at 31 March 2020; £nil (2019: £nil) expires within one year, £20.0m (2019: £nil) expires after one year but less than two years and £nil (2019: £50m) expires in more than two years.

20. Leases

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Lease assets:				
Land and buildings	2.5	-	-	-
Telecom	0.2	-	-	-
Vehicles	2.4	-	-	-
Total assets (Note 13)	5.1	-	-	-
Lease liabilities:				
Land and buildings	2.9	-	-	-
Telecom	0.2	-	-	-
Vehicles	2.4	-	-	-
Total liabilities (Note 21)	5.5	-	-	-

IFRS 16 was adopted on 1 April 2019 and the modified retrospective approach has been applied, without restatement of comparatives. The lease liabilities have been discounted at 5% for telecom, land and buildings, and at 6% for vehicles.

The following is an analysis of the maturity profile of the lease liabilities.

	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
Group and Company						
At 31 March 2020:						
Total liabilities	1.9	2.0	0.7	0.2	0.7	5.5

Notes to the Financial Statements (continued)

21. 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.

Categories of financial instruments

	Group 2020	Company 2020	Group 2019	Company 2019
Group and Company	£m	£m	£m	£m
Financial assets:				
Cash and cash equivalents (Note 17)	56.2	56.2	22.7	22.7
Trade and other receivables (Note 16)	50.3	50.3	47.3	47.3
Financial liabilities:				
Derivative instruments at FVTPL	(416.9)	(416.9)	(404.6)	(404.6)
Financial liabilities at amortised costs (Note 19)	(1,205.6)	(1,205.6)	(1,168.6)	(1,168.6)
Trade and other payables (Note 18)	(64.2)	(64.2)	(66.0)	(66.0)

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 significant 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.

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

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.

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 2020, none (2019: 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	2020 £m	2020 %	2019 £m	2019 %
AAA	23.2	29.7	13.3	25.7
AA	-	-	-	-
AA-	1.7	2.1	3.7	7.2
A+	33.7	43.1	10.0	19.3
A	19.7	25.1	24.7	47.8
	78.3	100.0	51.7	100.0

Notes to the Financial Statements (continued)
21. Financial instruments (continued)**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 (2019: 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 2020 there was £4.6m receivables past due (2019: £4.8m) against which an allowance for doubtful debts of £1.3m has been made (2019: £1.3m).

Exposure to credit risk

The table below shows the maximum exposure to credit risk, represented by the carrying value 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	2020 £m	2019 £m
Trade receivables (Note 16)	7.9	5.3
Amounts owed by Group undertakings (Note 16)	5.8	4.5
Cash and cash equivalents (Note 17)	56.2	22.7
Balance at 31 March	69.9	32.5

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

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 2048. 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, subject to excluding any ENWL and ENW Finance plc debt maturing between 12 and 18 months whilst maintaining appropriate credit ratings.

Available liquidity at 31 March was as follows:

	2020	2019
Group and Company	£m	£m
Cash and cash equivalents	56.2	22.7
Committed undrawn bank facilities	20.0	50.0
Balance at 31 March	76.2	72.7

Cash and cash equivalents comprise cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of less than three months, net of any unpresented cheques. There was no formal bank overdraft facility in place during the year (2019: none).

At 31 March 2020, the Group and Company had committed undrawn bank facilities of £20.0m (2019: £50.0m), including £nil (2019: £nil) expiring within one year, £20.0m (2019: £nil) expiring after one year but less than two years and £nil (2019: £50.0m) 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.

Notes to the Financial Statements (continued)**21. Financial instruments (continued)**

Group and Company	<1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	>4 years £m	Total £m
At 31 March 2020:						
Trade payables	(13.8)	-	-	-	-	(13.8)
Refundable customer deposits	(3.3)	-	-	-	-	(3.3)
Amounts owed to parent undertaking	(2.0)	(2.0)	(80.0)	-	-	(84.0)
Amounts owed to affiliated companies	(12.3)	(206.1)	-	-	-	(218.4)
Bonds	(42.2)	(42.2)	(42.2)	(42.2)	(731.8)	(900.6)
Borrowings and overdrafts	(39.9)	(9.9)	(9.9)	(182.4)	(59.6)	(301.7)
Derivative financial instruments	9.6	4.1	(9.6)	(42.1)	(264.1)	(302.1)
	(103.9)	(256.1)	(141.7)	(266.7)	(1,055.5)	(1,823.9)
At 31 March 2019:						
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)
	(72.3)	(56.2)	(255.1)	(137.6)	(1,271.6)	(1,792.8)

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.

