electricity north west

Bringing energy to your door

Annual Report and Consolidated Financial Statements

for the year ended 31 March 2015

Electricity North West Limited
Registered number 02366949

Electricity North West Limited ("Electricity North West" or "the Company") is the electricity distributor for the North West of England. We own, invest in, operate and maintain the network of poles, wires, transformers and cables which carry electricity from the national grid to 2.4 million premises and 5 million customers. Our job is to keep electricity flowing safely to our customers' homes and businesses, keeping the lights on 24 hours a day, 7 days a week.

We are pleased to present the Annual Report and Consolidated Financial Statements of the Company and its subsidiaries (together referred to as the 'Group') to shareholders for the year ended 31 March 2015. Further information on our Company can also be found by visiting our website: www.enwl.co.uk.

Notice regarding limitations on directors' liability under English law

The information supplied in the strategic report and directors' report has been drawn up and presented in accordance with English company law. The liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Strategic Report

In preparing the Strategic Report, the directors have complied with s417 of the Companies Act 2006. The strategic report has been prepared for the Electricity North West Group as a whole comprising of Electricity North West Limited and its non trading subsidiaries ("the Group").

Cautionary statement regarding forward-looking statements

The Chairman's Statement, Chief Executive Officer's Statement and Strategic Report section of the Annual Report and Consolidated Financial Statements ('the annual report') have been prepared solely to provide additional information to the shareholders to assess the Group strategies and the potential for those to succeed. These sections and other sections of the annual report contain certain forward looking statements that are subject to factors associated with, amongst other matters, the economic and business circumstances occurring within the region and country in which the group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those anticipated at the date of the annual report. The Group does not undertake any obligation to update or revise these forward-looking statements, except as may be required by law or regulation.

Regulatory reporting and regulatory audits for the year ended 31 March 2015

Certain regulatory performance data contained in this annual report remains 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 2015 are not due for submission to Ofgem until July 2015, and will be reviewed by Ofgem thereafter.

Website and investor relations

Electricity North West's website www.enwl.co.uk gives additional information on the Company and Group. Notwithstanding the references we make in this annual report to Electricity North West's website, none of the information made available on the website constitutes part of this annual report or shall be deemed to be incorporated by reference herein. Interested institutional debt investors can also gain access to additional financial information by contacting the Head of Strategic Planning and Investor Relations (contact details at our website).

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Chairman's Statement

I am pleased to present the results for the year ended 31 March 2015 and confirm that the group has continued its strong financial and operational performance during the period as we have prepared for the end of the five year regulatory price control period entering the new eight year price control.

I joined the board as chairman in March 2014 and would like to take this opportunity to thank my board colleagues for their continued commitment and valued contribution throughout the year.

We have continued to develop and enhance our corporate governance this year and we have begun a board evaluation process that will alternate between internal and external evaluation on a year by year basis.

I would like to thank the Executive Leadership Team and all of our employees for their hard work and commitment in delivering our financial and operational results.

I would particularly like to thank those employees and our contractors who work tirelessly, sometimes in dreadful weather conditions, to maintain or restore power to the homes and businesses in our region. It is their drive and determination that ensures we can continue to deliver for our customers and communities and develop our network to meet the demands of the future.

Dr John Roberts CBE
Chairman

Dr John Roberts CBE
Chairman

Chief Executive Officer's Statement

The 2014/15 year concluded the DPCR5 price review period and reflected the culmination of five years of significant improvements in the business, most notably in the key areas of network reliability and of customer satisfaction.

April 2015 marks the start of the new, 8 year, RIIO-ED1 price review period which will again be extremely challenging for all DNOs, demanding further improvements in performance for our customers, with reductions in costs.

To meet this challenge, over the course of the year, we have continued to invest, at record levels, in the network and in our people, but have additionally undergone major changes both in management structures and improved systems.

We are now in a strong position to meet these demands and our RIIO targets and provide the best service possible for our 5 million customers, alongside continuing to further improve and innovate.

Steve Johnson
Chief Executive Officer

Highlights

Safety

As always, the safety of the public, our own employees and our contractors continues to be our top priority. During the year we have encouraged our people to be more aware of hazards in the working environment, empowering our people to question their own and their colleagues' behaviour and encouraging the reporting of near misses and hazards, all of which helps to underpin our safety culture. As a result of our focus in this area I am pleased to see the increase in the number of near miss reports to 4,800 from 685 in the prior year.

Customer

Customer satisfaction improved over the past year to 83% but we recognise the need to continue to focus on this area, particularly in how we communicate with our customers as well as the reliability and accuracy of the information we provide. Reflecting the changing requirements of our customers we have increased the use of more varied communication channels such as Twitter and SMS messaging.

Our overall customer service has been recognised during the year with the award of the Service Mark Accreditation from the Institute of Customer Service. This accreditation demonstrates the improvements we have made in this area, supporting our overall goal to deliver outstanding customer service.

Reliability

A key priority for us is to 'keep the lights on' for our customers, and I am pleased to report the significant improvement in this area, both last year and over the whole 5 year period.

Over the last five years we have invested £1.1 billion, with investment in 2014/15 being the highest ever at £250 million.

Over the last 5 years, we have delivered a 26% reduction in the number of interruptions our customers experience ("Customer Interruptions") and the length of time they are without supply ("Customer Minutes Lost"). Notably this performance significantly exceeded Ofgem targets in both of these key reliability measures.

Affordability

Not surprisingly, stakeholder feedback regularly tells us that affordability is one of the top priorities for customers, and a fundamental feature of our Well Justified Business Plan was around cost efficiencies.

In November 2014, Ofgem announced their final determination for the RIIO-ED1 period. The price cut that we are delivering for our customers is the biggest of any region in Great Britain.

I am delighted to note that, as part of the review Ofgem singled out Electricity North West's business plan as the most efficient of all DNOs.

Sustainability and Innovation

Our role is to think and deliver for the long term. I am delighted with the progress we have made in trialling new technologies and innovations through our flagship innovation projects including our latest project, Respond, which is detailed in the Strategic Report. Increasingly such innovation work has developed into commercial delivery to help ensure secure, but cost effective, supply for future customers recognising the challenges of the low carbon economy and forecast increases in demand.

We have continued our role in helping to tackle fuel poverty through our Power Saving Challenge. The first project of its kind in the country has been piloted in the North West encouraging consumers to become more energy efficient. I am also delighted that this project has been shortlisted for the Business in the Community Responsible Business Awards.

People

Our Company structure has served us well in recent years, but it is clear that RIIO-ED1 brought new challenges. We recognised the need for a simplified structure that focused on clear accountabilities to enable us to deliver our commitments. Over the past year, we have been working towards a new Company structure and that process has now been completed.

Outlook

This is an exciting and challenging time as we enter the new RIIO-ED1 price review period. Our strong operational and financial performance in the year provides a firm foundation for the business as we face these new challenges. With the continued commitment and support of our employees I am confident that we will continue to improve the service we provide to our customers and the overall performance of the business

Steve Johnson
Chief Executive Officer

Company background and developments

Electricity North West is the electricity distributor for the North West of England. We employ over 1,600 people and provide a safe and reliable electricity supply to our 5 million customers in 2.4 million premises, keeping the lights on 24 hours a day, 7 days a week.

We own and operate a safe, reliable and efficient network of pylons, poles, cables, transformers and switchgear. We charge electricity supply companies for the use of our network and they in turn pass on these costs to their customers. Our costs account for around 23% of a typical annual domestic electricity bill, or £113 per annum in 2014/15 (2013/14: £105).

The electricity industry and our role in it

The electricity industry in Great Britain is divided into four main sectors:

(i) The **generation** companies produce electricity from a variety of sources such as coal and gas power stations and wind turbines.

(ii) The **transmission** companies own and operate the extra high voltage network which links the major power stations to the distribution networks and transport electricity in bulk across the country. National Grid Electricity Transmission is responsible for the transmission network in England and Wales.

(iii) The **distribution** companies ('DNOs') own and operate the lower voltage electricity networks connecting the transmission network to every home and business in Great Britain.

(iv) The electricity **supply** companies buy electricity from the generation companies and sell it on to their customers. They pay the Transmission and Distribution Network Operators to transport that electricity across their networks.

Our regulatory environment

As a monopoly business we, like all the other electricity distributors in Great Britain, are regulated by Ofgem. We operate under an electricity distribution licence which regulates our activities and ensures that we fulfil our obligations and responsibilities fairly for the customers we serve now and in the future.

The amount we are allowed to charge is regulated by Ofgem, who ensure that we and every other distribution network operator in the country deliver value for money for our customers both now and in the future, at the same time as ensuring the investment required to maintain a reliable network.

Ofgem regulates our charges to electricity supply companies through a price control framework. 31 March 2015 saw the completion of the final year of the fifth price control period since privatisation (known as DPCR5): this covered the five year period from 2010 to 2015. On 1 April 2015 a new eight-year regulatory period commenced known as RIIO-ED1. RIIO-ED1 is the first electricity distribution price control to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model for network regulation. RIIO-ED1 links our revenue to the outputs we deliver using incentives and innovation to ensure even better value for our customers now and in the future. The RIIO-ED1 price review determines how much we can charge over the period to fund investment in our network and meet our operating and financing costs.

Our delivery model

Ofgem sets the prices that we charge the electricity supply companies at a level that meets our efficient operating costs and expenses, as well as funding efficient investment, interest on necessary loan funding, taxes and a return to shareholders set at a level that limits the return but encouranges future investment.

Within this model, our role is to drive improvements in our performance and to secure cost reductions which are shared between our customers and our shareholders.

In addition to the charges for the use of the network, we also charge for new connections to and diversions of the network. Again, the amount we can charge is closely regulated.

Our income in each year is largely fixed but we can earn extra revenue by outperforming targets in incentive schemes. However, if we fail to meet our targets, our revenue can be reduced.

We are incentivised to deliver a high level of customer service and to minimise the number of interruptions that our customers suffer and the average length of those interruptions.

We have a responsibility to look after our network in the long term. We report on the condition of our assets to ensure our maintenance work allows us to continue to provide a high quality service to our customers in the future. This is monitored through two indices:

- Health Indices ('HI'); and
- Network loading using Load Indices ('LI').

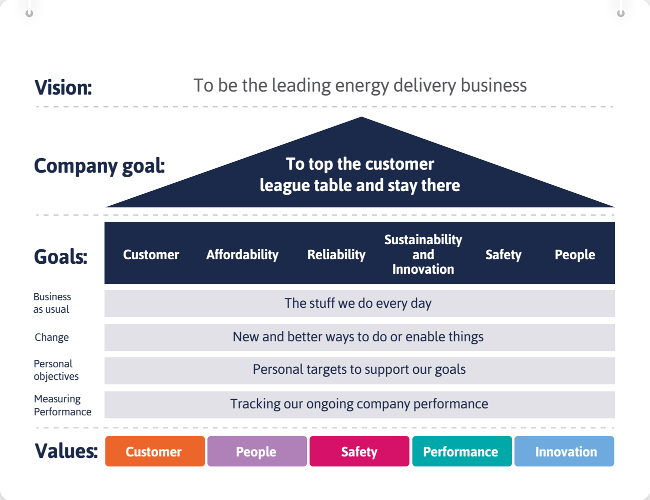
To ensure that we have a network with the appropriate technology for the 21st Century, we are spending significant sums on research and development. We are permitted to recover some of this through the Low Carbon Network Fund ('LCNF').

Company ownership

Electricity North West Limited is a private limited company registered in England and Wales. We are ultimately owned by a consortium of funds as shown in note 32.

Our vision, goals and values

We are driven by a vision to be the leading energy delivery business. We constantly strive to provide our 5 million customers with a great service, and during 2014 we decided to articulate this drive into an over-arching company goal, to put our customers at the heart of everything we do. Not only will this help us to meet the challenges of our stretching corporate vision, but also the demands of the new price control, RIIO-ED1. This over-arching goal will be measured by our performance in the regulatory customer satisfaction reward, and our aim is to quite simply have the highest customer satisfaction scores against all Ofgem's measures, and to stay there.



Our over-arching company goal is supported by a range of additional company goals, all designed to help deliver our RIIO promises of affordability, reliability, sustainability, and of course great customer service. Clearly safety remains our absolute priority, and along with the development and support of our people, completes our six company goals. All business activities, whether these are transformation projects, performance management or ongoing business functions, are structured around these six key goals.

Underpinning this business strategy are our five company values. These values support everything we do and influence our activities from strategy development, such as the creation of our business plan for the RIIO-ED1 period, to operational delivery, such as the way in which we talk to our customers and employees. If our goals are 'what' we do, our values dictate 'how' we should do things.

Our values are:

Safety:
To protect our people, our customers and our environment.

Customer:
To delight our customers in everything we do.

People:
To work together openly, honestly, and in a professional manner to achieve exceptional results.

Performance:
To exceed expectations in how we perform, today, tomorrow and in the future.

Innovation:
To constantly challenge and improve how we do things.

The graphic above illustrates how our vision, goals and values all link together to support our ultimate vision to be the leading energy delivery business.

Ready for RIIO

Once again, a significant focus for the past year has been around getting the business ready for RIIO. We use the term RIIO to indicate both the challenging period that lies ahead and the new regulatory framework in which we now operate.

This new price review period (2015-2023) will be extremely challenging for all DNOs, demanding a better service and outputs for customers, at the same time as a reduction in costs and improved efficiency. Therefore, over the past few years, we have been getting the business ready to meet these challenges. A wide range of projects and plans are in place to ensure a seamless transition into the new price period.

In November 2014, Ofgem announced their final determination for the RIIO-ED1 period. Electricity North West's business plan was recognised by Ofgem as the most efficient of the network operators. The North West price cut is the biggest of any region in Great Britain, and Ofgem has singled out Electricity North West as the most efficient and industry leading company. You can find out more about the improvements we plan to make in the period 2015 to 2023 by reading our full plan at: www.enwl.co.uk/businessplan.

In March 2015, British Gas and Northern Power Grid both sought permission to appeal to the Competition and Markets Authority ('CMA') against Ofgem's RIIO-ED1 settlement. The CMA will have six months to determine the appeal, if it decides to go ahead. This brings a period of uncertainty to the start of RIIO-ED1 and we will continue to closely monitor how this issue progresses, providing full support to the investigation if and when needed.

Company goals

Preparing our business for RIIO through our Company goals has been a significant focus of the year. The following sections outline our performance in these areas and include highlights from the reporting year.

Safety

The safety of our people and our customers is a non-negotiable and fundamental cornerstone of what we do. This commitment is core to our business plan for the RIIO-ED1 period and is vital in ensuring its delivery.

Safety performance is an integral part of our organisational structure with our senior managers achieving the 'managing safely' qualification from the Institute of Occupational Safety and Health.

We delivered a significant amount of safety training in the year focussing on the key risk areas of asbestos awareness, working live on low voltage cable systems, working at height on overhead lines and behavioural safety. Specific improvements were made in the areas of compliance with the New Roads and Street Works Act and Traffic Management Act, risk assessment, working at height, and the completion of corrective actions identified from incidents and inspections.

The number of near misses reported by Electricity North West employees in the year was 4,800 compared with 685 in the previous year, outperforming our target of 3,000. The significant increase in reported incidents was due to the leadership focus in this vital learning process encouraging the raising of near miss reports and enabling corrective and preventative action to be taken.

Our safety performance targets set for the year were achieved with the exception of the lost time accident frequency rate.

The total number of lost time accidents involving our employees and contractor employees for 2014/15 was fourteen, an increase of seven from the previous year. Of the total number of lost time accidents, the number of accidents reportable under RIDDOR was ten compared to five in 2013/14. As a result, the corresponding lost time accident incidence rate for 2014/15 was 0.23, an increase from 0.11 in 2013/14. This increase is disappointing but the accidents yielded important learning in terms of individual decision-making and behaviours which we will continue to address in 2015/16.

Customer

We aim to put our customers at the heart of everything we do. During 2014/15 we have seen a further 2% improvement within our customer satisfaction results through the Ofgem Survey.

Our overall ranking among DNOs has improved by two places to 10th position for 2014/15, with a satisfaction score of 82.8%. This improving trend reflects the focus on customer satisfaction through our company goals.

The percentage score also exceeds the 82% RIIO requirement to commence gain under the customer satisfaction incentive.

During the year Electricity North West introduced a number of improvements to deliver enhanced customer service including:

- On site meal vans following extended fault durations.
- Double the volume of SMS messaging per month for unplanned faults.
- New planned interruption cards.
- Improvement in the communication with the customer during the general enquiry process.
- Provision of more information, helpful hints and the introduction of priority queuing through the high volume call answering service.

The overall complaints performance during 2014/15 for quarter one and two improved from 6.52 to 5.34 for the overall Ofgem complaints metric. Zero ombudsman cases have been found against Electricity North West during the year.

In December 2014 we were accredited by the Institute of Customer Service with the award of their customer service mark. The independent customer survey carried out through the accreditation process achieved 87.8% performance; this is 10% higher than the UK national average survey completed by the Institute of Customer Service.

The focus for 2015/16 improvement of customer satisfaction will be communication; the enhancement in this area will be supported by the installation of a new Customer Relationship Management ('CRM') tool and the telephony improvements to introduce queuing for all customers.

The CRM tool will support improvements in customer satisfaction; it will also support a simplified process for the automatic payment of guaranteed standards under the RIIO period.

At the centre of improving communications are real time updates from the field in all areas as these will provide the ability for technology and customer service representatives to deliver an enhanced service to Electricity North West customers.

Surveys were undertaken, during the last quarter of 2014/15, to understand in more depth the requirements of our vulnerable customers. A vulnerable customer strategy based on the feedback received and engagement with various stakeholders will be the drive for change during 2015/16.

People

Our people goal remains focussed around the two key areas identified in 2013/14: namely, "improving the climate of our company" (or how we feel about coming to work); and secondly around engagement so that employees clearly and accurately understand business issues. This has been particularly pertinent during the organisation's structural review implemented during 2014/15.

We measure success through a Climate Survey which provides details of overall employee engagement and how employees feel about the company climate. The first employee climate survey returned a score of 42% in July 2013. The latest 2015 climate score currently stands at 50% and continues to be an area of focus.

The climate within Electricity North West remains a key point of focus as it provides a direct impact upon business performance. The significant impact of the structural changes which have taken place during the year has been reflected in the climate survey results, but it is expected that the embedding of the new structure and the ongoing behavioural leadership training will work towards improving the climate data and therefore improving the business performance.

We are a major employer in the North West of England with well over 1,600 people employed within the business, in addition to utilising a contractor workforce who work with us on an ongoing basis. We remain committed to providing secure, long term employment and career development opportunities for our employees and look to balance this by ensuring we have the right balance of skills and people resources to provide outstanding customer service.

Our workforce told us that they felt that there were too many layers of managers within the business and that these managers were too distant from our customers. To address this and to ensure that our structure provides the right level of support moving into RIIO we have restructured the business in all areas except the front line delivery level. This has resulted in a simplified structure with only five primary levels and with clarified accountabilities.

It remains our commitment to ensure we invest in appropriate training and development to ensure that our people have the right level of competence, whether they are a leader of people or someone providing a front line service to our customers. All our employees have a high level of awareness of health and safety, as well as leadership and behavioural safety programmes. Our employee recognition scheme, "Leading Lights", has been embedded with over 300 recipients of the awards in the year and we remain committed to recognising when employees go the extra mile.

We remain conscious of the impact of the demographic profile of our employees and continue to monitor the actual retirement profile of our employees and opportunities to up-skill our existing workforce. We take a long term view of future workforce requirements considering how technology will impact the type of activities that will be required.

Our state of the art training academy is now well embedded into the business with 10,828 training days being completed during the financial year 2014/15. Further innovations including the introduction of electronic training booking has also enabled individual employees to take control of their training and development.

We have worked in partnership with the National Skills Academy for Power and contributed significantly to the new Trailblazer Advanced Apprenticeship programme, assisting with the design of the apprenticeship standards and we are now piloting a cohort of apprentices for this framework. In addition to this we are introducing the option of a Higher Apprenticeship Programme to our portfolio. We continue to have a significant up-skilling agenda for 2015/16 as we focus on productivity improvements and maximising the potential of our people.

Reliability

Customers tell us that "keeping the lights on" is their top priority and we continue to strive to deliver an excellent level of service. We do this by investing in the network to limit the number of faults and also to limit the numbers of customers affected by the faults that do occur. We also respond quickly to incidents and have invested extensively in additional technology to enable us to achieve this by finding and fixing faults more quickly.

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

In 2014/15, the average number of interruptions per 100 customers (CIs) was 36.6 beating the year's target of 52.2 set by Ofgem and the 2013/14 result of 44.9.

Similarly, the average number of minutes which customers were without supply (CMLs) during 2014/15 was 34.8 (2013/14: 43.1), which beat the year's target of 55.6 set by Ofgem.

A total of £13.1m (2014: £14.9m) was invested in installing additional remote control and automation to the network to minimise the effects of any faults occurring, bringing our total investment in this area in DPCR5 to date to £42.8m. This is part of our declared target to improve both CIs and CMLs by 20% compared to the 2012 baseline (as shown on page 16) by 2019, the mid-point of RIIO-ED1.

Our performance in this area continues to improve. Most customers enjoy excellent service, but there is variability in the level of service experienced. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues.

In 2014 we identified 1,658 customers who met the industry definition of worst served customers this has reduced to 823 at the end of this financial year.

We already have the lowest percentage of worst served customers of any DNO outside of London and aim to reduce this to zero by the end of the RIIO-ED1 period.

Affordability

We invest in the network as part of our aim of delivering a reliable and sustainable network that gives excellent customer service at an affordable price.

In 2014/15, we delivered a total Network investment programme of £122.0m (2013/14: £117.4m). The figure represents the highest annual delivery to date.

Our 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. By way of illustration of the scale of the task, amongst other investments in 2014/15, we installed:

- 2,443 LV and HV wood poles (2013/14: 2,564)
- 27.4km of 33kV cable (2013/14: 39.7km)
- 14 new grid & primary transformers (2013/14: 11)

We recognise the potential impact of significant external factors such as storms and floods, and have invested over recent years to improve our network resilience in the face of such threats.

We also invest to ensure the continued compliance of our network with all applicable legislation and regulatory licence requirements. In 2014/15, we made continued progress towards our goal of achieving complete Electricity Safety & Quality Continuity (Amendment) Regulations ('ESQCR') compliance with regard to overhead line clearances. We have resolved 40,211 compliance issues at a cost of £31.1m in the DPCR5 period and currently forecast completion of this programme in 2016.

2014/15 also saw with the completion of our two largest investment projects of the DPCR5 period. The Orrell reinforcement scheme, installing a new Grid connection and 14.2km of 132kV circuit, was completed in January 2015. Our ENW21CN project to install our own fibre communication network was also completed in the year, with 193 circuits having been migrated. This project provides a long term and sustainable communications solution to the problem caused by the withdrawal of the BT private wire circuits.

Sustainability and innovation

We continue to lead many industry innovation activities, chairing several industry technology working groups and playing a major role in shaping Great Britain's future energy landscape. We also encourage all our employees to question and challenge the way we work in order to constantly innovate and improve how we do things.

We successfully delivered our innovation programme and included over £100m of innovation benefits into our RIIO-ED1 business plan. In that plan we also set out our innovation strategy for the next ten years, including the roll-out of smart grids and smart metering for customers.

Since the award of funding from Ofgem's Low Carbon Network Fund ('LCNF') for both our Capacity to Customers ('C2C') project, and our Customer Load Active System Services ('CLASS') project, our future networks team has successfully achieved all its key milestones. These two projects trial innovative commercial contracts and use new technologies to increase the amount of energy that can be transmitted through our network to help meet the UK's tough low carbon targets.

The C2C trial went live in April 2013 and we have successfully signed thirteen major business customer contracts on managed connections. We are now well on our way to successfully completing the commercial phase of the trial.

Smart Street is a £10m project which we began in January 2014 and runs until September 2017. Like C2C and CLASS it trials cutting edge techniques to maximise the use of the existing network and reduces customers' energy bills with the first ever use of conservation voltage reduction in the UK. This approach looks to use voltage control techniques to minimise the impact of low carbon technologies whilst maintaining voltage within statutory limits. Initial trials are planned for the Manchester, Wigan and Wigton areas.

Building upon our success in securing LCNF funding, the Future Networks team is now working on Respond, the most recent project to be awarded funding of £5.5m. Respond runs from January 2015 to September 2018 and will deliver an intelligent approach to managing fault current, the instantaneous surge of energy which occurs under fault conditions. As our customers move to a low carbon future, demand for electricity is set to grow which will increase fault levels on our network. Respond is a revolutionary solution to that problem and will bring significant savings for our customers and our business. In common with past projects, the Respond trial is a joint scheme by Electricity North West and our partners in this case ABB, Parsons Brinckerhoff, ENER-G, Impact Research, The Association for Decentralised Energy, Schneider Electric and United Utilities.

As we move into RIIO-ED1 we will see the LCNF Tier 2 and IFI funding mechanisms end to be replaced by the new Network Innovation Competition ('NIC'). We will continue to explore all options to secure funding for innovation projects as we did for LCNF Tier 2 and we are at present preparing our first submission.

Corporate social responsibility

Our Corporate Social Responsibility ('CSR') strategy has been developed by engaging with our stakeholders to determine what is important to them, assessing the business strengths and future direction, and finally, looking at the community issues faced in the North West.

As a result of this engagement, we have agreed four CSR focus areas; community, workplace, marketplace and environment. We report on sustainability work annually in the Sustainability Report. Below is an overview of the work we undertake.

Over the past year we have developed our CSR strategy and have used the Business in the Community ('BITC') corporate responsibility index as an external measure to report on our processes. Our first submission scored 54% and we worked with BITC to put in place strategies to improve our corporate responsibility score. As a result our score has increased from 73% in 2014 to 79% in 2015.

Our target is to reach 90% by 2017. Under our CSR focus areas we have implemented a number of actions, including:

Community

Education programmes to inspire the next generation of science students were set up, including Bright Sparks, aimed at Key Stage 2 students and covering the electricity element of the physics syllabus. In order to engage with secondary school students, we have developed a board game entitled 'Electric Avenue' which is delivered by our employees in secondary schools across the region. We were also major sponsors of the Manchester Science Festival, helping to bring science to the general public.

Workplace

We continued to promote and build on our employee recognition scheme, "Leading Lights" during 2014, and in March 2015 hosted a Celebration Gala Dinner for all Leading Lights winners. We continue to run our 'bright ideas' scheme which helps improve employee working conditions by providing a mechanism for them to raise issues and suggestions to improve working conditions.

Marketplace

We have been working with our supply chain to gain a full picture of our environmental and social impact. We have offered our contractors the chance to work with us to improve their own CSR approach by providing sustainability questionnaires and initiating meetings to review their results and develop action plans for the future.

Environment

Our environmental reporting continues to be a key strength, as demonstrated by our ISO14001 accreditation. We are also working on reducing our business carbon footprint and have implemented a range of energy saving and recycling measures.

Our CSR responsibilities

To further embed our CSR strategy into business as usual behaviour, we have agreed to complete 100 CSR commitments by 2022. These commitments will be structured around our four focus areas and are being released in phases in our annual Sustainability Report (published every July).

We have a vital role within the communities in which we operate. Therefore it is crucial that there is a very clear CSR strategy to ensure that we operate in the right way for all our stakeholders.

We are committed to being a responsible and sustainable business and our activities therefore adhere to the following CSR responsibilities:

Our annual Sustainability Report provides further details on our CSR objectives and achievements and is available on our website:

http://www.enwl.co.uk/sustainability/reports-and-assurance

	2015 Males	2015 Females	2014 Males	2014 Females
Total employees Of which	**1,286**	**360**	1,317	337
Senior managers	**29**	**10**	20	7
Executive leadership team	**8**	**1**	8	2
Directors	**8**	**0**	7	0

Stakeholder Engagement

How we work and what we do affects a huge range of stakeholders. Similarly, the actions of our stakeholders can affect our organisation. By engaging with stakeholders, developing transparency and trust, we can aid understanding, reduce risk and identify opportunities for collaboration.

Over the past year we have continued to follow internationally-recognised best practice guidelines, the AA1000 AccountAbility Principles Standard (AA1000APS). The AA1000APS principles are inclusivity, materiality and responsiveness. Inclusivity means identifying stakeholders, through a robust, consistent and objective methodology. Materiality means engaging on the issues that matter to both the business and stakeholders. Only by engaging on relevant issues that matter to both parties is the engagement useful and effective. The final principle is responsiveness. Responsiveness means responding to stakeholders' views, concerns and ideas to improve our business and address any issues.

We have continued to work with our External Stakeholder Panel – a group of key stakeholder representatives we met with as a group twice during the year to discuss relevant issues. We have also held individual consultations with some members of the panel to help us and them progress specific issues. We have also continued to hold a number of Internal Stakeholder Panel meetings where members of our senior leadership team discuss key engagement and responses on behalf of the business.

To support adherence to these initiatives, for the third year running we have engaged auditors for a non-financial assurance of our stakeholder engagement activity and our commitment to AA1000APS.

Human rights

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

We respect all human rights and regard those rights relating to non-discrimination, fair treatment and respect for privacy to be the most relevant and to have the greatest potential impact on our key stakeholder groups of customers, employees and suppliers.

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

Gender and diversity

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

Turnover
2014/15 115 leavers (2013/14 – 98 leavers)

Training courses delivered – Non operational
2014/15 – 47 (2013/14 – 50)

Training course attendees – Non-operational employees
2014/15 - 258 (2013/14 – 446)

Environmental impacts

Reducing our impact on the environment is key as we move towards a low carbon future. This move will include an increase in the amount of electricity used nationally and we know that we have a big role in facilitating this transition.

We are dedicated to achieving the highest standards of environmental performance, not only by minimising the risk of adverse impacts such as pollution, but through investment in outputs that deliver a positive impact such as undergrounding of overhead cables.

We work to an environment strategy that is underpinned by our environmental management system, which is certified to ISO 14001 standard.

Our business carbon footprint (excluding losses) has slightly increased by 3% from 2013/14. This rise was in line with our predicted increase due to commissioning in the year of two new data centres at our Blackburn and Preston sites. Overall however the carbon footprint was 2,544 tonne CO2e (9%) less than the business plan level due to continued reductions in key areas.

Other decreases in carbon emissions were achieved in operational transport, fugitive emissions and fuel consumption.

	2014/15[1] tonne CO2 Eq	2013/14 tonne CO2 Eq
Scope 1		
Operational transport	9,212	9,426
Business transport - road	1,281	1,312
Fugitive emissions	877	1,374
Fuel combustion	2,847	2,590
	14,217	**14,702**
Scope 2		
Buildings energy usage	10,198	8,985
Scope 3		
Business transport - rail	27	24
Business transport - air	96	51
	123	**75**
Business Carbon Footprint (excl. losses)	**24,538**	**23,762**
Losses[2]	728,045	627,681
Business Carbon Footprint (incl. Losses)	**752,583**	**651,443**

[1]2014/15 figures are provisional at the date of the annual report and will be finalised in July 2015

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

The classification of carbon sources in the calculations follows the requirements of Ofgem. The figures are calculated using the 2014 UK Government conversion factors for Company Reporting. Emissions are calculated across scopes 1, 2 and 3 in accordance with the associated guidance, with the most appropriate scope being used based on the emissions data available.

Buildings energy usage comprises purchased electricity and is calculated using the kWh usage data provided by the business energy suppliers and/or landlords for whole buildings or parts of buildings occupied by Electricity North West.

The operational transport figure is combusted fuel, calculated from fuel litres purchased data provided by the business fuel card suppliers for the directly controlled fleet vehicles and from fuel litres used data provided by contractors in relation to their fleet usage on behalf of Electricity North West. All Electricity North West owned operational vehicles have diesel engines.

The business transport figure includes calculated emission data for road, rail and air travel of our employees. Usage is converted into emission data using conversion factors from the 2014 Guidelines to Defra/DECC's GHG Conversion Factors for Company Reporting.

Fugitive Emissions include gases identified as having a high global warming potential. The relevant gases for Electricity North West include Sulphur Hexafluoride ('SF6') and Hydrofluorocarbons ('HFC'). The amount of SF6 emitted is calculated using the actual kg of SF6 used when topping up or replacing distribution network apparatus with low gas or gas loss.

The fuel combustion figure is calculated from fuel litres purchased data provided by the business fuel card suppliers for fuel used for the directly controlled generators and plant.

Some of the Losses are measured as the difference between energy entering the network (generation) and energy exiting the network (demand). Whilst we can't eliminate these losses we do take steps to minimise them.

This is done through installing more efficient assets in our network, particularly low loss transformers and cables and through our revenue protection unit, addressing the issue of theft.

For more detailed information regarding our carbon footprint and recycling data, please see our Business Carbon Footprint Report 2014/15, available on our website:

http://www.enwl.co.uk/docs/default-source/sustainability/business-carbon-footprint-report-2014-15.pdf

Financial performance

Key Performance Indicators ('KPIs')

We monitor a number of financial and non-financial KPIs to manage our performance. These KPIs are aligned to our strategic objectives designed to achieve our vision to be the leading energy delivery business.

Year ended 31 March	2015	2014	2013	2012	2011
Non-Financial					
Safety: RIDDOR [(1)]	**10**	5	5	7	5
Customer minutes lost ('CML') [(2)]	**34.8**	43.1	49.3	47.6	47.4
Customer interruptions per 100 customers ('CI')[(3)]	**36.6**	44.9	46.6	45.9	49.2
Overall customer satisfaction 2012 onwards [(4)]	**83%**	81%	76%	77%	n/a
Overall customer satisfaction [(4)]	**n/a**	n/a	n/a	n/a	89%
Financial					
Revenue	**£534m**	£508m	£468m	£405m	£394m
Operating profit	**£301m**	£280m	£224m*	£189m	£210m
Profit before tax	**£92m**	£202m	£171m*	£55m	£139m
Profit before tax and fair value movements	**£238m**	£182m	£169m*	£136m	£169m
Taxation charge/(credit)	**£20m**	£15m	£27m*	£15m	(£18m)
Operating cash flow	**£376m**	£351m	£290m	£232m	£246m
Cash inflow/(out flow) before financing activities[(5)]	**£60m**	£30m	£61m	(£23m)	£25m
Dividends Paid	**£37m**	£83m	£66m	£62m	£62m
Net Debt	**£1,125m**	£1,088m	£1,044m	£1,003m	£877m
RAV Gearing [(6)]	**62%**	60%	58%	61%	56%
Interest cover [(7)]	**3.5 times**	4.5 times	6.0 times	4.5 times	5.9 times
Capital expenditure	**£250m**	£228m	£217m	£223m	£177m

* Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for defined benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements

Notes to KPIs:

(1) Accidents involving employees or contractors of Electricity North West, reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation ('RIDDOR'); we target zero accidents per year.

(2) Customer minutes lost is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents, excluding exceptional regulatory events and dividing by the number of connected customers as at 30 September each year. This outperforms the Ofgem target for 2015 of 55.6. The 2014/15 figure is yet to be audited by Ofgem.

(3) Customer interruptions per 100 customers is calculated as: (total customers affected/total customers connected to the network) multiplied by 100, adjusted for exceptional regulatory events. This outperforms the Ofgem target for 2014/15 of 52.2. The 2014/15 figure is yet to be audited by Ofgem.

(4) At 31 March 2011, Ofgem discontinued the existing customer satisfaction measure and introduced a broader measure. The new measure is expanded and includes customers with different service types, including interruptions, connections and general enquiries. Overall customer satisfaction in relation to the response received from a fault enquiry is measured by an internal overall customer experience assessment mechanism. It involves a series of interviews with customers. Sample interviews are conducted monthly. The internal target is 85%.

(5) Cash flow before financing activities is the net cash flow available to fund financing activities including dividends and is calculated as net cash generated from operations less interest paid, tax paid and net cash used in investing activities.

(6) Regulatory Asset Value ('RAV') Gearing is measured as borrowings at nominal value, plus accretion where applicable, net of cash and short-term deposits divided by the estimated allowed RAV of £1,609 (2014: £1,700m) as at March. We aim to keep our gearing below 65%, with a target of 63%.

(7) Interest cover is the number of times the net interest expense is covered by operating profit from continuing operations adjusted for intercompany, amortisation, indexation and capitalisation costs.

Revenue

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

Revenue has risen to £534m (31 March 2014: £508m) during the year, as a result of an increase in allowed DUoS (Distribution Use of System) revenue, RPI adjustment and the recognition of £4m of additional LCNF income. C2C and LCNF project income is matched with equal operating costs.

Changing patterns in energy usage and warmer than anticipated weather over the winter have reduced consumer consumption volumes, resulting in an under recovery of DUoS revenue. At 31 March 2015 this amounted to £22.9m (31 March 2014: £19.3m under-recovery). This under recovery will be recovered through adjustments in pricing over the next two years.

Operating profit

Operating profit has increased to £301m (31 March 214: £280m) as a result of £25m increase in revenue detailed about, less £3m of restructuring costs incurred in the year (2014: £nil).

Profit before tax

Profit before tax has decreased to £92m (31 March 2014: £202m), reflecting substantial fair value movements within interest expense partially offset by the increase in operating profit. Within the interest expense, significant decreases in interest payable resulting from income on derivatives held for trading have been offset by significant fair value increases on these instruments.

Taxation

The main UK corporation tax rate of 21% at 31 March 2015, reduced to 20% from 1 April 2015. The overall tax charge for the year has risen from £15m to £20m. This reflects an increase of £16m in deferred tax charges in 2014/15 due to the impact of change in future tax rates in the prior year.

Dividends and dividend policy

The Group's dividend policy is to distribute the maximum amount of available cash in each financial year at semi-annual intervals. Distribution decisions take into account the forecast business needs, the Group's treasury policy on liquidity, financing restrictions, applicable law in any given financial year and are subject to the Company's licence obligations.