Notes to the Financial Statements (continued)**21. Financial instruments (continued)****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, a range in outcomes that management deem reasonably possible within the next financial year.

Group and Company	2020			2019		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
Change in interest rates	£m	£m	£m	£m	£m	£m
Inflation-linked swaps	(57.7)	52.0	99.0	(66.7)	46.3	94.5
Total finance expense impact	(57.7)	52.0	99.0	(66.7)	46.3	94.5

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 2020, the Group had £30.0m floating rate borrowings (2019: £nil). The analysis below shows the impact on profit for the year if interest rates over the course of the year had been different from the actual rates.

Notes to the Financial Statements (continued)**21. Financial instruments (continued)**

Group and Company	2020			2019		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
Change in interest rates	£m	£m	£m	£m	£m	£m
Floating rate borrowings	-	-	-	-	-	-
Total cash flow impact	-	-	-	-	-	-

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, a range in outcomes that management deem reasonably possible within the next financial year.

Group and Company	2020			2019		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
Change in inflation rates	£m	£m	£m	£m	£m	£m
Inflation-linked swaps	66.7	(73.2)	(153.7)	42.8	(45.3)	(100.6)
Total finance expense impact	66.7	(73.2)	(153.7)	42.8	(45.3)	(100.6)

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.

Notes to the Financial Statements (continued)**21. Financial instruments (continued)**

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. The change in indexation has a corresponding impact on the carrying value of the inflation-linked debt.

Group and Company	2020			2019		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
Change in inflation rates	£m	£m	£m	£m	£m	£m
Inflation-linked borrowings – indexation charge	2.1	(2.1)	(4.0)	2.1	(2.1)	(4.0)
Inflation-linked borrowings – interest charge	-	-	(0.1)	-	-	(0.1)
Inflation-linked swaps – interest charge	0.1	(0.1)	(0.1)	0.1	(0.1)	(0.1)
Total finance expense impact	2.2	(2.2)	(4.2)	2.2	(2.2)	(4.2)

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Change in liabilities arising from financing activities

The table below shows changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

Group and Company	At 31 March 2019 £m	Financing cash flows £m	Non-cash changes				At 31 March 2020 £m
			Amounts on transition to IFRS 16 £m	Fair value movement £m	Indexation £m	Other changes £m	
Bonds	634.8	-	-	-	4.1	(4.5)	634.4
Bank borrowings	259.8	23.0	-	-	6.1	0.1	289.0
Lease liabilities	-	(1.2)	6.7	-	-	-	5.5
Amounts owed to parent	75.3	2.1	-	-	-	-	77.4
Amount owed to affiliate	198.7	-	-	-	-	0.6	199.3
Derivatives	404.6	-	-	12.3	-	-	416.9
	1,573.2	23.9	6.7	12.3	10.2	(3.8)	1,622.5

Group and Company	At 31 March 2018 £m	Financing cash flows £m	Non-cash changes				At 31 March 2019 £m
			Amounts on transition to IFRS 9 £m	Fair value movement £m	Indexation £m	Other changes £m	
Bonds	705.6	-	(71.0)	-	4.6	(4.4)	634.8
Bank borrowings	259.8	(6.7)	-	-	6.8	(0.1)	259.8
Lease liabilities	-	-	-	-	-	-	-
Amounts owed to parent	73.7	1.6	-	-	-	-	75.3
Amount owed to affiliate	198.2	-	-	-	-	0.5	198.7
Derivatives	357.3	-	-	47.3	-	-	404.6
	1,594.6	(5.1)	(71.0)	47.3	11.4	(4.0)	1,573.2

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments to change the basis of interest cash flows from fixed to inflation-linked to more accurately match the revenue profile. The table below summarises the various external derivatives held by the Group at 31 March 2020 (2019: same); each category includes multiple instruments and the pay leg rate stated is the aggregate rate for that category.

Notional	Number	Type	Maturity	Pay Leg	Receive Leg	Accretion
£200m*	14	Index-linked	2038	3.56% + RPI, semi-annual	6.125%, semi-annual	5-yearly, next due July 2022 7-yearly, next due July 2023
£100m**	4	Index-linked	2050	1.51%+RPI, semi-annual	8.875%, annual	10-yearly, next due Sept 2030

*6.125% up to and including the 21 July 2021 settlement date, then changes to 6m Libor for the remaining term of the instruments.

**8.875% up to and including the 26 March 2026 settlement date, then changes to 6m Libor for the remaining term of the instruments.

The Company also has two inter-company swaps with ENW Finance plc. The first is a back-to-back swap, mirroring the terms of the £200m notional external swaps. The second is a mirror of that back-to-back swap, the terms of which are defined in the £200m inter-company loan between the two entities; this is an embedded derivative that is bifurcated from the host contract and recorded as a separate instrument.

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 2020, the Group's derivatives are not designated in formal hedging relationships (2019: same), and instead are measured at fair value through the Income Statement.

Notes to the Financial Statements (continued)**21. 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	2020 Carrying value £m	2020 Fair value £m	2019 Carrying value £m	2019 Fair value £m
Non-current liabilities:				
Borrowings measured at amortised cost (Note 19)	(928.9)	(1,180.8)	(894.6)	(1,134.3)
Amounts due to parent undertaking (Note 19)	(77.4)	(77.4)	(75.3)	(75.3)
Amounts due to affiliated companies (Note 19)	(199.3)	(212.3)	(198.7)	(221.2)
Derivative financial instruments	(416.9)	(416.9)	(404.6)	(404.6)
	(1,622.5)	(1,887.4)	(1,573.2)	(1,835.4)

The value of derivatives is disclosed gross of any collateral held. At 31 March 2020, the group held £nil (2019: £nil) as collateral in relation to derivative financial instruments, included within current liabilities (see Note 18). The cash collateral does not meet the offsetting criteria in IAS 32:42, but it can be set off against the net amount of the derivatives in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

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).

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position (continued)

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 2020, is £106.8m (2019: £100.5m), of which £106.3m (2019: £100.3m) 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 £56.6m (2019: £60.7m). The movement in the period all relates to the straight-line release to profit or loss.

Notes to the Financial Statements (continued)**21. Financial instruments (continued)**

Group	2020 £m	2019 £m
FV of derivatives pre IFRS 13 adjustment	(580.3)	(565.8)
CVA/DVA adjustment	106.8	100.5
Day 1 adjustment	56.6	60.7
IFRS 13 FV of derivatives	(416.9)	(404.6)

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	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2020:				
Derivative financial liabilities:				
-£300m notional inflation-linked swaps	-	(12.6)	(404.3)	(416.9)
	-	(12.6)	(404.3)	(416.9)
At 31 March 2019:				
Derivative financial liabilities:				
-£300m notional inflation-linked swaps	-	(9.2)	(395.4)	(404.6)
	-	(9.2)	(395.4)	(404.6)

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

Group and Company	2020 £m	2019 £m
At 1 April	(395.4)	(322.7)
Transfers into Level 3 from Level 2	-	(30.0)
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)
- On instruments carried forward in Level 3	(8.9)	(36.8)
At 31 March	(404.3)	(395.4)

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.

Notes to the Financial Statements (continued)**21. Financial instruments (continued)**

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

Group and Company	2020	2020	2019	2019
	-10bps £m	+10bps £m	-10bps £m	-10bps £m
Inflation-linked swaps	(2.0)	1.9	(2.2)	2.1

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

Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2020:				
Borrowings measured at amortised cost	(1,180.8)	-	-	(1,180.8)
Amounts due to affiliated companies	(212.3)	-	-	(212.3)
	(1,393.1)	-	-	(1,393.1)
At 31 March 2019:				
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)

Notes to the Financial Statements (continued)

22. 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 scheme completed a pensioner buy-in for around 80% of the its pensioner liabilities. This has the effect of removing longevity and investment risks for this part of the membership. The gross liability remains recognised on the balance sheet, with an equivalent insurance asset recognised. The impact of the purchase of the pensioner buy-in has been recognised as part of Other Comprehensive Income in the year.

During the year the Group made contributions of £30.3m (2019: £30.8m) to the defined benefit section of the Scheme. This includes £18.3m (2019: £17.8m) of deficit contributions. The Group estimates that contributions for the year ending 31 March 2021 will amount to around £29.8m which includes £18.9m of expected deficit contribution payments. The total defined benefit pension expense for the year was £15.2m (2019: £21.2m). No Executive Directors were part of the defined benefit scheme.