In the year ended 31 March 2015, the Company paid dividends of £37m (31 March 2014: £83m). This figure represents interim payments of £37m paid in June 2014 (31 March 2014: interim payments of £15m paid in June 2013 and £68m paid in December 2013).

Property, plant and equipment and software

The Group's business is asset-intensive and highly regulated. 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 2015 was £4,198m (31 March 2014: £3,955m), with a net book value of £2,837m (31 March 2014: £2,693m). In the year ended 31 March 2015, the Group invested

£239m (31 March 2014: £228m) in property, plant and equipment substantially in a large number of projects to reinforce and improve the network and £11.0m (31 March 2014: nil) on new software platforms. New investment is financed through a combination of operating cash flows and increased borrowing capacity against a growing Regulated Asset Value.

Pension obligations

The valuation of the Group's Pension Scheme under IAS 19 has resulted in a net pension deficit at 31 March 2015 of £34m (31 March 2014: £37m). The fall in the deficit is due to improved asset performance over the year, offset by a significant fall in the discount rate from 4.4% (2013/14) to 3.3% (2014/15) which has increased values placed on the liabilities.

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

Cash flow before financing activities

Cash generated from operating activities increased to £269m (31 March 2014: £235m). Expenditure on property, plant and equipment and software in the year increased to £254m (£235m) with contributions received from customers of £41m (31 March 2014: £29m). Cash generated before financing in the year was £60m (31 March 2014: £30m).

Net Debt

Net Debt 31 March	2015 £m	2014 £m
Cash and deposits	161	65
Borrowing	(1,261)	(1,153)
Net debt	**(1,125)**	(1,088)

Included within the total borrowings figure are £90m of loans from the parent company North West Electricity Networks Plc, due to mature in June 2023.

All other borrowings are repayable after one year and include bonds with long term maturities of £722m (31 March 2014: £690m). These bonds have nominal value of £450m at 8.875% maturing in 2026 and £100m of 1.4746% index-linked bonds maturing in 2046. The £135m long term 1.5911% index-linked loan from the European Investment Bank ('EIB') matures in 2024.

Also included in long-term borrowings is an inter-company loan at 31 March 2015 of £197m (31 March 2014: £196m).

Liquidity

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

Short-term liquidity

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

As at 31 March 2015, the unutilised committed facilities were £50m (31 March 2014: £100m) and together with £161m (31 March 2014: £65m) of cash and short-term deposits provide substantial short-term liquidity for the Group.

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

Long-term liquidity

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

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

Treasury policy

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Board. The treasury function does not undertake any speculative trading activity and seeks to ensure that sufficient funding is available in line with policy and to maintain the agreed targeted headroom on key financial ratios. Long-term borrowings are mainly at fixed rates to provide certainty or are indexed to inflation to match the Group's inflation-linked ('RPI') cash flows.

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

Going concern

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

- The Company's electricity distribution licence includes the obligation in standard licence condition 40 to:

  "Maintain an investment grade issuer credit rating 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 period to 31 March 2016 which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast as a result of the business transformation. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and under recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that there are sufficient resources are available to the Group within the forecast period.

- Management have also prepared, and the Directors have reviewed, longer term forecasts covering the RIIO-ED1 period. The forecasts demonstrate sufficient liquidity and headroom against key ratios to support the going concern basis.

- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, £50m of committed undrawn bank facilities are available from lenders which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 May 2016 indicate there is significant headroom on these covenants.

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

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

Conclusion

The Board has reviewed the 31 March 2016 Budget, the Group's updated RIIO-ED1 forecasts and the requirements of the Group's licence Condition 30 ('availability of resources') and considers that the Group has sufficient liquidity to meet its anticipated financial and operating commitments for at least the next 12 months.

Risk Management

Our aim is to be a company where risk management is embedded in our culture, protects our reputation, enhances our performance and is central to us achieving our overall Group vision “to be the leading energy delivery business”.

Core to achieving this is our belief that all employees can play their role in identifying and managing risk.

The Group has a well embedded structure, policy and process to help identify, assess and manage risks, forming key elements of the risk management system.

This risk management system is designed to be a simple and consistent framework for managing risks at all levels in the Group. It seeks to manage rather than eliminate the risk of failure to achieve our objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key features of the risk management system are as follows:

- Clear risk management strategy in place, approved by the Board, to support continual improvement.
- The Board provides oversight in identifying and understanding significant risks to the Group. An annual risk review is formally held with the Board where key risks and mitigation are assessed.
- Dedicated board and executive committees oversee the management of risks for the Group, and review and monitor significant risks throughout the year.
- The Executive Leadership Team (‘ELT’) puts in place systems of risk management, compliance and control to mitigate risks.
- Commitment is demonstrated through the risk management policy statement, which is endorsed by the ELT.
- Quarterly risk workshops are held with the ELT in order to review the key risks that appear on the corporate register and discuss any emerging risk themes.
- Appropriate operational and non-operational risks are managed within a corporate risk system which is maintained by the Head of Risk, Control and Assurance. Work has been undertaken in the year to enhance the visibility of the mitigation of key health and safety risks by creating a separate health and safety risk register within the corporate risk system.

- The corporate register is underpinned by a number of ‘local’ risk registers in various areas of the business. Key risks on these ‘local’ registers are fed into the corporate risk register as they are identified.
- Each risk on the corporate register is owned by a member of the ELT who has the overall responsibility for managing that risk, supported by members of the Senior Leadership Team and Operational Management.
- All open risks, associated controls and mitigating actions are reviewed on a monthly basis as part of a well embedded risk monitoring process.
- A network of risk co-ordinators across the different business directorates is in place to enhance the risk monitoring process. Importantly this strengthens risk accountability within the business. This group meets formally on a bi-monthly basis.

Principal risks and uncertainties

The Group considers the following risks to be the principal ones that may affect the Group’s performance and results. The processes by which we aim to manage these risks and the corporate values they impact are identified on pages 21 to 24.

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Health & Safety	*Health & Safety* The Group is committed to achieving the highest standards of health and safety for all our customers, employees and contractors. Our people work in a potentially hazardous environment which requires continuous management of health and safety risks. Unsafe working practices due to complacency or inappropriate behavioural attitude or inadequate training may lead to accidents causing injury to employees, contractors or members of the public.	A Health, Safety and Environment Committee is in place to oversee this area. Delivery of behavioural safety training programme to provide employees with skills to positively influence safety on site and to encourage challenge among colleagues. Robust authorisation process in place that controls who can work on our network and the activities they can perform. Annual programme of audits and inspection regime managed by designated Health, Safety, Environment and Quality team. This team also monitors and promotes the completion of audit/supervision visits by Front Line Managers. Enhanced hazard and near miss reporting.	↔
Customer	*Customer interruptions/customer minutes lost (quality of supply investment programme)* The quality of supply investment programme may not be completed on plan leading to an adverse impact on customer interruptions and customer minutes lost performance.	A quality of supply performance meeting has been established during the year to ensure identified investments are delivered. Fault response times and team performance are closely monitored. Outage planning delivery is coordinated to reduce the effects of planned supply interruptions. Network automation is in place to minimise the effect of faults when they occur. Significant spend is incurred on routine maintenance, such as tree cutting, to reduce the causes of network interruption. Initiatives in place to improve dispatch and mobilisation of response teams.	↓
Customer	*Customer satisfaction* The Group may not meet the required level of performance against Ofgem’s customer satisfaction measure despite the further 2% improvement in satisfaction results through the Ofgem Survey in 2014/15. This could result in Ofgem penalising the Group for its performance on customer satisfaction, complaints and stakeholder engagement.	A programme of improvement activities described in more detail on pages 10 to 12 is being co-ordinated by the Executive Leadership Team to optimise Electricity North West’s position against all elements of the customer satisfaction measure.	↓

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Performance	*Impact of macro-economic factors* Macro-economic factors such as Retail Price Index ('RPI') may impact negatively on the business. For example, in the event of a reduction in RPI for a prolonged period of time (deflation), the business could be materially impacted, most notably in allowed revenues and Ofgem's assessment of our Regulatory Asset Value.	The Group monitors the potential exposure to fluctuating RPI through sourcing forecasts from a selection of financial institutions. A re-forecasting exercise is undertaken quarterly and reported to the Executive Leadership Team and Board. Inflation sensitivities reported on a quarterly basis through the business valuation process. A significant proportion of our debt is RPI-linked to provide an economic hedge between the allowed revenues and some of our financing costs.	↑
Customer	*Business continuity* Events outside our control, typically as a result of a climatic event such as a storm or flooding or an outbreak of a virus, could cause a major network failure or compromise the security of our physical assets, processes, systems and data.	The Group has comprehensive contingency plans for all network emergencies including key contract resources such as mobile generators and overhead line teams. Our plans also include reciprocal arrangements with other DNOs should we need them. Robust business continuity plans are in place which are subject to periodic testing.	↔
People	*Organisational climate* There is a risk that the planned improvements in organisational climate measures are not achieved because leaders fail to take the necessary steps to address factors which negatively impact employee perception of climate and morale. This could lead to sub-optimal performance in the delivery of RIIO-ED1.	Employee climate scores are closely monitored by the Customer and Business Services directorate so that remedial actions can be put into place before there is a significant impact on business performance.	↑
Performance	*Government & regulator policy* A material adverse change to government policy or the regulatory framework may negatively impact the cash-flow, financeability and/or valuation of the Group. A political, unsustainable decision may be made which could put a large amount of pressure on Ofgem to act against the interests of the Group.	The Group participates in various industry groups and bodies and there are established mechanisms for lobbying key stakeholders. Furthermore, Ofgem has an obligation to ensure financeability of the Company.	↔

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Performance	*Statutory, regulatory and legal compliance* A compliance failure could lead to an adverse affect on the business including financial penalties and, in the extreme, loss of licence.	An overall governance and control framework is in place, including established compliance routines. Specialist teams are in place to ensure compliance and assurance are carried out. The internal audit programme focuses on the Group's key risk areas, including regulatory compliance. There is a table of accountabilities, owned by the Network Strategy and Technical Services Director, to ensure compliance with licence conditions.	↔
Performance	*Delivering performance efficiency* The Group has a long term outlook and needs to deliver performance and costs against the commitments in the RIIO Well Justified Business plan for an eight year period, which requires us to deliver challenging cost reductions and efficiencies. This performance is incentivised positively and negatively.	Robust plans are in place to achieve or beat capital delivery targets. Controls are in place regarding the ongoing reporting of performance against targets. Projects are in progress to reduce substantially business support and indirect costs.	↔
Performance	*Treasury* The Group is exposed to credit risk, liquidity risk and market risk, see note 19. Failure to identify and effectively manage treasury and tax exposures and to meet the Group's funding requirements and obligations could pose a significant threat to the business and could result in a financial loss.	Established controls are in place including segregation of duties and restricted access to systems. The Group has a formal treasury policy in place to manage exposure to counterparty, liquidity and market risk and a well established monthly banking covenant monitoring process. Oversight of the treasury policy is provided by the Audit Committee of the Board.	↔

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Performance	*Pension obligations* The Group sponsors a Pension Scheme with both defined benefit (closed to new members since 2006) and defined contribution sections. The bulk of the liabilities sit in the defined benefit section. There is a risk that under performance of the scheme investments, market impacts and/or an increase in the scheme liabilities will give rise to higher contributions.	Active monitoring of the scheme's investments is carried out formally on a quarterly basis by the pension Trustee and the Company. The Trustee engages professional legal, actuarial, and investment advice for all decisions taken and regularly consults with the Company.	↔
Performance	*Change programme* Failure to deliver system implementation/ upgrades will negatively impact the business.	The Company works with experienced advisers and suppliers to complement in-house expertise. Steering groups established to oversee progress.	↑
Performance	*Cyber security* There is a risk that external parties could breach our security regime and gain access to key systems. This could lead to a loss of management and control of the Electricity Distribution Network, potentially disrupting supplies to customers, causing damage to equipment and threatening the safety of staff working on the network.	An awareness training programme exists to educate all users of the risks of email and social engineering attacks. A new cyber risk assessment methodology has been implemented within the Group, so cyber risks for critical systems can be thoroughly understood and mitigated as appropriate. Key laptops are disk-encrypted which prevents the loss of personal and sensitive data being leaked, in the event of the device being lost or stolen. The Data Centre migration project is well underway. The new infrastructure will provide enhanced security monitoring and management tools, 'next generation' firewalls and network traffic analysis. Periodic internal and external security reviews are undertaken to assess the security measures in place.	↔

The Strategic Report, outlined on pages 7 to 24, has been approved by the Board of Directors and signed on behalf of the Board.

S Johnson
27 May 2015

Introduction

At Electricity North West, our approach to governance is based on the concept that good governance enhances the Company's performance and its value for all our stakeholders.

We regularly review our compliance with the UK Corporate Governance Code ('the Code') and have amended and enhanced the Company's governance framework over the period.

Set out over the following pages is a statement of how we have applied the principles and provisions of the Code during the year. There are limited exceptions, all of which are explained on page 31 and the Board has considered these exceptions appropriate and that other measures are demonstrated that ensure good corporate governance in these circumstances.

After I joined the Board in March 2014 I worked with my fellow Non-Executive Director's to recruit Chris Dowling as an Independent Non-Executive Director in May 2014. Chris was appointed Chairman of the newly constituted Nominations Committee in July 2014, which in turn led the recruitment of Chief Finance Officer Andrew Dench, who joined the Board in January 2015. Andrew subsequently resigned on 5 May 2015.

During the year we have particularly focused on board progression and development and the Board continues to work with management to develop our Board reporting to improve quality and efficiency and to ensure it fully meets the requirements of the RIIO regulatory reporting regime from 1 April 2015.

I was also primarily responsible for the Board evaluation process, the plans for which were presented to the Board in March 2015 with a view to being completed over the summer. This process will enable me to receive feedback from my Board colleagues on how our meetings are run and to understand their thoughts on the future development of the Board and its Committees.

I look forward to leading the Board into the new eight year regulatory period.

John Roberts
Chairman

Our Board

Board Members at 31 March 2015

John Roberts

Independent Non-Executive Chairman and member of the Audit, Remuneration and Nominations Committees.

Appointed on 1 March 2014.

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

Chris Dowling

Independent Non-Executive director, Chairman of the Nominations Committee and member of the Audit Committee.

Appointed on 1 May 2014

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

John Gittins

Independent Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration and Nominations Committees.

Appointed on 16 July 2009.

John is Finance Director at Fairpoint Group plc. Prior to this he has been Group Finance Director of Begbies Traynor Group plc, Vertex Data Science and of Spring Group plc. John is a graduate of the London School of Economics and qualified as a Chartered Accountant with Arthur Andersen.

Steve Johnson

Chief Executive Officer and member of the Health, Safety and Environment Committee.

Appointed on 8 September 2008.

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

Mike Nagle

Non-Executive director, member of the Audit, Remuneration and Health, Safety and Environment Committees.

Appointed on 28 January 2011.

Mike was the Group Company Secretary and Solicitor of SEEBOARD plc and Senior Vice President, Legal Services at Metronet Rail. Having now retired as a solicitor, Mike is still involved in consultancy work and is also a non-executive director on the board of Greensands Holdings Limited (the parent company of Southern Water).

Mark Walters

Non-Executive Director and member of the Audit, Nominations and Remuneration Committees.

Appointed on 7 March 2014.

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

Niall Mills

Non-Executive Director, member of the Audit and Nominations Committees and Chairman of both the Remuneration Committee and the Health, Safety and Environment Committee.

Appointed on 12 June 2009.

Niall is employed by First State Investment Management (UK) Limited where he is a Partner in the Direct Infrastructure Investment business. Niall has extensive Infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports.

Niall is also a director of several other Fund Investments across Europe. He has been a non-executive Director of Anglian Water Group plc since September 2008. He is a Fellow of the Institution of Civil Engineers and holds a Masters of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

Mark Rogers

Non-Executive Director and member of both the Audit and the Remuneration Committees.

Appointed on 17 September 2012.

Mark is a Director for the Direct Infrastructure team for Colonial First State Global Asset Management. He is a director of Anglian Water Group and Healthcare Support (Newham) in the UK, a director of Etihad Stadium and a joint venture representative for the Somerton Pipeline Joint Venture in Australia and is Deputy Chairman of the Infrastructure Sustainability Council of Australia.

Andrew Dench

Chief Financial Officer
Appointed on 29 January 2015, resigned 5 May 2015.

Attendance at Board meetings

The Company Secretary attended all Board meetings during the year, as did the Interim CFO until the appointment of Andrew Dench (as shown below). At the discretion of the Board, senior management were invited to attend meetings when appropriate to specific items subject to discussion.

Niall Mills and Mark Walters have both appointed alternate directors, Niall's alternate was Marcus Ayre and Mark's alternate was Paul Ryan until January 2015 when he resigned and Andrew Truscott was appointed.

*Andrew Dench was appointed to the Board on 29 January 2015 and resigned on 5 May 2015. David Brocksom, the Interim CFO to 29 January 2015, re-joined the Company on 11 May 2015 as Interim CFO.

Diversity

The Board supports diversity in its broadest sense and considers it an essential driver of Board effectiveness. Accordingly, we consider the composition and balance of the Board, ensuring that our Director's diverse range of experience and expertise covers the industry in which we operate, our operational business model and extensive financial, governance, risk management and legal expertise.

The role of a Nominations Committee was carried out by the Remuneration Committee until the Board constituted its Nominations Committee in July 2014. This has provided a dedicated forum to focus on succession planning to ensure that we continue to have a diverse Board with the appropriate mix of knowledge, experience and key skills to collectively meet the needs of the business as it evolves. The Audit Committee reviewed the Board's Diversity Statement in January 2015 and will continue to review the Statement on an annual basis.

Composition

The Board comprises three Independent Non-Executive Directors, one of whom is the Chairman, four Non-Executive Directors representing our two shareholders and two Executive Directors. The Director's biographies are on pages 26-27.

Leadership

The role of the Board is to provide leadership and to maintain and develop a sustainable company balancing the needs of our stakeholders. Individually the Directors act in a way that they consider will promote the long term success of the Company.

During the year, the Board has developed and agreed a Terms of Reference for its operation and this has been in place since January 2015 and includes a schedule of matters specifically reserved to the Board for decision. These matters include the approval of budgets and financial results, assessment of new Board appointments, dividend decisions, litigation which is material to the Group's interests and director's remuneration. The Board's Committee's have also updated their Terms of Reference in line with the Institute of Chartered Secretaries and Administrator's ('ICSA') guidance and developments in the UK's corporate governance framework.

	May 2014	July 2014	Sept 2014	Oct 2014	Nov 2014	Jan 2015	Jan 2015	Mar 2015
John Roberts	✓	✓	✓	✓	✓	✓	✓	✓
Steve Johnson	✓	✓	✓	✓	✓	✓	✓	✓
John Gittins	✓	✓	✓	✓	✓	✓	✓	✓
Mark Rogers	✓	✓	✓	✓	✓	-	✓	✓
Niall Mills	✓	✓	✓	✓	✓	✓	✓	✓
Chris Dowling	✓	✓	✓	✓	✓	✓	✓	✓
Mike Nagle	✓	✓	✓	✓	✓	✓	✓	✓
Mark Walters	✓	✓	✓	✓	✓	✓	✓	✓
Andrew Dench*	-	-	-	-	-	-	✓	✓

*Andrew Dench was appointed to the Board on 29 January 2015 and resigned on 5 May 2015.

Committee terms of reference can be found on the Company's website www.enwl.co.uk. In particular the Audit Committee Terms of Reference has been updated to address the new financial and narrative reporting requirements imposed on Audit Committees. This includes the role of the Committee to report to the Board that the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the necessary information to assess the Company's performance, business model and strategy. The report of the Audit Committee is on page 35.

Division of responsibility between the Chairman and the CEO

The Chairman

On appointment, the Chairman met the independence criteria set out in the Code and has continued to do so throughout the period. In addition to Chairing the Board, the Chairman sets the Board agenda with the Company Secretary, having received input from the CEO to ensure the Board has visibility and input into the key decisions at an appropriate stage.

The Chairman is also responsible for carrying out the annual evaluation of the Board. This was presented in March 2015 and is to be undertaken during the summer, ensuring, with the Company Secretary and Executive Directors, that the Board is kept properly informed and consulted on all matters reserved to it. He also meets with his fellow Non-Executive Directors without the Executive Directors present.

The CEO

The CEO is responsible for the operational performance of the Company and proposing and developing the Company's strategy and objectives in consultation with the Board. He leads the Executive Leadership Team in managing and monitoring the Company and implementing the decisions of the Board and its Committees.

With the CFO, the CEO monitors the risk framework, key Company risks and the various internal control systems in place.

The CEO represents the Company to its stakeholders, including the regulator, industry participants, shareholders, financial institutions, employees, government, the media, the wider community and the general public.

Non-Executive Directors

Non-Executive Directors provide constructive challenge and make a significant contribution to the direction and strategy of the Company.

Four are appointed by our major shareholders, two from J P Morgan Investment Management and two from First State Investments and three, including the Chairman, are independent. The representation by shareholders ensures that their views remain central to decision making and our Independent Non-Executive Directors offer independent and informed views on the risks, consequences and possible implications inherent in any Board decision.

Two of our Independent Non-Executive directors, John Gittins and John Roberts, fulfil the role of Sufficiently Independent Directors ('SID') as required by our regulator, Ofgem. The role of the SID was introduced by the regulator from 1 April 2014 and is part of a range of enhancements made to the ring-fence conditions in the Company's licence to protect consumers should a network company experience financial distress. Except in certain defined circumstances, a SID cannot be a member of the board of any other company within the group structure of the licence holder. The introduction of the role is designed to mitigate the risk that directors with other group roles, however well intentioned, could become conflicted at times of crisis within the group.

Throughout the year, John Gittins continued to fulfil the role of an Independent Non-Executive Director although he did not fulfil the defined role of a SID due to his appointment to the Boards of the financing companies within the Group structure. John is appointed to these companies to ensure good corporate governance within the financing vehicles and to fulfil the Disclosure and Transparency Rules requirement to have an Independent Non-Executive Director on the Audit Committees of the financing companies. However, in March 2014, Ofgem consented to John being classed as a SID as they were satisfied that, notwithstanding his appointment as a Director of the financing companies, he was still able to be sufficiently independent for the purpose of the licence condition.

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.

Agenda items / key decisions

During the year there were six scheduled meetings plus two conference calls that were organised to deal with specific matters between meetings. Any director physically unable to attend is consulted in advance and teleconferencing facilities are available for all meetings. At each meeting the Board reviews business and financial performance and an update on the regulatory environment.

The Company Secretary works with the Chairman and the Executive Directors to ensure the presentation of high quality information to the Board and its Committees and that all papers and information are delivered in a timely fashion.

Board effectiveness

The Chairman manages the Board and oversees the operation of its Committees with the aim of ensuring that they operate effectively by fully utilising the range of skills and experience of the members of the Board.

The Board and its Committees review their membership and Terms of Reference annually to ensure that they are fit for purpose.

Evaluation

The Board did not undertake a formal evaluation during the year. It did review its operations, approving a Board Terms of Reference, a revised declarations of interest process, revised governance declarations on the Company website, revised agenda format and a new template for Board reporting. These developments have reinforced the Boards effectiveness and given it a basis for its forthcoming evaluation.

The independent non-executive Chairman presented his plan for the Board's performance evaluation in March 2015, to be carried out over the summer months.

Training

Training and development activities during the year included:

- Updates from the Company Secretary and the Head of Legal on the legal and regulatory landscape.
- Attendance of the Group's external auditor, Deloitte LLP, at the Audit Committee and consideration of their reports and updates.
- Presentations from members of the Senior Leadership Team and Executive Leadership Team on IT initiatives, Accommodation Strategy, numerous operational considerations, Corporate and Social Responsibility and Employee Engagement.
- Presentation from Diligent BoardBooks on data security with Board software portals.

Induction

On appointment, each director receives a full induction programme tailored to meet their needs. This involves meetings with the board (particularly the Chairman), the Company Secretary, other members of the executive and senior leadership teams and the Company's external auditors. In addition, they are provided with a comprehensive induction pack that contains background information on all areas of the company.

Independence

The Board has determined that the three independent Non-Executive Directors are independent in line with the UK corporate governance code. The board believes that there are no current or past matters which are likely to affect their independent judgement.

The articles of association of Electricity North West do not allow for the retirement by rotation of the directors. However, the Board takes the independence of its non-executives very seriously and fully subscribe to the independence criteria set out in the UK Corporate Governance Code.

Board appointments

The minimum expected time commitment required from non-executive directors is six to ten days per year and is detailed in their letter of appointment. In 2014, the CEO was given permission by the Board to join South West Water Limited as a non-executive director on the basis that it would not adversely affect his executive responsibilities. He retains the fees from the appointment.

Conflicts of interest

The Board has put procedures in place to assess situations where a director has a conflict 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 they wish to make any changes to their conflict of interest declarations, including appointments to the Board's of other entities.
- Keeps records and board minutes regarding any declarations made.

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.

Accountability

Risk Management and Internal Control

The Board is responsible for the alignment of strategy and risk, and for maintaining a sound system of risk management and internal controls. We continue to drive improvements to our risk management processes and systems, which are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The Company has a robust governance and internal control framework developed in accordance with the FRC's guidance on risk management, internal control and related financial and business reporting.

Audit Committee

The Audit Committee comprises the non-executive directors and is chaired by Independent Non-Executive Director John Gittins (until July 2015, when Independent Non-Executive Director Chris Dowling becomes Chairman). The CFO, CEO, Head of Risk, Control and Assurance and the external auditors, Deloitte LLP, attend meetings by invitation. The Audit Committee is responsible for monitoring internal financial controls, appointment and appraisal of the external auditor, agreeing the internal audit plan annually, reviewing the reports produced by internal audit and reviewing the Company's whistle blowing policy. The Audit Committee also reviews the financial statements, including any significant accounting judgements made in their preparation. The report of the Audit Committee can be found on page 35.

Remuneration Committee

The Remuneration Committee comprises non-executive directors and is chaired by Niall Mills. The committee regularly reviews the Company's remuneration policy in the context of the Company's risk management framework to ensure that it does not inadvertently promote irresponsible behaviour. It co-ordinates its work with the Audit Committee in the assessment of risk management specifically in relation to the remuneration incentives in place. The report of the Remuneration Committee can be found on page 40.

Supporting documents and structures

- In January each year the Board approves the budget and business plan for the year ahead.
- Monthly financial and business performance reports are prepared comparing actual performance to forecast and these are distributed to the directors, the investment analysts at our shareholders and senior members of the management team.
- The Audit Committee receives regular treasury operations reports, monitoring the treasury activities of the Company, compliance with treasury policies and other treasury matters.

Internal audit regularly reviews the adequacy of internal controls (including financial, operational and compliance controls) and reports to the Audit Committee. An annual programme of work is carried out by the internal audit function.

The Executive Leadership Team ('ELT') comprises the two executive directors and the business unit leaders and is chaired by the CEO. The committee normally meets weekly and more regularly if required, and deals with matters relating to the general running of the Company.

The process for identifying, evaluating and managing the significant risks faced by the Company was in place during the period and no significant failings or weaknesses were identified.

Details of the Company's key risks, together with the controls and procedures in place to mitigate the risks can be found on page 21-24.

Areas of non-compliance with the UK Corporate Governance Code

There are some areas where we do not comply with the UK Corporate Governance Code, all of which are due to our privately owned status. However, we have endeavoured to apply with the spirit of the code in the areas where it is either impractical or inappropriate for us to comply with the principle or provision.

Senior independent director

The Board have not appointed one of the Independent Non-Executive Directors as a Senior Independent Director. Traditionally, the role of the Senior Independent Director was to be available to shareholders but has developed considerably since its inception. The requirements of the role and a summary of how we meet those requirements are detailed below.

Role of the senior independent director

- Be available to the shareholders;
- Sounding board for the Chairman;
- Act as an alternative point of contact for shareholders during periods of stress; and
- Disagreement or dispute between the Chairman and Chief Executive Officer.

How the board meets that requirement

- Shareholders are represented on the Board so their views are central to decision making;
- Our shareholder directors meet with our Chairman on a regular basis and offer feedback, challenge, and support as necessary;
- The Board is relatively small and work together regularly, Board members communicate with each other freely; and
- The shareholder directors would intervene, identify issues and try to mediate and build a consensus.

Constitution of the Board

The Code states that half the Board should be Independent Non-Executive Directors, a further provision that the Board have chosen not to comply with. As the Company is privately owned and both shareholders are represented on the Board, it is felt that the needs of shareholders are adequately met. They also offer a degree of independence as they are not involved in the day-to-day running of the Company.

With the introduction of the requirement for two Sufficiently Independent Directors by Ofgem the Board considers that this meets the needs of the regulator. An extract of the relevant Licence condition forms part of the Sufficiently Independent Director's letter of appointment so they are aware of the additional perspective. The specific requirement of the regulator is that these individuals are natural persons, be independent against defined criteria, be appointed for no more than eight years and have the skills and experience necessary to carry out their role. They do not represent the regulator or report to them in any way, they have the same role as any other Independent Non-Executive Director. If that individual resigns or is removed from their role, the Company must inform Ofgem within 14 days. This offers the regulator assurance that there is true independence on the Board of the regulated entities.

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

Annual Evaluation

The Board did not comply with this provision during the period due to the timing of the appointment of John Roberts as Chairman in March 2014 and the review and enhancements of the Board operations made during the year. This was to set the foundation for the evaluation, to be led by the Chairman, to be carried out in the summer of 2015. The Board intend this to be temporary non-compliance.

Annual Election of Directors

The Board does not subject its directors to annual elections as required by the Code. This provision allows for shareholders to ultimately hold directors to account in the event they are under performing and choose not to re-elect them. Given that there are shareholders on our Board they have the opportunity to challenge director's performance rather than simply make their voice heard at an Annual General Meeting.

Further to this, Board appointments are made by the Company's single member only, North West Electricity Networks plc. This Board is made up of five members of the Electricity North West's Board, two shareholder directors, one Independent and two Executive Directors. The Independent Non-Executive Director is one of the Sufficiently Independent Director's required by our regulator. The Board feel this smaller group with the addition of the newly formed Nominations Committee, the Remuneration Committee's review of incentives and the Board's plans for annual evaluations ensures that Directors are fully held to account more effectively and appropriately than would be the case if it chose to comply with the annual re-election process.

Publication of the Terms and Conditions of Non-Executive Directors

During the year, the Board considered the corporate governance disclosures on the Company website, part of which included considering the publication of the terms and conditions of appointment of Non-Executive Directors.

As a privately owned company we are 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 Board felt that publicising the terms and conditions of Non-Executives only through complying with this provision of the Code be out of context offering no meaningful comparisons. In addition, our shareholders and our regulator have full visibility of the terms and conditions of all of our directors so publication via the website would not provide these two key stakeholders with any additional information.

Engagement

As a privately owned company, Electricity North West does not have a large or dispersed shareholder base with which to formally communicate, nor do we have any minority shareholders, therefore we do not hold Annual General Meeting's and do not comply with the General Meetings requirements set out in the Code. However, we work closely and proactively with our shareholders, who are represented on our Board.

How we meet engagement requirements

Shareholders:

There are two representatives from each of our two shareholders on our Board, although we arrange our Board meetings to suit the needs of the Company, we are mindful of the requirements of our shareholders. We organise our schedule of meetings well in advance and work with our overseas Board member, Mark Rogers who is based in Australia, to maximise his time in the UK. Conference calls are also organised to suit the different time zones whenever possible.

The Board's planning cycle is aligned to efficiently meet the needs of the Board and the business, revised in March 2015 to prepare for the new regulatory period. In addition to formal Board meetings, this cycle includes quarterly valuation workshops to focus on financial and treasury matters and further quarterly workshops to meet the requirements of strategic planning.

We also circulate our monthly business and financial performance reports to our shareholder's analyst teams and other senior individuals from our shareholders have attended Board members and engaged in site visits and meetings with our CEO and the Executive Leadership Team.

We work closely with our shareholders but this is very much a two way process. Both of our shareholders endorse the UK Stewardship Code and see their stewardship commitments as a key feature of their investment philosophy. Both 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.

Environmental, social and governance factors are embedded into their investment processes. Both also expect the companies in which they invest to demonstrate high standards of corporate governance and to comply with the provisions of the Code.

Stakeholders:

We have strong and open relationships with our stakeholders, from our regulator, Ofgem, to local government and schools, emergency services, MPs and national government; we have a number of key relationships and a vast range of public sector stakeholders. Our industry engagement includes that with electricity suppliers, employees and contractors and other utilities. We have a stakeholder engagement strategy discussed in more detail on page 14.

In addition to the work detailed on page 14, our liaison with stakeholders has included work with local government, schools, emergency services, MPs and national government.

In addition to the work detailed within the stakeholder engagement section, our liaison with stakeholders has included work with local government, schools, emergency services and national government. Specifically:

- Engagement with local and regional government through the CEO's involvement in GM Energy Group;
- Community and local authority engagement for the Power Saver Challenge scheme;
- School liaison through BrightSparks educational programme;
- Emergency planning meetings and joint community engagement events; and
- Ongoing engagement with regulators, national government and other networks to introduce a national power cut number.

Our industry engagement with electricity suppliers, employees and contractors and other utilities included:

- Supplier meetings through ENA;
- Contractor forums;
- National Joint Utilities Group; and
- Industry working groups.

Introduction to the Committees

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

Standing Committees, meeting on a regular pre-planned cycle:[1]
Audit Committee
Remuneration Committee
Nominations Committee
Health, Safety and Environment Committee
Use of Systems Pricing Committee
Financing Committee

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

The Chairman of each Committee reports on that Committee's business at the following Board meeting. The minutes of each Committee are made available to the entire Board.

The terms of reference and the membership of each Committee were reviewed during the period to ensure effective operation. To acknowledge the requirement of our regulator to have Sufficiently Independent Directors on our Board, quorum requirements for each of the Board Committees has been revised from two shareholder representatives to also include one independent director.

[1] Those committees listed in green produced a report in the year.

Audit Commitee attendance

	May 2014	Oct 2014	Nov 2014	Jan 2015
John Gittins	✓	✓	✓	✓
John Roberts	✓	✓	✓	✓
Mark Rogers	✓	✓	✓	✓
Niall Mills	✓	✓	✓	✓
Chris Dowling	✓	✓	✓	✓
Mike Nagle	✓	✓	✓	✓
Mark Walters	✓	✓	✓	✓

Introduction from the Audit Committee Chairman

I am pleased to present the Audit Committee report for the year ended 31 March 2015, prepared in accordance with the UK Corporate Governance Code as revised in September 2014 and the Guidance on Risk Management, Internal Control and Related Financial Business Reporting.

On behalf of the Board the Audit Committee monitors the integrity of the Company's statutory and regulatory financial statements, the appointment, remuneration, performance and independence of the external auditor and the role and effectiveness of the Company's internal audit and risk management function. Continued challenge and engagement with management, the internal audit team and the external auditor, together with timely information, has enabled the Committee to discharge its duties and responsibilities effectively.

John Gittins
Chairman of the Audit Committee

Report of the Audit Committee

Membership and Meetings

Composition of the Committee and attendance by individual members is detailed above.

The Committee met four times during the year, three were scheduled to coincide with the financial and regulatory reporting cycles of the Company and one was organised at the Board's request to seek assurance on specific operational items.

To maintain effective communication between all relevant parties, there were a number of regular attendees by invitation at each of the Committee's meetings including the CEO, the Interim CFO, the CFO following his appointment in January 2015 until his resignation on 5 May 2015, the Head of Risk, Control and Assurance, the Head of Strategic Planning and Investor Relations and the external auditors.

Over the course of the year, the Committee Chairman had a number of separate meetings with both the lead external audit partner at Deloitte LLP and with the Head of Risk, Control and Assurance and both have direct access to the Audit Committee Chairman should they wish to raise any concerns outside formal Committee meetings.

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

The Role of the Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company and supports the Board in its oversight and monitoring of financial reporting, risk management and internal control and corporate governance arrangements, testing and challenging these areas with management and the internal and external auditor as appropriate.

The Terms of Reference of the Audit Committee sets out its responsibilities and this is reviewed annually and referred to the Board for approval. The Terms of Reference have been updated during the year and are available on the Company's website or can be obtained from the Company Secretary.

The key responsibilities of the Audit Committee are:

- To monitor the integrity of the financial statements, including its annual and half yearly reports and reporting to the Board on significant financial reporting issues and judgements which they contain.
- Monitoring the independence, effectiveness and remuneration of the external auditor.
- Reviewing the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems.
- Monitoring the effectiveness of the Company's internal audit function.
- Ensuring 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:

- The Committee reviewed the 31 March 2015 Annual Report and Accounts and the September 2014 half year report and the external audit report to the Committee.
- The Committee evaluated the effectiveness and scope of the work to be undertaken by the internal audit function and reviewed management responses to the audit reports issued throughout the year.
- The scope and methodology of the audit work to be undertaken by the external auditor was reviewed and agreed, as were the terms of engagement and fees to be paid for the audit of the 2014/15 financial statements.
- Discussion on the valuation of the Group's Index Linked Swaps as part of the finalisation of the 2013/14 Annual Report and Accounts.

  The Committee agreed to look at an outsourcing arrangement for these valuations to support internal expertise.
- The Board discussed an initiative to improve the Company's culture and climate in October 2013 and in November 2014 the Board requested that the Audit Committee look at the controls and procedures employed as part of the project and the resulting impact on the organisation.
- The Committee reviewed controls on corporate credit cards and exceptional items at the Board's request and found controls adequate and did not recommend any changes.
- In accordance with UK regulations, the Company's auditor adheres to a rotation policy based on best practice and a new Group lead engagement partner is appointed in place of the previous lead once they have completed a term of five years in that role. Following a rigorous evaluation of the audit service and a change in audit partner at the beginning of the 2012/13 financial reporting period the Audit Committee agreed that a full tender was not required. The Committee is satisfied that the audit continues to be effective and provides an appropriate independent challenge to senior management.