As at 31 March 2020 contributions of £2.5m (2019: £2.5m) 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.

The most recent triennial funding valuation of the scheme was carried out as at 31 March 2019 and identified a shortfall of £69.5m against the Trustee Board's statutory funding objective. In addition to the timing of the two valuations, the contributions made in the period and the return on assets, the main difference is due to the different assumptions used by the IAS 19 and the funding valuation. In the event of underfunding, the Group must agree a deficit recovery plan with the Trustee Board within statutory deadlines. As part of the 2019 actuarial valuation, the Group agreed to eliminate the shortfall by paying additional annual contributions in the period to March 2023.

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

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 December 2019 and identified a shortfall of £69.5m 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 2019 actuarial valuation the Group agreed to remove the shortfall by paying annual contributions to 2023.

The results of the 2019 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 2020 for the purpose of these financial statements. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension deficit under IAS 19 (revised 2011) of £26.2m is included in the Statement of Financial Position at 31 March 2020 (2019: surplus of £32.8m).

The weighted average duration of the defined benefit obligation is approximately 17 years (2019: 19 years).

Investment risks

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 Scheme Trustee to ensure these interests are considered alongside those of the members of the pension scheme.

Other risks

In addition to investment risks, the Scheme exposes the Group to other risks, such as longevity risk, inflation risk, interest rate 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. In particular in October 2019 the Scheme completed a pensioner buy-in with Scottish Widows for around 80% of the Scheme's pensioner liabilities. This had the effect of removing longevity and investment risks for this part of the membership.

COVID-19 risks

The COVID-19 pandemic began to unfold in early 2020 and continues to progress. The negative impact on asset valuations through March was significant. For traded asset classes, a value as at 31 March was available and has been used in the pension scheme asset valuation. However, the scheme also contains a number of unquoted asset classes, especially in real estate, the valuation of which is less certain. Independent investment manager expertise has guided the asset valuations used for these less liquid assets. As such there is an increased level of estimation uncertainty around certain valuations as at 31 March 2020.

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

Winding up

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

Defined Contribution arrangements

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

The total cost charged to the Income Statement in relation to the defined contribution section for the year ended 31 March 2020 was £5.7m (2019: £4.9m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2020 contributions of £nil (2019: £nil) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

Defined Benefits employee benefits

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

Group and Company	2020 £m	2019 £m
At 1 April	32.8	(18.2)
Expense recognised in the Income Statement	(15.2)	(21.2)
Contributions paid	30.3	30.8
Total re-measurement included in Other Comprehensive Income	(74.1)	41.4
At 31 March	(26.2)	32.8

The balance recognised in the Statement of Financial Position is as follows:

Group and Company	2020 £m	2019 £m
Present value of defined benefit obligations	(1,317.9)	(1,372.1)
Fair value of plan assets	1,291.7	1,405.9
Net (liability)/ asset arising from defined benefit obligation	(26.2)	32.8

Notes to the Financial Statements (continued)**22. Retirement benefit schemes (continued)**

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

Group and Company	2020 £m	2019 £m
At 1 April	1,372.1	1,388.2
Current service cost	15.0	15.5
Interest expense	32.3	35.4
Member contributions	1.6	1.7
Past service costs:		
Augmentation	-	0.6
GMP equalisation	-	4.1
Re-measurement:		
Effect of changes in demographic assumptions	12.4	(68.2)
Effect of changes in financial assumptions	(43.4)	71.3
Effect of experience adjustments	(6.5)	-
Benefits paid	(65.6)	(76.5)
At 31 March	1,317.9	1,372.1

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

Group and Company	2020 £m	2019 £m
Liabilities owing to active members	394.0	473.6
Liabilities owing to deferred members	83.0	70.5
Liabilities owing to pensioner members	840.9	828.0
Total liability at 31 March	1,317.9	1,372.1

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

Group and Company	2020 £m	2019 £m
At 1 April	1,404.9	1,370.0
Interest income	33.3	35.1
Return on plan assets (net of interest income)	(111.6)	44.5
Employer contributions	30.3	30.8
Member contributions	1.6	1.7
Benefits paid	(65.6)	(76.5)
Scheme administration expenses	(1.2)	(0.7)
At 31 March	1,291.7	1,404.9

Notes to the Financial Statements (continued)**22. Retirement benefit schemes (continued)**

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	2020 £m	2019 £m
Current service cost	(15.0)	(15.5)
Past service cost:		
Augmentation	-	(0.6)
GMP equalisation	-	(4.1)
Interest income on plan assets	33.3	35.1
Interest (expense) on Scheme obligations	(32.3)	(35.4)
Administration expenses	(1.2)	(0.7)
Net pension expense before taxation	(15.2)	(21.2)

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 finance expense (Note 9).