  The Committee has reviewed the requirements of the UK Corporate Governance Code and the Competition and Markets Authority's draft Order with regard to tendering the external audit at least every 10 years. The Committee noted the proposed transitional arrangements indicating that a competitive tender process will be required on or after 17 June 2023. The Committee will keep this under review and advise the Board on an appropriate time to undergo a competitive tender.

The significant issues considered by the Committee during the approval of the 2014/15 financial statements were:

- Capital and revenue allocations and ensuring the appropriate treatment of fixed asset expenditure. Management's key controls and a sample of projects were tested, as was capitalised interest cost to ensure compliance with IAS23. No evidence of management bias was identified and key assumptions were in line with external audit expectation.
- Accounting for the Electricity North West Group of the Electricity Supply Pension Scheme. This is a complex area where small changes in assumptions can have a significant effect on the valuation of liabilities and therefore on the financial statements. The Committee considered the evaluation by external actuaries, benchmarking data and the disclosure requirement of IAS19. The calculations and assumptions were considered appropriate.
- Treasury accounting, particularly auditing fair value calculations and ensuring appropriate disclosures. There is a risk, due to the complexity of the financial instruments that they are incorrectly valued, accounted for or disclosed, resulting in a material error in the financial statements or a material disclosure deficiency. The Committee noted the specialist advice received in the area and compliance with appropriate accounting standards in valuation and disclosure.
- Involvement of Deloitte tax specialists in challenging taxation assumptions. Consideration was given to the work of the Group's in-house tax manager and explicit agreements sought from HMRC in certain cases.
- Compliance with the FRC guidance and licence condition with regard to the going concern assessment. Consideration was given to management's assessment of the impact of the RIIO decision, financing arrangements, banking facility covenants, performance against budget, the application of appropriate sensitivities and compliance with Licence Condition 30.
- The risk of fraud in revenue recognition, where considerations included specific testing on unbilled income and analytical review. No misstatements arising from fraud were identified.

External Audit

The external auditor is engaged to express an opinion on the Company and Group's financial statements. The audit includes the review and test of the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements. This year's report is the twelfth conducted by Deloitte LLP. The assessment of the effectiveness of the external audit carried out for the 2013/14 Annual Report was conducted in October 2014 and involved completion of a questionnaire by each member of the Audit Committee, the Interim CFO and other senior managers in the organisation directly involved in the process.

The result of this evaluation was that the audit was appropriately scoped, was well planned and executed. Some enhancements were agreed with Deloitte, particularly in the area of treasury accounting.

Auditor Independence and the Provision of Non-Audit Services

The Company has a formal policy on the use of auditors 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.

There were no non-audit services provided by Deloitte LLP during the year.

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 21 to 24.

Whistle blowing Arrangements

The Company has a Disclosure (Whistle blowing) policy and a service provided by an external company whereby employees can raise concerns by email or telephone in confidence. Any matters reported are investigated and escalated as appropriate.

The Committee reviewed this policy in January 2015.

Committee Effectiveness

The Committee formally reviewed its Terms of Reference and its membership during the year and its operational effectiveness will form part of the Board's annual evaluation during 2015.

Fair, Balanced and Understandable

The UK Corporate Governance Code introduced in September 2014 requires the Board to state that the Annual Report is fair, balanced and understandable. The Audit Committee was requested to assist the Board in confirming this statement. As part of its review, the Audit Committee took into account the preparation process for the Annual Report and Accounts:

- The theme was discussed and agreed in January 2015 and is linked to the strategic objectives and this has set the context for the Annual Report.
- Different sections of the Annual Report are drafted by appropriate senior management who have visibility of the Company's performance in these areas.
- Reviews of the drafts are carried out by the Executive Directors and other members of the Executive Leadership Team.

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

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 54.

In its annual review of compliance with Principal C.2 of the UK Corporate Governance Code, the Committee also considered the Company's viability over the eight year term of the RIIO-ED1 period and was assured that principal risks and uncertainty had been assessed as part of the submission of the Well Justified Business Plan covering 2015-2023.

Report of the Nominations Committee

I was nominated by the Board to take the Chairmanship of the Nominations Committee when it was constituted in July 2014. The Remuneration Committee had previously undertaken the Nominations role. However, to assist the Board with its ongoing succession planning, the Committee was set up with Niall Mills, Mark Walters, John Roberts and John Gittins as members.

The Committee has undertaken the recruitment process for the role of CFO and were aided by Heidricks and Struggles who have they provided valuable assistance to the Committee during the process.

Chris Dowling
Chairman of the Nominations Committee

Membership and Meetings

Composition of the Committee and attendance by individual members at meetings is detailed below.

The Committee meets as required to consider appointments of both Executive and Independent Non-Executive Directors to the Board. Its recommendations are then put to the Board for approval.

The CEO and the Customer and Business Services Director attend meetings at the invitation of the Chairman of the Committee.

The Terms of Reference of the Committee set out its responsibilities and these were updated in March 2015 and are published on the Company's website.

	July 2014	October 2014	October 2014	March 2015
John Gittins	✓	✓	✓	✓
John Roberts	✓	✓	✓	✓
Niall Mills	✓	✓	✓	✓
Chris Dowling	✓	✓	✓	✓
Mark Walters	✓	✓	✓	✓

The key responsibilities of the Nominations Committee are to:

- Review the structure, size and composition of the Board.
- Identify and nominate for approval by the Board, candidates to fill vacancies as and when they arise, including utilising search consultants where appropriate.

Main activities during the year included:

- Recruitment process for the role of CFO.
- Review of the Committee Terms of Reference.

Diversity

As described in the Corporate Governance report on page 28, the Board is committed to diversity in its broadest sense and the Nominations Committee will ensure this remains central to recruitment and succession planning now and in the future.

Committee Evaluation

The performance of the Committee will form part of the Board's forthcoming evaluation process.

Report of the Remuneration Committee

Introduction from the Committee Chairman

As Chairman of the Board's Remuneration Committee I am pleased to present our remuneration report for 2014/15.

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 our network.

We also review the remuneration of other members of the Executive Leadership Team and have an overview of the Company wide remuneration. The structure and levels of remuneration aim to ensure that arrangements appropriately incentivise these individuals to achieve our strategic objectives.

I remained the Chairman of the Committee throughout the period and other members were fellow Non-Executive Director's Mike Nagle, Mark Walters and Mark Rogers along with Independent Non-Executive Director's John Gittins and the Board's Independent Chairman, John Roberts. The biographies of all members can be found on pages 26-27.

The Committee has been joined by invitation during the year by CEO Steve Johnson, CFO Andrew Dench, Customer and Business Services Director Helen Sweeney, Head of Performance and Reward Fiona Brown and external advisors PwC.

Niall Mills
Chairman of the Remuneration Committee

	May 2014	Oct 2014	Nov 2014	Jan 2015	Mar 2015
Niall Mills	✓	✓	✓	✓	✓
John Gittins	✓	✓	✓	✓	✓
Mike Nagle	✓	✓	✓	✓	✓
Mark Rogers	✓	✓	✓	✓	✓
John Roberts	✓	✓	✓	✓	✓
Mark Walters	✓	✓	✓	✓	✓

Membership and Meetings

The UK Corporate Governance Code provides that all members of the Remuneration Committee should be Independent Non-Executive Directors. We do not comply with this requirement, due to the Company's ownership structure, although all members are either our shareholder appointed Non-Executive Director's or Independent Non-Executive Directors. There are no Executive members and no Director is responsible for setting his or her own remuneration.

The Committee has designated authority from the Board set out in its Terms of Reference. In January 2015 the Committee undertook a significant review of its Terms of Reference to ensure it fully aligned with the UK Corporate Governance Code and the Financial Reporting Council's Guidance on Board Effectiveness. This Terms of Reference is published on the Company's website www.enwl.co.uk

The primary purposes of the Committee include:

- Responsibility for setting the remuneration policy for all Executive Directors and the Company's Chairman and Independent Non-Executive Directors, including pension rights and compensation payments where appropriate.
- Recommend and monitor the level and structure of Executive Leadership Team remuneration.
- Appointment of any remuneration consultants.
- Approval of the design of and targets for any performance related pay scheme.

The Committee reviews and approves the overall remuneration levels of employees below senior management level, but does not set individual remuneration for these individuals. This oversight role allows the Committee to take into account pay policies and employment conditions across the Group when designing reward structures for Executive Directors and members of the Executive Leadership Team. There were five meetings of the Committee during the year and attendance by individual members is detailed in the table below.

Matters considered by the Committee during the year included:

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

A significant piece of work for the Committee during the year was approving the design of the Company's Executive Incentive Plan, to be used as a long term incentive for senior individuals over an eight year period beginning on 1 April 2015, aligned with the RIIO price control period.

The Committee took into consideration the requirement of the Code that there should be an opportunity for the Remuneration Committee to correct the outcomes for incentive plans when it emerges that decisions on pay-outs have been fundamentally ill-founded or the performance outcome does not reflect a significant negative event.

The Board and its Committees have always endeavoured to comply with the Code where appropriate or apply the provision where compliance is inappropriate. On this basis, the Committee approved the design of the new Executive Incentive Plan to include:

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

Also this year, with the support of external advisors Hays, the Committee has undertaken a detailed benchmarking exercise on the remuneration of the Executive Directors and members of the Executive Leadership Team.

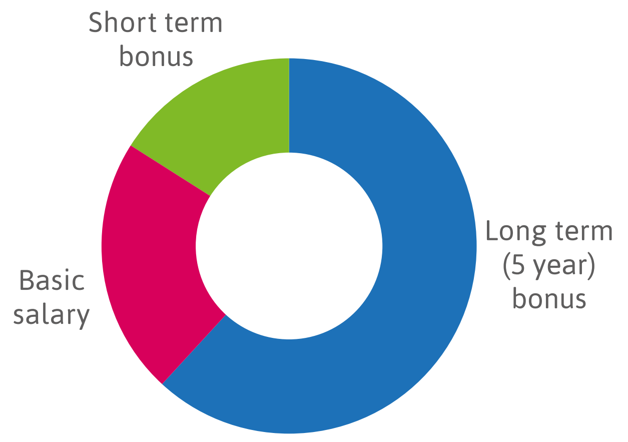
The Committee is of the opinion that the remuneration structure designed for the RIIO period reflects the strategic direction of the business and the steps taken during the year ensures that remuneration is designed to promote the long term success of the Company and through the new Executive Incentive Plan ensure that performance related elements are transparent and have put in place mechanisms to avoid rewarding poor performance.

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

The Committee will continue to support the Board in ensuring that compensation and incentives across the Group encourages long term sustainability and are consistent with the risk profile and objectives of the Group.

Executive Directors

The allocation of total reward to base salary and, (maximum) performance-based, short-term and long-term incentive plans for the CEO is broadly 22% basic salary, 16% short term on plan and 62% long term on plan.



Element	Purpose and link to strategy	Framework
Basic Salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked but also reflect the Director's experience and time at Director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, Directors are provided with a car allowance and medical insurance.
Bonus – short term	Annual bonus is used to incentivise short term performance and delivery of our business plan targets. Reward levels recognise achievement against both financial performance and key operational metrics.	Short term corporate objectives are based on a balanced scorecard approach. Following Health & Safety best practice is considered to be an essential part of any role and Directors therefore receive no Health & Safety related incentives.
Long Term Incentive Plan ('LTIP')	Long term incentive payments are structured to incentivise strategic and innovative behaviours over the longer term.	The long term bonus in place for the year was based on financial performance during DPCR5. Key metrics are Ofgem assessments and shareholder objectives. Performance results were independently audited before any final settlements made. The LTIP plan has been revised as we enter RIIO-ED1 and has been replaced with a new Executive Incentive Plan which balances short and long term performance incentives.
Pension	Employees who joined the business before 2006 are members of a historic defined benefit scheme. Anyone joining the Group after that date is offered membership of a competitive defined contribution scheme. Life assurance cover is also provided.	Directors are offered the same level of defined contribution benefits as all other employees. No directors are members of the defined benefit scheme which is now closed to new members.

Report of the Health, Safety & Environment Committee

Introduction from the Committee Chairman

I am delighted to present the report of the Board's Health, Safety and Environment Committee, which was set up to provide a focused forum to discuss health, safety and environmental issues, set objectives and targets and monitor performance on behalf of the Board.

The Committee continues to develop its health, safety and environment strategies, strives to lead the way with health, safety and environmental initiatives, follow best practice and to learn from its workforce across the organisation wherever they are based.

Respect for our environment and the health, safety and wellbeing of our employees, customers and anyone our work brings us in to contact with is non-negotiable, a fundamental cornerstone of what we do.

The Committee not only agrees targets and monitors Company performance in this area, it regularly challenges the Executive and the health, safety and environment team to look at new initiatives, work with other organisations, both in our sector and others across the UK and continually learns and improves.

I chaired the Committee throughout the year and the membership consisted of Non-Executive Director Mike Nagle, Executive Director and CEO Steve Johnson and three members of the Executive Leadership Team the Commercial Director, Networks Strategy and Technical Director and the Customer and Business Services Director. The meetings were also attended by other members of the Executive and Senior Leadership Teams by invitation.

All members of the Committee were present for every meeting, as was the Company Secretary.

Niall Mills
Chairman of the Health, Safety and Environment Committee

	July 2014	Oct 2014	Jan 2015
Niall Mills	✓	✓	✓
Mike Nagle	✓	✓	✓
Greg Fernie	✓	✓	✓
Helen Sweeney	✓	✓	✓
Mike Kay	✓	✓	✓
Steve Johnson	✓	✓	✓

The Role of the Committee

The Committee has designated authority from the Board set out in its Terms of Reference, which was last reviewed in October 2014 and is published on the Company's website.

The primary purposes of the Committee are:

- To set the corporate health, safety and environment strategy, objectives, targets and programmes.
- To 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.
- To 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.
- To review the Company's external reporting in this area and regulatory disclosures.

The Committee assists the Board in ensuring that the executive set aspiring standards in the area of health, safety and environment and implements a culture in which these values are instilled across the business.

Significant matters considered by the Committee during the year:

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

This report includes the following:

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

In addition to this regular reporting, the Committee also considered the following during the year:

- Its performance scorecard, incorporating health, safety and environment targets cascaded from the Company's Corporate scorecard with the addition of:
  - Carbon footprint targets; and
  - Further detailed health, safety and environment targets.
- Progress on the Health and Safety Executive investigation into the tragic accident in November 2013;
- Focus on behavioural safety initiatives for all employees;
- Discussion on publications circulated to the Committee, looking at best practice and completing checklists and questionnaires to benchmark standards;
- Developing a health, safety and environment strategy to run throughout the new regulatory period; and
- Reviewing health, safety and environment risks either cascaded through the business, identified through employee reporting or by the Committee.

The Committee will continue to work with the executive and Senior Management to ensure the health and safety of our people and the integrity of our environment.

The Directors present their Annual Report and the audited Consolidated Financial Statements of Electricity North West Limited and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2015.

Dividends

In the year ended 31 March 2015 the Company paid dividends of £37m paid in June 2014 (31 March 2014: £83m, this figure represented interim payments of £15m paid in June 2013 and £68m paid in December 2013). The Directors do not propose a final dividend for the year ended 31 March 2015 (31 March 2014: same).

Directors

The Directors of the Company during the year ended 31 March 2015 are set out below. Directors were appointed for the whole year except where otherwise indicated.

Executive Directors

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

Non-Executive Directors

Dr J Roberts
J A Gittins
N P Mills
M A Nagle
M Rogers
M A Walters
C Dowling (appointed 1 May 2015)

Alternate Directors during the year were:

M L Ayre
P Ryan (resigned 15 June 2014)
A Truscott (appointed 19 January 2015)

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

Directors' and Officers' insurance

The Group maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act.

People

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

Corporate Social Responsibility

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

Research and development

The Group is committed to developing innovative and cost-effective solutions for providing high quality services and reliability to our customers, and for the benefit of the wider community and the development of the network, as further detailed in the Strategic Report.

Financial instruments

The risk management objectives and policies of the Group in relation to the use of financial instruments can be found in the Strategic Report and in note 19 to the financial statements.

Fixed assets

Further details on Property, Plant and Equipment are provided in the Strategic Report and note 11 to the financial statements.

Capital structure

See note 27 for details of the Group's capital structure.

Commitments

Details of commitments and contractual obligations are provided in notes 10, 11, 17 and 28 of the financial statements.

Information given to auditor

Each of the persons who are a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Independent auditor

Deloitte LLP have expressed their willingness to continue in office as auditor of the Group. In accordance with section 487 of the Companies Act 2006, Deloitte LLP are deemed to be re-appointed as auditor of the Company.

Registered address

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

Registered number: 02366949

Approved by the Board on 27 May 2015 and signed on its behalf by:

S Johnson
Director

Directors' Responsibilities Statement

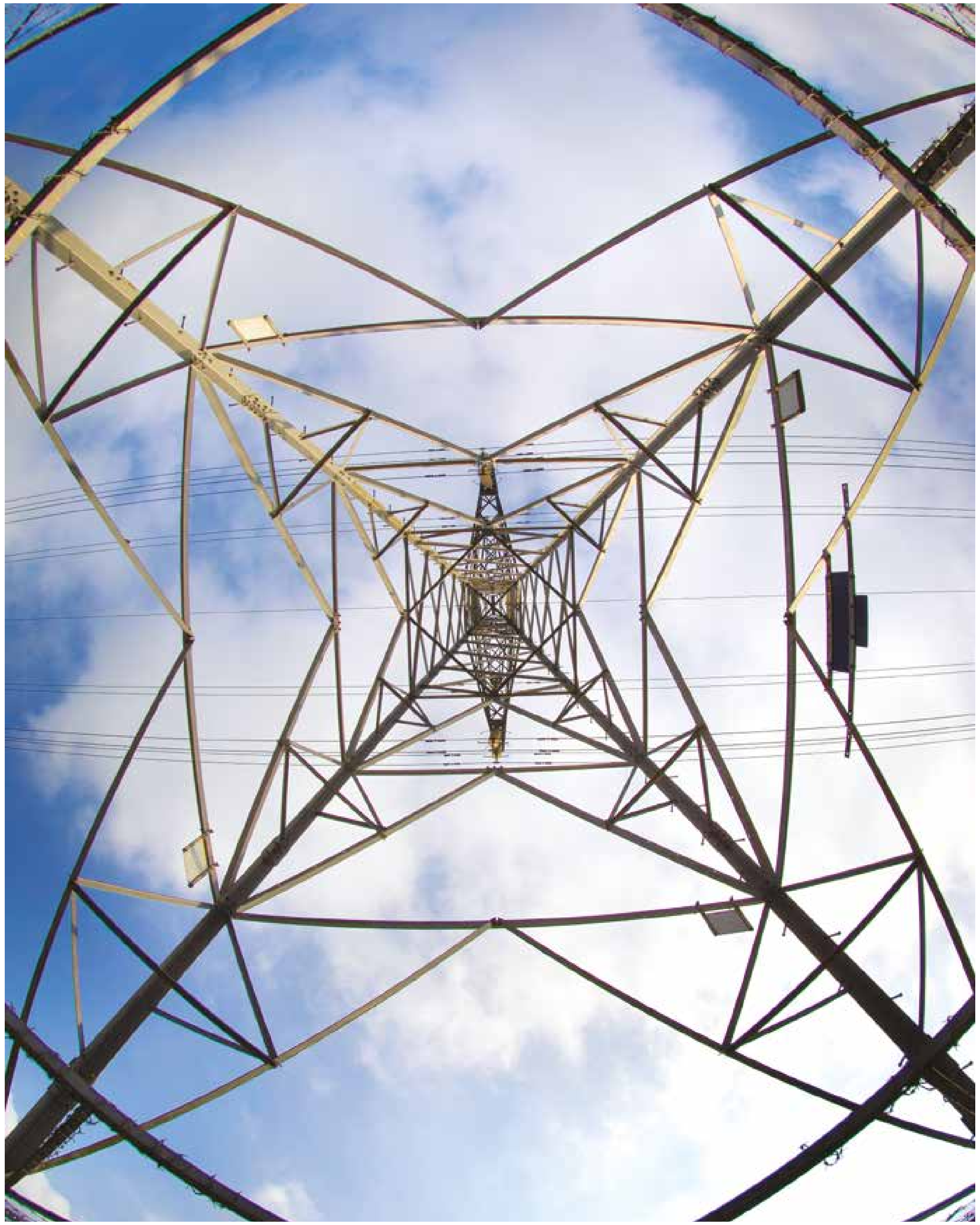
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



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

Opinion on financial statements of Electricity North West Limited

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2015 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.