The amounts recognised in Other Comprehensive Income is as follows:

Group and Company	2020 £m	2019 £m
Return on scheme assets excluding interest income	(111.6)	44.4
Actuarial (losses)/ gains arising from changes in demographic assumptions	(12.4)	68.4
Actuarial gains/ (losses) arising from changes in financial assumptions	43.4	(71.3)
Experience gains on liabilities	6.5	-
Total (loss)/ gain recognised in Other Comprehensive Income	(74.1)	41.5

Notes to the Financial Statements (continued)

22. Retirement benefit schemes (continued)

In the prior year, 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.

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

Group and Company	2020 %	2019 %
Discount rate	2.20	2.40
Pensionable salary increases	2.70	3.25
Pension increases	2.70	3.10
Price inflation (RPI)	2.70	3.25

The mortality rates utilised in the valuation are based on the standard actuarial tables SAPS S2 (birth year) tables with a loading of 100% for male pensioners (2019: 95%), 95% for female pensioners (2019: 90%), 110% for male non-pensioners/future pensioners (2019: 105%) and 105% for female non-pensioners/future pensioners (2019: 100%). 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 2019 model (2019: CMI 2018 model).

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

Group and Company	2020	2019
Male life expectancy at age 60	Years	Years
Retired member	27.1	26.8
Non-retired member (current age 45)	27.6	27.3

Notes to the Financial Statements (continued)**22. Retirement benefit schemes (continued)**

The following table presents a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the Statement of Financial Position date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension deficit, 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	2020	2019
Increase in Defined Benefit Obligation	£m	£m
Discount rate: decrease by 25 basis points	57.9	65.0
Price inflation: increase by 25 basis points	52.5	60.6
Life expectancy: increase longevity by 1 year	59.0	52.5

As at 31 March 2020, the fair value of the Scheme's assets and liabilities recognised in the Statement of Financial Position were as follows:

	Scheme assets	Quoted on exchange / liquid	Unquoted	Total Value	Scheme assets	Value
Group and Company	2020			2020	2019	2019
At 31 March	%			£m	%	£m
Cash and Cash equivalents	0.8	10.6	-	10.6	1.0	13.6
Equity instruments	2.7	35.3	-	35.3	2.7	38.3
Debt instruments	32.1	321.2	93.3	414.5	84.5	1,187.1
Real estate	11.3	-	146.4	146.4	10.0	140.6
Distressed debt	1.3	-	16.2	16.2	1.7	23.5
Hedge funds	0.0	-	-	-	0.1	1.8
Pensioner buy-in	51.8	-	668.7	668.7	-	-
Total fair value of assets	100.0	367.1	924.6	1,291.7	100.0	1,404.9
Present value of liabilities				(1,317.9)		(1,372.1)
Net retirement benefit obligation				(26.2)		32.8

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

Notes to the Financial Statements (continued)**23. Provisions**

Group and Company	2020 £m	2019 £m
At 1 April	3.0	3.1
Amounts charged to the income statement (Note 5)	-	0.7
Amounts released to the income statement (Note 5)	(0.2)	(0.2)
Reclassified under IFRS 16 as property lease liabilities	(0.6)	-
Utilisation of provision	(0.4)	(0.6)
At 31 March	1.8	3.0

Group and Company	2020 £m	2019 £m
Current	0.1	0.8
Non-current	1.7	2.2
At 31 March	1.8	3.0

During the year ended 31 March 2020 a provision was created in connection with a portfolio of retail properties for which the Company was liable under privity of contract. The closing provision of £0.1m at 31 March 2020 (2019: £1.1m), which now relates to one out of town retail property, 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. During the year, £0.6m of the provision was reclassified under IFRS 16 as property lease liabilities. 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 2020 of £1.7m (2019: £1.9m) on a discounted basis relates to the Company's 6.7% share of the liabilities.