The financial statements comprise Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

We have reviewed the directors' statement on pages 18-19 and 46 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

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

Our application of materiality

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

We determined planning materiality for the Group to be £4.4 million (2014: £4.2 million) using revenue as the determining base. This materiality is below 4.8% (2014: 2.1%) of pre-tax profit and below 1% (2014: 1%) of equity

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £88,000 (2014: £87,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Given the nature of the Group's corporate structure where all evidence relating to each entity is compiled at the Group's head office and statutory audits are required for each non-dormant entity within the Group, we performed an audit covering 100% of the Group's companies and accordingly our work as performed on each individual component's total assets, revenue and profit. Each separate component is a statutory entity and is subject to a statutory financial statement audit, performed to an applicable materiality level, which were lower than group materiality

We have also tested the consolidation process.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Risk	How the scope of our audit responded to the risk
Treasury accounting Treasury is a complex area and includes the accounting for material financial instruments including index-linked swaps and bonds. Due to the complexity of the accounting there is a risk that these instruments are incorrectly valued, accounted for or disclosed in the financial statements which may result in a potential material error. As disclosed in note 18 to the financial statements the Company has borrowings of £1,261 million as at 31 March 2015 (2014: £1,085 million), and as disclosed in note 19, derivative financial instruments with a fair and carrying value of £212 million liability (2014: £96 million liability).	Due to the complexity of the financial instruments held in the group our audit team includes financial instrument specialists. We tested a sample of valuations in respect of the interest rate and index-linked swaps held by the group, including an assessment of the application of credit risk under IFRS 13. In addition we recalculated the carrying value of the bonds held at both amortised cost and at fair value through profit and loss in the group, along with the associated amortisation and interest charges as the bonds unwind to maturity. We have challenged management regarding the approach to classifying the derivatives as Level 2. In addition our review of the financial statements assessed whether the disclosures made in notes 18 and 19 are consistent with the requirements of IFRS 13 and IFRS 7.
Pensions accounting Accounting for defined benefit pension schemes under IAS 19 Revised is complex and involves actuarial assumptions that are judgemental. Small changes in assumptions can have significant effects on the funding obligations and therefore on the financial statements. As disclosed in Note 20 to the financial statements the Company has a retirement benefit obligation liability of £33.7m (2014: £37.1m).	We have reviewed the assumptions behind the actuarial valuation of the pensions liabilities as at 31 March 2015 by reviewing the assumptions behind the actuarial report and comparing to the Deloitte illustrative benchmarks for comparator companies in order to assess their appropriateness in conjunction with our internal actuaries. Further we have tested the valuation of the pension assets as at 31 March 2015 in order to assess whether the balance is appropriately stated in the financial statements. We have also reviewed the disclosures made in the financial statements to determine whether they are in line with IAS 19 Revised.
Inappropriate capitalisation of costs The effect of inappropriate capitalisation of costs is that items which are capital in nature are expensed, whilst items which are expenditure in nature are conversely capitalised. The risk is that this can lead to misstated profits and assets given the magnitude of capitalised spend in the business. £53.7 million of staff costs have been transferred to fixed assets and capitalised as per note 4 and total additions are £249.7 million as per notes 10 and 11.	As part of our tangible fixed asset audit we tested a sample of additions to invoice or third-party support in order to consider whether those items are capital in nature. We have tested a representative sample of costs which had been charged to the Income Statement and subsequently recharged to capital projects on a departmental basis, and reviewed Income Statement repair and maintenance costs to determine if any items expensed should have been capitalised. In addition, a sample of capital projects are reviewed in detail, with discussions and supporting documentation obtained from the project managers in order to better understand those projects and determine the specific nature of the spend. We have reviewed the Company's assumptions, policies and procedures with regards to overhead absorption and compared to the balances capitalised.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 35 onwards.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made. We have nothing to report arising from this matter.

Other matters

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

Our duty to read other information in the Annual Report

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

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

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

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

Patrick J Loftus ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom
27 May 2015

Consolidated Income Statement

for the year ended 31 March 2015

	Note	Group 2015 £m	Group 2014 £m
Revenue	2	**533.7**	508.0
Employee costs	3,4	**(44.5)**	(43.7)
Depreciation and amortisation expense (net)	3	**(85.7)**	(89.5)
Retail property provision credit	3,17	**-**	1.5
Other operating costs		**(99.4)**	(95.9)
Restructuring costs	3,6	**(2.8)**	-
Total operating expenses		**(232.4)**	(227.6)
Operating profit	3	**301.3**	280.4
Investment income	7	**0.3**	0.4
Finance expense (net)	8	**(209.7)**	(78.7)
Profit before taxation		**91.9**	202.1
Taxation	9	**(20.1)**	(14.8)
Profit for the year attributable to equity shareholders	26	**71.8**	187.3

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

Consolidated and Company Statement of Comprehensive Income

for the year ended 31 March 2015

	Note	Group 2015 £m	Group 2014 £m
Profit for the year		**71.8**	187.3
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension schemes	20	**4.4**	74.1
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	21	**(0.9)**	(14.8)
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	21	**-**	(5.7)
Other comprehensive income for the year		**3.5**	53.6
Total comprehensive income for the year attributable to equity holders		**75.3**	240.9

	Note	Company 2015 £m	Company 2014 £m
Profit for the year		**71.8**	187.3
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension schemes	20	**4.4**	74.1
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	21	**(0.9)**	(14.8)
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	21	**-**	(5.7)
Other comprehensive income for the year		**3.5**	53.6
Total comprehensive income for the year attributable to equity holders		**75.3**	240.9

Consolidated and Company Statement of Financial Position

As at 31 March 2015

	Note	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	10	29.4	29.4	22.0	22.0
Property, plant and equipment	11	2,836.6	2,836.6	2,693.4	2,693.4
Investments	12	-	15.4	-	15.4
		2,866.0	2,881.4	2,715.4	2,730.8
Current assets					
Inventories	13	7.3	7.3	7.3	7.3
Trade and other receivables	14	66.3	66.3	62.2	62.2
Cash and cash equivalents	15,19	136.0	136.0	65.3	65.3
Money market deposits	15,19	25.0	25.0		
Current tax asset		3.6	3.6	-	-
		238.2	238.2	134.8	134.8
Total assets		3,104.2	3,119.6	2,850.2	2,865.6
LIABILITIES					
Current liabilities					
Trade and other payables	16	(137.8)	(153.5)	(143.1)	(158.8)
Provisions	17	(2.8)	(2.8)	(3.8)	(3.8)
Current income tax liabilities		-	-	(22.9)	(22.9)
Borrowings	18	-	-	(67.4)	(67.4)
		(140.6)	(156.3)	(237.2)	(252.9)
Net current assets/(liabilities)		97.6	81.9	(102.4)	(118.1)

Consolidated and Company Statement of Financial Position (continued)

As at 31 March 2015

	Note	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Non-current liabilities					
Borrowings	18	(1,261.4)	(1,261.4)	(1,085.3)	(1,085.3)
Derivative financial instruments	19	(212.2)	(212.2)	(95.5)	(95.5)
Provisions	17	(3.3)	(3.3)	(5.8)	(5.8)
Retirement benefit obligations	20	(33.7)	(33.7)	(37.1)	(37.1)
Deferred tax	21	(183.2)	(183.2)	(199.4)	(199.4)
Customer contributions	22	(538.5)	(538.5)	(499.1)	(499.1)
Refundable customer deposits	23	(4.8)	(4.8)	(2.6)	(2.6)
		(2,237.1)	(2,237.1)	(1,924.8)	(1,924.8)
Total liabilities		(2,377.7)	(2,393.4)	(2,162.0)	(2,177.7)
Total net assets		726.5	726.2	688.2	687.9
EQUITY					
Called up share capital	24	238.4	238.4	238.4	238.4
Share premium account	26	4.4	4.4	4.4	4.4
Revaluation reserve	26	99.2	99.2	104.5	104.5
Capital redemption reserve	26	8.6	8.6	8.6	8.6
Retained earnings	26	375.9	375.6	332.3	332.0
Total equity		726.5	726.2	688.2	687.9

The financial statements of Electricity North West Limited (registered number 02366949) were authorised for issue and approved by the Board of Directors on 27 May 2015 and signed on its behalf by:

S Johnson
Director

Consolidated Statement of Changes in Equity

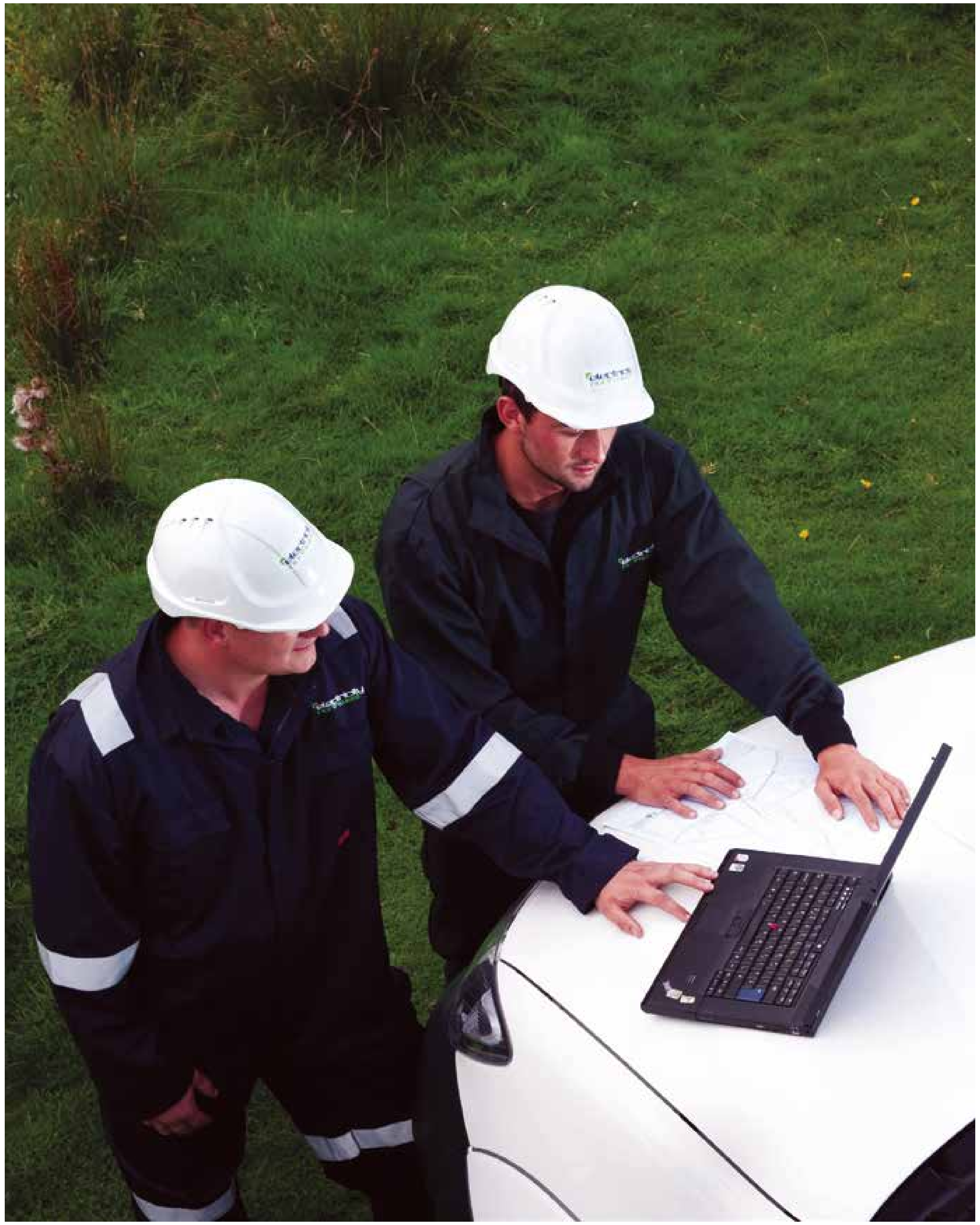
for the year ended 31 March 2015

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2013	238.4	4.4	105.7	8.6	173.2	**530.3**
Profit for the year	-	-	-	-	187.3	**187.3**
Transfer from revaluation reserve	-	-	(1.2)	-	1.2	**-**
Other comprehensive income for the year	-	-	-	-	53.6	**53.6**
Total comprehensive (expense)/income for the year	**-**	**-**	**(1.2)**	**-**	**242.1**	**240.9**
Transactions with owners recorded directly in equity						
Equity dividends (note 25)	-	-	-	-	(83.0)	**(83.0)**
At 31 March 2014	238.4	4.4	104.5	8.6	332.3	**688.2**
Profit for the year	-	-	-	-	71.8	**71.8**
Transfer from revaluation reserve	-	-	(5.3)	-	5.3	**-**
Other comprehensive income for the year	-	-	-	-	3.5	**3.5**
Total comprehensive (expense)/income for the year	**-**	**-**	**(5.3)**	**-**	**80.6**	**75.3**
Transactions with owners recorded directly in equity	-					
Equity dividends (note 25)		-	-	-	(37.0)	**(37.0)**
At 31 March 2015	**238.4**	**4.4**	**99.2**	**8.6**	**375.9**	**726.5**

Company Statement of Changes in Equity

for the year ended 31 March 2015

Company	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2013	238.4	4.4	105.7	8.6	172.9	**530.0**
Profit for the year	-	-	-	-	187.3	**187.3**
Transfer from revaluation reserve	-	-	(1.2)	-	1.2	-
Other comprehensive income for the year	-	-	-	-	53.6	**53.6**
Total comprehensive (expense)/income for the year	-	-	**(1.2)**	-	**242.1**	**240.9**
Transactions with owners recorded directly in equity						
Equity dividends (note 25)	-	-	-	-	(83.0)	**(83.0)**
At 31 March 2014	238.4	4.4	104.5	8.6	332.0	**687.9**
Profit for the year	-	-	-	-	71.8	**71.8**
Transfer from revaluation reserve	-	-	(5.3)	-	5.3	-
Other comprehensive income for the year	-	-	-	-	3.5	**3.5**
Total comprehensive (expense)/income for the year	-	-	**(5.3)**	-	**80.6**	**75.3**
Transactions with owners recorded directly in equity						
Equity dividends (note 25)	-	-	-	-	(37.0)	**(37.0)**
At 31 March 2015	**238.4**	**4.4**	**99.2**	**8.6**	**375.6**	**726.2**



Consolidated and Company Statement of Cash Flows

for the year ended 31 March 2015

	Note	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Operating activities					
Cash generated from operations	30	377.8	375.6	350.8	350.8
Interest paid		(53.9)	(53.9)	(87.0)	(87.0)
Tax paid		(52.4)	(52.4)	(29.2)	(29.2)
Net cash generated from operating activities		271.5	269.3	234.6	234.6
Investing activities					
Interest received and similar income		0.3	0.3	0.3	0.3
Purchase of property, plant and equipment		(242.7)	(242.7)	(234.6)	(234.6)
Purchase of intangible assets		(11.0)	(11.0)	-	-
Customer contributions received		41.1	43.3	28.9	28.9
Proceeds from sale of property, plant and equipment		1.2	1.2	0.6	0.6
Net cash used in investing activities		(211.1)	(208.9)	(204.8)	(204.8)
Net cash flow before financing activities		60.4	60.4	29.8	29.8
Financing activities					
Proceeds from borrowings		72.3	72.3	50.0	50.0
Transfer to money market deposits		(25.0)	(25.0)	-	-
Dividends paid to equity shareholders of the Company		(37.0)	(37.0)	(83.0)	(83.0)
Net cash from/(used in) financing activities		10.3	10.3	(33.0)	(33.0)
Net increase/(decrease) in cash and cash equivalents		70.7	70.7	(3.2)	(3.2)
Cash and cash equivalents at the beginning of the year	15	65.3	65.3	68.5	68.5
Cash and cash equivalents at the end of the year	15	136.0	136.0	65.3	65.3

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

1 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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

Basis of preparation – going concern basis

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

- The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.
- Management has prepared, and the Directors have reviewed, updated Group forecasts to 31 March 2016 which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that sufficient resources are available within the forecast period.
- The latest forecasts for the 2015-23 RIIO-ED1 price review period have also been reviewed to assess going concern. The forecasts demonstrate sufficient liquidity and headroom against key ratios to support the going concern basis;
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by surplus cash and short-term deposit balances. Furthermore, £50m of committed undrawn bank facilities are available from lenders which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2016 indicate there is significant headroom on these covenants.

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

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

Adoption of new and revised standards

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting. The Group does not designate any hedge relationships, therefore there is no impact from the amendment.
- IFRIC 21 Levies. The Group has no levies. Therefore there is no impact from the amendment.

New standards in issue not yet effective

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

IFRS 15: Revenue from Customer Contracts (Effective for the year ended 31 March 2018)

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

The Group intends to adopt these standards, as applicable, when they become effective.

IFRS 9 will impact the measurement and disclosure of the Group's financial instruments. IFRS 15 may impact the measurement of the Group's revenue. The Group is assessing the impact of both these IFRSs.

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

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

Basis of consolidation

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

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

Subsidiaries

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

Business combinations and goodwill

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

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

Intangible assets

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

Amortisation periods for categories of intangible assets are:

Computer software	*3-10 years*

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

Property, plant and equipment

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Operational structures

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

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

Other assets

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

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

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

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

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

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

Impairment of tangible and intangible fixed assets

Intangible assets and property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. An intangible asset with an indefinite life is tested for impairment at least annually and whenever there is an indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order 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.

The recoverable amount is the higher of fair value less costs to sell, 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. Impairment of non-current assets is recognised in the Income Statement within operating costs. Where an impairment loss subsequently reverses, the reversal is recognised in the Income Statement 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.

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 existing location and condition.

Financial instruments

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

Cash and cash equivalents

In the Consolidated Cash Flow Statement and related notes, cash and cash equivalents includes cash at bank and in hand, deposits, other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less and which are subject to an insignificant risk of change in value.

1 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 investments

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

Financial assets

All financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

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

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

Financial liabilities and equity

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

Bank borrowings

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

Borrowing costs and finance income

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

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

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

Borrowing costs capitalised in the year under IAS 23 were £0.8m (2014: £0.9m), using an average annual capitalisation rate of 5.9% (2014: 5.9%).

Derivatives and borrowings

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Embedded derivatives

Derivatives embedded in other financial instruments, or host contracts, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

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

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

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

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

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

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

Derivative financial instruments and hedge accounting

Interest rate and index linked swap agreements are used to manage interest rate exposure. The Group does not use derivative financial instruments for speculative purposes.

All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each Statement of Financial Position date. Changes in the fair value of all derivative financial instruments are recognised in the Income Statement within finance expense as they arise; the Group does not currently designate derivatives into hedging relationships and apply hedge accounting.

Hedge accounting

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

Operating profit

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

Taxation

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

Current taxation

Current tax, representing UK corporation tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date. Taxable profit differs from the net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the Statement of Financial Position date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Employee benefits - Retirement benefit obligations

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

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

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

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

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

Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business primarily for the distribution of electricity during the year, exclusive of value-added tax. Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

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

The Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred revenue.

Customer contributions

Contributions received in respect of property, plant and equipment are treated as deferred income, which is credited to the Income Statement over the estimated economic lives of the related assets. Amortisation of contributions received post 1 July 2009 is shown as revenue, rather than within operating costs, following the adoption of IFRIC 18.

Refundable customer deposits

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

Leases

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development

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

Critical accounting policies

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

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

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

Carrying value of long-life assets

The Group's accounting policy for property, plant and equipment ('PPE') is detailed above. The carrying value of PPE under IFRS as at 31 March 2015 was £2,836.6m (2014: £2,693.4m). Additions to PPE, totalled £238.7m (2014: £227.9m) and the depreciation charge was £95.0m (2014: £93.7m) in the year ended 31 March 2015. The estimated useful economic lives of PPE are based on management's judgement and experience.

When management identify that the actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

In the financial year ended 31 March 2015, the Directors have assessed the carrying value of both tangible and intangible fixed assets in accordance with the principles of IAS 36 'Impairment of Assets'. This review was underpinned by value in use calculations on the recoverable amounts of the cash generating units ('CGU's'). For the purpose of impairment testing the Group have determined that there is only one CGU and, due to favourable operating cash flows being forecast to the end of RIIO-ED1 and beyond, no impairment exists. Furthermore, management have completed a review of tangible fixed assets for material obsolescence and/or physical damage and no indication of impairment was identified.

Revenue recognition

Under IFRS, the Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue. The Company raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes.

The principal customers of the business are the electricity supply companies that utilise the Company's distribution network to distribute electricity from generators to the end consumer. Revenue from such activity is known as 'use of system'. The amount billed is dependent upon the volume of electricity distributed, including estimates of the units distributed to customers. The estimated usage is based on historical data, judgement and assumptions. Operating revenues are gradually adjusted to reflect actual usage in the period over which the meters are read.

Taxation

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

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for provisions and contingencies

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

Property provision

The Company held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to a third party in 1996. However, the third party went into administration during 2013 and the Company still has a potential liability for lease obligations under privity of contract rules for these retail properties. The retail properties have lease expiry dates ranging from 2015 to 2021. The Directors have recognised a provision based on the probable financial exposure, having consulted with both internal and external property advisors and property management agents. Further information on the judgements involved is provided in note 17 to the financial statements.

Retirement benefits

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

Fair values of derivative financial instruments

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

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

Impairment of goodwill

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

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

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The value in use calculation performed concludes that no impairment loss is required against this goodwill. The carrying amount of goodwill at the Statement of Financial Position date was £10.1m.

Impairment of intangibles

Management assesses the recoverability of intangible assets on an annual basis. Determining whether any of the intangible assets are impaired requires an estimation of the value in use of the asset to the Group. This value in use calculation requires the Group to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate the present value for the asset and compare that calculation to its carrying value.

2 REVENUE

Group	2015 £m	2014 £m
Revenue	**533.7**	508.0

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is therefore regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues of approximately £370.8m (2014: £374.9m) which arose from sales to the Group's five (2014: five) largest customers. Customer 1 represented £109.6m (2014: £115.4m), Customer 2 £98.9m (2014: £102.5m), Customer 3 £75.2m (2014: £71.0m), Customer 4 £46.8m (2014: £43.8m) and Customer 5 £40.3m (2014: £42.2m) of revenues. No other customer represented more than 10 per cent of revenues either this year or prior year.

3 OPERATING PROFIT

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

Group	2015 £m	2014 £m
Employee costs		
Employee costs (see note 4)	**44.5**	43.7
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
- Owned assets (see note 11)	**95.0**	93.7
Amortisation of intangible assets and customer contributions		
- Software (see note 10)	**3.6**	7.2
- Customer contributions[1] (see note 22)	**(12.9)**	(11.4)
Depreciation and amortisation expense (net)	**85.7**	89.5
Other income		
- Profit on disposal of property, plant and equipment	**(0.7)**	(0.2)
Retail property provision credit (see note 17)	**-**	(1.5)
Restructuring costs	**2.8**	-
Other operating costs include:		
Research and development	**3.3**	2.1
Operating leases:		
- land and buildings	**0.8**	0.9
- hire of plant and machinery	**1.7**	0.1

[1] In the current year £1.9m (2014: £2.8m) of customer contributions amortisation has been amortised through revenue in line with IFRIC 18.

3 OPERATING PROFIT (continued)

Analysis of the auditor's remuneration is as follows:

Group	2015 £m	2014 £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
Taxation advisory services	**-**	-
Total non-audit fees	**0.1**	0.1
Total fees	**0.2**	0.2

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the Parent are required to disclose such fees on a consolidated basis.

4 EMPLOYEE COSTS

Group	2015 £m	2014 £m
Wages and salaries	74.7	75.0
Social security costs	7.2	7.1
Pension costs (see note 20)	16.3	14.8
Employee costs (including Directors' remuneration)	98.2	96.9
Costs transferred directly to fixed assets	(53.7)	(53.2)
Charged to operating expenses	44.5	43.7

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

Group	2015 Number	2014 Number
Electricity distribution	1,670	1,688

5 DIRECTORS' REMUNERATION

Group	2015 £m	2014 £m
Salaries	0.6	0.7
Accrued bonus	0.3	0.7
Amounts receivable under long term incentive schemes	1.0	-
Pensions	-	-
	1.9	1.4

The aggregate emoluments of the Directors in 2015 amounted to £1,944,591 (2014: £1,392,650). Emoluments comprise salaries, fees, taxable benefits, compensation for loss of office and the value of short-term and long-term incentive awards. The amounts payable under long-term incentive schemes relate to the final settlement of the long term incentive plan covering the DPCR5 period and were paid in April 2015. The aggregated emoluments of the highest paid Director in 2015 in respect of services to the Group amounted to £1,607,702 (2014: £1,007,203). Included in the salaries shown above, are amounts payable for compensation for loss of office of £nil (2014: £260,000) all paid in cash. Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 29.

The highest paid director is a member of the defined contribution section of the ENW ESPS scheme. The pension contributions for the highest paid Director for 31 March 2015 were £nil (2014: £nil). The accrued pension at 31 March 2015 for the highest paid Director was £nil (2014: £nil).

As at 31 March 2015 the Directors have no interests in the ordinary shares of the Company (2014: same).

6 RESTRUCTURING COSTS

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

Group	2015 £m	2014 £m
Redundancy costs	2.8	-
Total charge for the year	2.8	-

7 INVESTMENT INCOME

Group	2015 £m	2014 £m
Interest receivable on short-term bank deposits held at amortised cost	0.3	0.4
Total investment income	0.3	0.4

8 FINANCE EXPENSE (net)

Group	2015 £m	2014 £m
Interest payable		
Interest payable on Group borrowings	**16.9**	17.0
Interest payable on borrowings held at amortised cost	**23.2**	22.9
Interest payable on borrowings designated at fair value through profit or loss	**22.2**	22.2
Net (receipts)/payments on derivatives held for trading	**(5.4)**	25.6
Other finance charges related to index-linked bonds	**6.3**	7.9
Interest cost on pension plan obligations (see note 20)	**1.2**	4.1
Capitalisation of borrowing costs under IAS 23	**(0.8)**	(0.9)
Total interest expense	**63.6**	98.8
Movements on financial instruments		
Fair value movement on borrowings designated at fair value through profit or loss	**29.4**	(18.5)
Fair value movement on derivatives held for trading	**116.7**	(1.6)
Total fair value movements	**146.1**	(20.1)
Total finance expense (net)	**209.7**	78.7

The fair value movement of the borrowings designated at fair value through profit or loss is derived from movements in the market ask price of the bond; this is a Level 1 input under IFRS 13. The fair value movements on the derivatives are derived using a discounted cash flow technique using both market expectations of future interest rates and future inflation levels, obtained from Bloomberg, and calibrations to observable market transactions evidencing fair value; these are Level 2 inputs under IFRS 13. Note 19 provides more detail on this.

There have been no accretion payments on the index-linked swaps in the year; these are scheduled five-yearly and seven-yearly with the next payment due in July 2016. No swaps have been closed out in the year (2014: same).

9 TAXATION

Group	2015 £m	2014 £m
Current tax		
Current year	**41.0**	46.1
Prior year	**(3.8)**	(0.1)
Deferred tax (see note 21)		
Current year	**(20.2)**	0.7
Prior year	**3.1**	1.2
Impact of change in future tax rates	**-**	(33.1)
Tax charge for the year	**20.1**	14.8

Corporation tax is calculated at 21% (2014: 23%) of the estimated assessable profit for the year.

The corporation tax rate reduced to 20% on 1 April 2015. The tax disclosures reflect deferred tax measured at the 20% rate.

In addition to the amount charged to the Income Statement, £0.9m of deferred tax relating to remeasurement of defined benefit schemes has been charged to the Statement of Comprehensive Income (2014: £14.8m), as has £nil deferred tax due to changes in future tax rates of the brought forward deferred tax asset (2014: £5.7m).

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

Group	2015 £m	2014 £m
Profit before tax	**91.9**	202.1
Tax at the UK corporation tax rate of 21% (2014: 23%)	**19.3**	46.5
Prior year tax adjustments	**(0.6)**	1.1
Reduction in current year deferred tax due to rate change	**1.0**	(0.1)
Non taxable expense	**0.4**	0.4
Impact from change in future tax rates	**-**	(33.1)
Tax charge for the year	**20.1**	14.8

10 INTANGIBLE ASSETS AND GOODWILL

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
Cost				
At 1 April 2013	10.1	58.1	-	68.2
Additions	-	-	-	-
Disposals	-	(2.2)	-	(2.2)
At 31 March 2014	10.1	55.9	-	66.0
Additions	-	-	11.0	11.0
Disposals	-	-	-	-
At 31 March 2015	**10.1**	**55.9**	**11.0**	**77.0**
Amortisation				
At 1 April 2013	-	39.0	-	39.0
Charge for the year	-	7.2	-	7.2
Disposals	-	(2.2)	-	(2.2)
At 31 March 2014	-	44.0	-	44.0
Charge for the year	-	3.6	-	3.6
Disposals	-	-	-	-
At 31 March 2015	**-**	**47.6**	**-**	**47.6**
Net book value At 31 March 2015	**10.1**	**8.3**	**11.0**	**29.4**
At 31 March 2014	10.1	11.9	-	22.0

In the Company, goodwill arose on the transfer of assets and liabilities (the 'hive-up') of ENWSL in the year ended 31 March 2011. This value reflects the excess of the investment over the book value of the trade and assets at the date of hive-up and reflects the value of the business now within Electricity North West. The value of the investment was consequently reduced by this same amount.

At 31 March 2015, the Group had entered into contractual commitments for the acquisition of software amounting to £15.5m (2014: £nil). The Company had not entered into contractual commitments for the acquisition of software at 31 March 2015 (2014: same).

10 INTANGIBLE ASSETS AND GOODWILL (continued)

Impairment testing of goodwill

The Group tests annually for impairment or more frequently if there are indications that intangible assets with indefinite lives might be impaired. The recoverable amounts of the cash generating units (CGUs) are determined from value in use calculations. For the purposes of impairment testing the Group have determined that there is only one CGU. The key assumptions for the value in use calculations are those regarding discount rates and the outcomes of future Ofgem price control settlements.

The Group has prepared cash flow forecasts for a 25 year period, which represents the notice period on the licence to distribute electricity. The rate used to discount cash flows was 6.46% (2014: 7.56%) reflecting an assumed level of risk associated with the cash flows generated from the licence. Cash flow projections for the 8 year period to 2023 are based on the Ofgem final determination (2014: based on forecast business plan submission to Ofgem) and reflect recent RPI forecasts. Forecasts beyond this point are projected forward based on expected levels of expenditure to maintain the health of the network and long term inflation assumptions.

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

11 PROPERTY, PLANT AND EQUIPMENT

Group and Company	Operational structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets under the course of construction £m	Total £m
Cost or valuation					
At 1 April 2013	3,396.1	15.4	60.4	269.4	3,741.3
Additions	59.7	3.1	2.4	162.7	227.9
Transfers	136.9	4.7	2.6	(144.2)	-
Disposals	(6.4)	(0.3)	(7.2)	-	(13.9)
At 31 March 2014	3,586.3	22.9	58.2	287.9	3,955.3
Additions	67.8	1.8	4.6	164.5	238.7
Transfers	119.8	(0.1)	11.4	(131.1)	-
Disposals	(3.8)	-	(3.5)	-	(7.3)
At 31 March 2015	**3,770.1**	**24.6**	**70.7**	**321.3**	**4,186.7**
Accumulated depreciation and impairment					
At 1 April 2013	1,143.5	4.9	33.3	-	1,181.7
Charge for the year	80.2	0.7	12.8	-	93.7
Disposals	(6.4)	-	(7.1)	-	(13.5)
At 31 March 2014	1,217.3	5.6	39.0	-	1,261.9
Charge for the year	81.8	0.8	12.4	-	95.0
Disposals	(3.8)	-	(3.0)	-	(6.8)
At 31 March 2015	**1,295.3**	**6.4**	**48.4**	**-**	**1,350.1**
Net book value					
At 31 March 2015	**2,474.8**	**18.2**	**22.3**	**321.3**	**2,836.6**
At 31 March 2014	2,369.0	17.3	19.2	287.9	2,693.4

At 31 March 2015, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £71.3m (2014: £87.7m).

At 31 March 2015, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £2,714.5m (2014: £2,564.9m). The revaluation surplus is disclosed in note 26, net of deferred tax. The revaluation surplus arose following North West Water's acquisition of Norweb.

12 INVESTMENTS

	Group £m	Company £m
Cost and carrying value		
At 31 March 2014 and 31 March 2015	-	**15.4**

Details of the principal investments as at 31 March 2015, all of which were incorporated in the UK, are as follows.

Company	Description of holding	Proportion held	Nature of business
Subsidiary undertakings			
Electricity North West Services Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Non trading
Associated undertaking			
Nor.Web DPL Limited	Ordinary shares of £1 each	50%	Dormant
Joint ventures			
Selectusonline Limited	Ordinary shares of 66.67p each	16.67%	Planning and Procurement
Other Investments			
National Grid plc	Ordinary shares of 11.76p each	Negligible	Energy Distribution

A full list of subsidiary companies is available in the Annual Return filed at Companies House.

13 INVENTORIES

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Raw materials and consumables	7.3	7.3	7.3	7.3

14 TRADE AND OTHER RECEIVABLES

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Trade receivables	6.7	6.7	6.5	6.5
Amounts owed by Group undertakings	4.3	4.3	4.5	4.5
Prepayments and accrued income	55.3	55.3	51.2	51.2
Balance at 31 March	66.3	66.3	62.2	62.2

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.3m (2014: £0.4m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment. The average credit period taken on sales is 14 days (2014: 14 days). No interest is charged on these balances (2014: same).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Of the Group trade receivables, 56% (2014: 29%) are past due but not impaired. The majority of balances are less than 45 days past due; a balance of £1.0m is greater than 45 days past due at 31 March 2015 (2014: £1.4m), against which an allowance for doubtful debt of £0.3m (2014: £0.4m) has been made.

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

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Balance at 1 April	0.4	0.4	0.3	0.3
(Credited)/charged to the Income Statement	(0.1)	(0.1)	0.1	0.1
Utilised	-	-	-	-
Balance at 31 March	0.3	0.3	0.4	0.4

14 TRADE AND OTHER RECEIVABLES (continued)

Trade receivables comprise 413 (2014: 354) individual customers. The Group is required by Ofgem to accept any company that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to the terms.

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 2015 £4.8m (2014: £2.5m) of cash had been received as security.

The allowed RAV is set by Ofgem for each year of DPCR5 (1 April 2010 to 31 March 2015) and is £1,609m for the year ended 31 March 2015 based on March closing prices (2014: £1,700m).

At 31 March 2015 £112.0m (2014: £93.1m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £10.7m (2014: £10.7m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

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

15 CASH AND CASH EQUIVALENTS AND MONEY MARKET DEPOSITS

Group and Company	2015 £m	2014 £m
Cash and cash equivalents	136.0	65.3
Short-term money market deposits (maturity over 3 months)	25.0	-
	161.0	65.3

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 0.5% (2014: 0.6%) and these deposits had an average maturity of 45 days (2014: 7 days).

16 TRADE AND OTHER PAYABLES

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Trade payables	17.9	17.9	25.6	25.6
Amounts owed to group	3.8	3.8	3.7	3.8
Amounts owed to subsidiary undertakings	-	15.4	-	15.4
Other taxation and social security	15.1	15.1	9.3	9.3
Customer contributions (see note 22)	17.4	17.4	30.5	30.5
Refundable customer deposits (see note 23)	0.2	0.2	0.3	0.3
Accruals and deferred income	83.4	83.7	73.7	73.9
	137.8	153.5	143.1	158.8

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 18 days from receipt of invoice (2014: 19 days).

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

17 PROVISIONS

Group and Company	Other 2015 £m	Other 2014 £m
At 1 April	9.6	20.0
Release to the Income Statement on re-estimate of liability	-	(1.5)
Utilisation of provision	(3.5)	(8.9)
At 31 March	6.1	9.6

	Other 2015 £m	Other 2014 £m
Current	2.8	3.8
Non current	3.3	5.8
At 31 March	6.1	9.6

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

The resulting carried forward provision at 1 April 2014 was £9.6m and related to 1 former High Street retail property and 14 former out of town retail properties. As a result of assignments and surrenders during the year £3.5m of the provision has been utilised.