Notes to the Financial Statements (continued)**24. 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 2018	194.2	(3.3)	(54.9)	136.0
Opening reserve adjustment on transition to IFRS 9	-	-	12.2	12.2
Charged/(credited) to the Income Statement	0.8	1.6	(7.6)	(5.2)
Deferred tax on re-measurement of defined benefit pension scheme	-	7.0	-	7.0
At 31 March 2019	195.0	5.3	(50.3)	150.0
Charged/(credited) to the Income Statement	24.3	5.2	(8.0)	21.5
Deferred tax on re-measurement of defined benefit pension scheme	-	(14.0)	-	(14.0)
Adjustment due to change in future tax rates brought forward deferred tax in OCI	-	(1.7)	-	(1.7)
At 31 March 2020	219.3	(5.2)	(58.3)	155.8

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

Other timing differences relates primarily to derivative instruments, but also includes general provision, pension contributions not paid, rollover relief, IFRS9 and IFRS16 transitional adjustments.

Notes to the Financial Statements (continued)**25. 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	2020 £m	2019 £m
At 1 April	661.8	641.3
Additions during the year	32.9	37.8
Amortised through revenue	(18.3)	(17.3)
At 31 March	676.4	661.8
Split:		
Amounts due in less than one year (see Note 18)	20.3	24.6
Amounts due after more than one year	656.1	637.2
At 31 March	676.4	661.8

26. Refundable customer deposits

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

Group and Company	2020 £m	2019 £m
Amounts due in less than one year (see Note 18)	3.3	2.2
Amounts due after more than one year	-	-
At 31 March	3.3	2.2

Notes to the Financial Statements (continued)**27. Called up share capital**

Company	2020	2019
	£	£
Authorised:		
569,999,996 ordinary shares of 50 pence each	284,999,998	284,999,998
4 'A' ordinary shares of 50 pence each	2	2
Special rights redeemable preference share of £1	1	1
At 31 March	285,000,001	285,000,001

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

Notes to the Financial Statements (continued)

28. Shareholders' Equity

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Group:						
At 1 April 2019	238.4	4.4	88.2	8.6	607.1	946.7
Opening adjustment on transition to IFRS 16	-	-	-	-	0.2	0.2
Tax impact on opening adjustment	-	-	-	-	-	-
Opening reserves	238.4	4.4	88.2	8.6	607.3	946.9
Profit for the year	-	-	-	-	102.1	102.1
Other comprehensive expense for the year	-	-	-	-	(58.4)	(58.4)
Transfer from revaluation reserve	-	-	(4.1)	-	4.1	-
	-	-	(4.1)	-	47.8	43.7
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(38.3)	(38.3)
At 31 March 2020	238.4	4.4	84.1	8.6	616.8	952.3
Company:						
At 1 April 2019	238.4	4.4	88.2	8.6	606.8	946.4
Opening adjustment on transition to IFRS 16	-	-	-	-	0.2	0.2
Tax impact on opening adjustment	-	-	-	-	-	-
Opening reserves	238.4	4.4	88.2	8.6	607.0	946.6
Profit for the year	-	-	-	-	102.1	102.1
Other comprehensive expense for the year	-	-	-	-	(58.4)	(58.4)
Transfer from revaluation reserve	-	-	(4.1)	-	4.1	-
	-	-	(4.1)	-	47.8	43.7
Transactions with owners recorded directly in equity						
Equity dividends (Note 11)	-	-	-	-	(38.3)	(38.3)
At 31 March 2020	238.4	4.4	84.1	8.6	616.5	952.0

Notes to the Financial Statements (continued)

28. Shareholders' Equity (continued)

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.

The capital redemption reserve is a non-distributable reserve specifically for the purchase of own shares.

29. 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 28. 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 39 to 54.

Notes to the Financial Statements (continued)**30. Ultimate parent undertaking and controlling party**

The immediate parent undertaking is NWEN plc, a company incorporated and registered in the United Kingdom. The address of the immediate parent undertaking is Borron Street, Stockport, Cheshire SK1 2JD.

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).

Following a staged acquisition, there was a change in ownership of the shares in NWEN (Jersey) during the year and, therefore, a change in the ultimate controlling parties of the Company.

Following completion of the sale on 3 December 2019, the ultimate shareholdings are:

- KDM Power Limited (40.0%);
- Equitix ENW 6 Limited (25.0%)
- Equitix MA North HoldCo Limited (15.0%)
- Swingford Holding Corporation Limited (20.0%)

31. Related party transactions

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

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Recharges to:				
Electricity North West (Construction and Maintenance) Ltd	1.6	1.6	1.6	1.6
Electricity North West Services Ltd	1.8	1.8	1.8	1.8
Recharges from:				
Electricity North West (Construction and Maintenance) Ltd	(0.1)	(0.1)	(0.1)	(0.1)
Electricity North West Services Ltd	(6.7)	(6.7)	(7.6)	(7.6)
Interest payable to:				
North West Electricity Networks plc	(2.0)	(2.0)	(2.0)	(2.0)
ENW Finance plc	(12.5)	(12.5)	(12.7)	(12.7)
Total interest payable (Note 9)	(14.5)	(14.5)	(14.7)	(14.7)
 Dividends paid to North West Electricity Networks plc	 (38.3)	 (38.3)	 (46.3)	 (46.3)
 Directors' remuneration (Note 7)	 (2.2)	 (2.2)	 (2.0)	 (2.0)
Directors' services	-	-	(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.

Notes to the Financial Statements (continued)**31. Related party transactions (continued)**

Amounts outstanding with related parties are as follows:

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Amounts owed by:				
North West Electricity Networks plc	3.4	3.4	3.5	3.5
Electricity North West (Construction and Maintenance) Ltd	0.6	0.6	0.4	0.4
Electricity North West Services Ltd	0.6	0.6	0.3	0.3
Electricity North West Property Ltd	0.1	0.1	-	-
North West Electricity Networks (Jersey) Ltd	0.9	0.9	0.1	0.1
North West Electricity Networks (Holdings) Ltd	0.2	0.2	0.2	0.2
Total (Note 16)	5.8	5.8	4.5	4.5
Amounts owed to subsidiaries:				
Electricity North West Number 1 Company Ltd (Note 18)	-	(15.4)	-	(15.4)
Interest payable to Group:				
North West Electricity Networks plc	(0.6)	(0.6)	(0.6)	(0.6)
ENW Finance plc	(2.5)	(2.5)	(2.5)	(2.5)
Transaction costs	(0.4)	(0.4)	-	-
Other amounts payable to Group:				
Electricity North West Services Ltd	(0.4)	(0.4)	(0.7)	(0.7)
Total amounts owed to Group (Note 18)	(3.9)	(3.9)	(3.8)	(3.8)
Borrowings payable to:				
North West Electricity Networks plc (Note 19)	(77.4)	(77.4)	(75.3)	(75.3)
ENW Finance plc (Note 19)	(199.3)	(199.3)	(198.7)	(198.7)
Group tax relief to:				
North West Electricity Networks plc	(7.9)	(7.9)	(5.0)	(5.0)
Electricity North West Services Ltd	-	-	-	-

The loan from NWEN plc accrues weighted average interest at 2.70% (2019: 2.70%) and is repayable in March 2023. The loan from ENW Finance plc accrues interest at 6.125% (2019: 6.125%) and is repayable in July 2021.

Fees of £nil (2019: £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 was identified as a related party in the prior year and for a portion of the current year, prior to the acquisition as per Note 30.

Fees of £0.1m (2019: £0.1m) were payable to IIF Int'l Holding GP Ltd ('IIF') in respect of the provision of Directors' services. IIF was identified as a related party in the prior year and for a portion of the current year, prior to the acquisition as per Note 30.

Notes to the Financial Statements (continued)**32. Cash generated from operations**

Group and Company	2020 £m	2019 £m
Operating profit	212.2	190.5
Adjustments for:		
Depreciation of property, plant and equipment	114.9	110.7
Amortisation of intangible assets	6.5	6.2
Amortisation of customer contributions	(18.3)	(17.6)
Profit on disposal of property, plant and equipment	(0.6)	(0.4)
Cash contributions in excess of pension charge to operating profit	(22.5)	(18.0)
Operating cash flows before movements in working capital	292.2	271.4
Changes in working capital:		
Decrease/(increase) in inventories	1.5	(1.8)
(Increase)/decrease in trade and other receivables	(5.7)	5.0
Increase/(decrease) in payables	9.6	(7.0)
Cash generated from operations	297.6	267.6