The combined closing provision of £6.1m relates to 1 former High Street retail property and 10 former out of town retail properties and has been evaluated by management and is supported by relevant external legal and property specialists, and reflects the Company's best estimate as at the Statement of Financial Position date of the amounts that could become payable by the Company, on a discounted basis.

The estimate is a result of a detailed risk assessment process, which considers a number of variables including the location and size of the stores, expectations regarding the ability of the Company to both defend its position and also to re-let the properties, conditions in the local property markets, demand for retail warehousing, likely periods of vacant possession and the results of negotiations with individual landlords, letting agents and tenants, and is hence inherently judgemental.

In terms of the likely timing of cash outflows, exposure across the properties is forecast to peak at approximately £2.8m in 2015/16 with the remaining outflows falling over the period to 2022. The maximum potential exposure in relation to this combined portfolio, on a discounted basis, is £19.3m, profiled over a 7 year period from 2015 to 2022; the total undiscounted exposure is £22.7m.

18 BORROWINGS

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

Group and Company	2015 £m	2014 £m
Current liabilities		
Amounts owed to parent undertaking	-	67.4
	-	67.4
Non-current liabilities		
Bonds	722.4	689.5
Bank and other term borrowings	252.6	199.5
Amounts owed to parent undertaking	89.7	-
Amounts owed to affiliated[1] undertaking	196.7	196.3
	1,261.4	1,085.3

Carrying value by category

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

Group and Company	Year of maturity	2015 Carrying value £m	2014 Carrying value £m
Borrowings designated at fair value through profit or loss statement			
8.875% £250m bond	2026	393.4	364.0
Borrowings measured at amortised cost			
8.875% £200m bond	2026	196.1	195.9
1.4746%+RPI[2] £100m index-linked bond	2046	132.9	129.6
1.5911%+RPI[2] £135m index-linked loan	2024	152.2	149.8
Amortising costs re: long term loans at LIBOR plus 0.70%	2017	(0.1)	(0.2)
0.38%+RPI £100m index-linked loan	2032	50.5	49.9
0.0%+RPI £50m index-linked loan	2033	50.0	-
Amounts due to parent undertaking	2023	89.7	67.4
Amounts due to affiliated[1] undertaking	2021	196.7	196.3
Other financial liabilities held at amortised cost		868.0	788.7

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

[2] RPI - Retail Prices Index – a UK general index of retail prices (for all items) as published by the Office for National Statistics (January 1987 = 100).

18 BORROWINGS (continued)

All loans and borrowings are unsecured (2014: same). There was no formal bank overdraft facility in place between 1 April 2014 and 31 March 2015 (year ended 31 March 2014: same). All borrowings are in sterling (2014: same). The fair values of the Group's financial instruments are shown in note 19.

Included within the borrowing note are capitalised facility arrangement fees of £0.1m (2014: £0.2m) relating to the undrawn Revolving Credit Facility.

The loan from parent undertakings accrues interest at 6.5%.

The loan from the affiliated undertaking accrues interest at 6.125%.

Borrowing facilities

The Group and Company had £50m (2014: £100m) in unutilised committed bank facilities at 31 March 2015 of which £nil expires within one year (2014: £50.0m) £50m expires after one year but less than two years (2014: £nil) and £nil expires in more than two years (2014: £50.0m).

19 FINANCIAL INSTRUMENTS

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

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

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

The accounting policy for derivatives is provided in note 1.

Control over financial instruments

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

Risk management

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

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Group's treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee. The Group's processes for managing risk and the methods used to measure risk have not changed since the prior year. In the year, there have been changes to the Group's policies in relation to the management of credit risk, risk limits and minimum credit ratings of counterparties have been amended to reflect changes to market conditions and the associated level of perceived risks.

19 FINANCIAL INSTRUMENTS (continued)

Credit risk

The Group takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. Credit risk arises principally from trade finance and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk.

The counterparties under treasury activities consist of financial institutions. In accordance with IAS 39, the Directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. The exposure to counterparty credit risk will continue to be monitored. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

Significant changes in the economy or in the utilities sector could result in losses not necessarily provided for at the Statement of Financial Position date. The total number of customers in 2015 was 413 (2014: 354), however there are only five (2014: five) principal customers, see note 2. The credit worthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor adherence to this process.

Trade receivables

Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers, and the fact that each of these customers has a contract in place with the Group, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating.

At 31 March 2015 there was £3.8m receivables past due (2014: £2.3m) against which an allowance for doubtful debts of £0.3m has been made (2014: £0.4m).

Treasury investments

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

As at 31 March 2015, none (2014: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been re-negotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

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

Credit rating for cash and cash equivalents, excluding unpresented cheques	2015 £m	2015 %	2014 £m	2014 %
AAA	99.7	60.4	43.3	58.0
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	-	-
A	65.3	39.6	31.3	42.0
	165.0	100.0	74.6	100.0

The rating profile of counterparties has remained unchanged.

At the Statement of Financial Position date, no collateral is held in relation to treasury assets (2014: same).

19 FINANCIAL INSTRUMENTS (continued)

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the Statement of Financial Position. For trade receivables, the value is net of any collateral held in cash deposits (see note 14 for further details).

Credit risk by category	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Trade receivables	6.7	6.7	6.5	6.5
Amounts owed by Group undertakings	4.3	4.3	4.5	4.5
Cash and cash equivalents	136.0	136.0	65.3	65.3
Money market deposits (maturity over three months)	25.0	25.0	-	-
	172.0	172.0	76.3	76.3

Trade receivables and cash and cash equivalents are measured at cost.

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 32 years ahead, to the end of the Regulatory Period ending 31 March 2047. A medium-term view is provided by the Group business plan covering the following accounting period, which is updated and approved annually by the Board. Liquidity is monitored via an 18 month liquidity projection, updated and reported to the Board monthly. The Board has approved a liquidity framework within which the business operates.

Available liquidity at 31 March was as follows:

Available liquidity	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Cash and cash equivalents	136.0	136.0	65.3	65.3
Money market deposits (maturity over three months)	25.0	25.0	-	-
Committed undrawn bank facilities	50.0	50.0	100.0	100.0
	211.0	211.0	165.3	165.3

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 (2014: none).

The Group and Company had committed undrawn bank facilities including £nil (2014: £50.0m) of facilities that expire within one year, £nil (2014: £nil) that expires after one year but less than two years and £50.0m (2014: £50.0m) that expires in more than two years.

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cash flows within particular time periods. The Group uses economic hedges to ensure that certain cash flows can be matched.

19 FINANCIAL INSTRUMENTS (continued)

The following is an analysis of the maturity profile of contractual cash flows of principal and interest payable under financial liabilities and derivative financial instruments on an undiscounted basis. Derivative cash flows have been shown net; all other cash flows are shown gross.

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

Group and Company 31 March 2014	On demand £m	<1 year £m	1 - 2 years £m	2 -3 years £m	3 - 4 years £m	>4 years £m	Total £m
Trade payables	(25.6)	-	-	-	-	-	(25.6)
Amounts owed to Group companies	-	(3.7)	-	-	-	-	(3.7)
Refundable customer deposits	-	(0.3)	(2.5)	-	-	(0.1)	(2.9)
Amounts owed to parent undertaking	-	(73.0)	-	-	-	-	(73.0)
Amounts owed to affiliated companies	-	(12.2)	(12.2)	(12.2)	(12.2)	(242.9)	(291.7)
Bonds	-	(42.1)	(41.9)	(41.9)	(41.9)	(956.9)	(1,124.7)
Borrowings and overdrafts	-	(2.6)	(4.1)	(5.6)	(5.6)	(208.5)	(226.4)
Derivative financial instruments (net)	-	6.0	6.0	6.0	1.9	(61.3)	(41.4)
	(25.6)	(127.9)	(54.7)	(53.7)	(57.8)	(1,469.7)	(1,789.4)

19 FINANCIAL INSTRUMENTS (continued)

Market risk

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

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

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

Interest rate risk

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

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

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

19 FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis on interest

The Group's fixed rate borrowings and derivatives are exposed to a risk of change in their fair value due to changes in interest rates. The following sensitivity analysis is used by Group management to monitor interest rate risk. The analysis below shows forward-looking projections of market risk assuming certain market conditions occur. The sensitivity figures are calculated based on a downward parallel shift of 0.5% and upward parallel shifts of 0.5% and 1% in the yield curve.

	2015 Change in interest rates			2014 Change in interest rates		
	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Debt held at fair value	(16.1)	15.3	29.9	(16.0)	15.2	29.6
Interest rate swaps	-	-	-	-	-	-
Inflation-linked swaps	(32.0)	28.4	53.7	(21.1)	18.6	59.2
Total fair value movement	(48.1)	43.7	83.6	(37.1)	33.8	88.8

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

The Group's floating rate borrowings and derivatives are exposed to a risk of change in cash flows due to changes in interest rates. 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.

	2015 Change in interest rates			2014 Change in interest rates		
	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Floating rate debt	-	-	-	-	-	0.1
Total finance expense impact	-	-	-	-	-	0.1

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.

19 FINANCIAL INSTRUMENTS (continued)

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.

	2015 Change in inflation rates			2014 Change in inflation rates		
	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Inflation-linked swaps	37.8	(41.6)	(87.4)	25.6	(28.1)	(59.1)
Total fair value movement	37.8	(41.6)	(87.4)	25.6	(28.1)	(59.1)

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

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

	2015 Change in inflation rates			2014 Change in inflation rates		
	-0.5% £m	+0.5% £m	+1% £m	-0.5% £m	+0.5% £m	+1% £m
Inflation-linked interest basis	2.0	(2.0)	(3.9)	1.7	(1.7)	(3.3)
Debt held at amortised cost –						
Inflation-linked swaps	-	-	(0.1)	-	-	(0.1)
Total finance expense impact	2.0	(2.0)	(4.0)	1.7	(1.7)	(3.4)

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 2015, the Group's derivatives are not designated in formal hedging relationships (2014: none), and instead are measured at fair value through the Income Statement.

19 FINANCIAL INSTRUMENTS (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the Statement of Financial Position date.

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

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 overleaf). In accordance with IFRS 13, an adjustment for the non-performance risk of either the Group or the counterparty, as applicable, has been made. The non-performance risk has been quantified by calculating a credit valuation adjustment ('CVA'), using market-available data, and deducting this from the discounted cash flow figure, to give the fair value. The adjustment for non-performance risk of the Group as at 31 March 2015 is £76.2m (2014: £72.4m).

For cash and cash equivalents, trade and other receivables and trade and other payables the book values approximate to the fair values because of their short-term nature. For non-public long term loans and receivables, fair values are estimated by discounting future contractual cash flows to net present values using current market interest rates available to the Group for similar financial instruments as at the year end.

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

Group and Company	2015 Carrying value £m	2015 Fair value £m	2014 Carrying value £m	2014 Fair value £m
Non-current assets	-	-	-	-
Current assets				
Trade receivables	6.7	6.7	6.5	6.5
Cash and cash equivalents	136.0	136.0	65.3	65.3
Short-term money market deposits (maturity over 3 months)	25.0	25.0	-	-
	167.7	167.7	71.8	71.8

Group and Company	2015 Carrying value £m	2015 Fair value £m	2014 Carrying value £m	2014 Fair value £m
Non-current liabilities				
Borrowings designated at fair value through profit and loss (FVTPL)	(393.4)	(393.4)	(364.0)	(364.0)
Borrowings measured at amortised cost	(581.5)	(734.9)	(525.0)	(620.3)
Amounts due to parent undertaking	(89.7)	(89.7)	(67.4)	(67.4)
Amounts due to affiliated companies	(196.7)	(243.9)	(196.3)	(234.5)
Derivative financial instruments	(212.2)	(212.2)	(95.5)	(95.5)
Refundable customer deposits	(4.8)	(4.8)	(2.6)	(2.6)
Current liabilities				
Trade and other payables	(17.9)	(17.9)	(25.6)	(25.6)
Refundable customer deposits	(0.2)	(0.2)	(0.3)	(0.3)
	(1,496.4)	(1,697.0)	(1,276.7)	(1,410.2)

19 FINANCIAL INSTRUMENTS (continued)

Fair value measurements recognised in the Statement of Financial Position

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

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

31 March 2015 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Derivative financial assets	-	-	-	-
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(212.2)	-	(212.2)
Financial liabilities designated at FVTPL	(393.4)	-	-	(393.4)
	(393.4)	(212.2)	-	(605.5)

31 March 2014 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Derivative financial assets	-	-	-	-
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(95.5)	-	(95.5)
Financial liabilities designated at FVTPL	(364.0)	-	-	(364.0)
	(364.0)	(95.5)	-	(459.5)

There were no transfers between levels during the current year (2014: same).

19 FINANCIAL INSTRUMENTS (continued)

31 March 2015 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities with fair value disclosed				
Borrowings measured at amortised cost	(734.9)	-	-	(734.9)
31 March 2014 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities with fair value disclosed				
Financial liabilities held at amortised cost	(620.3)	-	-	(620.3)

20 RETIREMENT BENEFIT SCHEMES

Group and Company

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 ENWSL to Electricity North West and the termination of the Asset Services Agreement between ENWL and ENWSL on the 31 March 2011, the two sections were merged as at that date.

The Scheme contains both a defined benefit section and a defined contribution section. The defined benefit section of the Scheme closed to new entrants on 1 September 2006, with new employees of the Group since then instead 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 Pension Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e. active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme.

During the year the Group made contributions of £15.0m (2014: £12.5m) to the defined benefit section of the Scheme. The Group estimates that contributions for the year ending 31 March 2016 will amount to around £24.5m which includes £11.0m of expected deficit contribution payments. The total defined benefit pension expense for the year was £16.0m (2014: £17.9m). Information about the pension arrangements for Executive Directors is contained in note 5.

As at 31 March 2015 contributions of £2.7m (2014: £1.4m) due in respect of the current reporting period had not been paid over to the defined benefit scheme.

Funding the liabilities

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

The next actuarial valuation will be carried out as at 31 March 2016. The results of the 2013 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2015 for the purposes 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 £33.7m is included in the Statement of Financial Position at 31 March 2015 (2014 deficit of £37.1m).

The weighted average duration of the defined benefit obligation is approximately 17 years (2014: 17 years).

Investment strategy

The defined benefit scheme assets are invested in a diversified range of assets, details of which are set out below. The Scheme has a de-risking strategy in place to move assets from growth to bond assets when certain funding triggers are met. The triggers are assessed against the Scheme's funding level on a 'low-risk' basis. The Trustees and the Group have also agreed a mechanism to hedge interest rate and inflation risks over time. The de-risking and hedging strategies have also been communicated to Ofgem. By 31 March 2015 three de-risking triggers had been activated of the five de-risking triggers in place.

20 RETIREMENT BENEFIT SCHEMES (continued)

Other risks

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

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

Winding up

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

Defined contribution arrangements

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

The total cost charged to the Income Statement in relation to the defined contribution section for the year ended 31 March 2015 was £2.3m (2014: £1.8m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2015 contributions of £nil (2014: £nil) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

Defined benefit employee benefits

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

	2015 £m	2014 £m
At 1 April	(37.1)	(105.8)
Expense recognised in the Income Statement	(16.0)	(17.9)
Contributions paid	15.0	12.5
Total remeasurement included in Other Comprehensive Income	4.4	74.1
At 31 March	(33.7)	(37.1)

20 RETIREMENT BENEFIT SCHEMES (continued)

Movements in the fair value of the Group pension scheme liabilities were as follows:

	2015 £m	2014 £m
At 1 April	(1,130.5)	(1,166.9)
Current service cost	(12.1)	(12.3)
Interest expense	(48.5)	(46.8)
Member contributions	(2.1)	(2.0)
Augmentation	(1.9)	(0.7)
Remeasurement:		
Effect of changes in demographic assumptions	-	(6.6)
Effect of changes in financial assumptions	(136.3)	69.8
Effect of experience adjustments	-	(18.1)
Benefits paid	54.8	53.1
At 31 March	(1,276.6)	(1,130.5)

The liability value as at 31 March 2015 is made up of the following approximate splits:

	£m
Liabilities owing to active members	403.5
Liabilities owing to deferred members	100.0
Liabilities owing to pensioner members	773.1
Total liability at 31 March 2015	1,276.6

Movements in the fair value of the Group pension scheme assets were as follows:

	2015 £m	2014 £m
At 1 April	1,093.4	1,061.1
Interest Income	47.3	42.7
Return on plan assets	140.7	29.0
Company contributions	15.0	12.5
Member contributions	2.1	2.0
Benefits paid	(54.8)	(53.1)
Administrative expenses	(0.8)	(0.8)
Bulk transfers	-	-
At 31 March	1,242.9	1,093.4

20 RETIREMENT BENEFIT SCHEMES (continued)

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

	2015 £m	2014 £m
Current service cost	(12.1)	(12.3)
Past service cost [3]	(1.9)	(0.7)
Interest (income) on plan assets	47.3	42.7
Interest (income) on Scheme obligations	(48.5)	(46.8)
Administration expenses and taxes	(0.8)	(0.8)
Net pension expense before taxation	(16.0)	(17.9)

[3] For the year ended 31 March 2014, the Past Service Cost includes £0.7m in respect of augmentations and for the year ending 31 March 2015, the Past Service Cost includes £1.9m in respect of augmentations

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

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

	2015 %	2014 %
Discount rate	3.30	4.40
Pensionable salary increases	3.25	3.90
Pension increases	2.95	3.30
Price inflation	3.00	3.40

The mortality rates utilised in the valuation are based on the standard actuarial tables S1PMA/S1PFA (birth year) tables with a 105% loading to allow for differences in mortality between the Scheme population and the population used in the standard tables (unchanged from 2014). A long term improvement rate of 1.25% p.a. is assumed within the underlying CMI 2011 model (unchanged from 2014). These factors have been taken into account in the calculation of the defined benefit obligations of the Scheme.

20 RETIREMENT BENEFIT SCHEMES (continued)

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

Male life expectancy at age 60	2015 Years	2014 Years
Retired member	26.8	26.7
Non-retired member	28.3	28.2

In valuing the liabilities of the Scheme at 31 March 2015 mortality assumptions have been made as indicated above.

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

Increase in Defined Benefit Obligation	2015 £m	2014 £m
Discount rate decrease by 25 basis points	56	46
Price inflation increase by 25 basis points	45	44
Life expectancy increase longevity by 1 year	37	31

As at 31 March 2015, the fair value of the Scheme's assets and the liabilities recognised in the Statement of Financial Position were as follows:

	Scheme assets at 31 March 2015 %	Value at 31 March 2015 £m	Scheme assets at 31 March 2014 %	Value at 31 March 2014 £m
Cash and Cash equivalents	1.3	16.4	1.1	12.1
Equity instruments	8.6	107.3	11.6	126.8
Debt instruments	70.8	879.9	65.7	718.7
Real estate	11.1	138.0	10.4	113.6
Global tactical asset allocation	1.4	17.5	-	-
Distressed debt	6.8	83.8	1.8	19.3
Hedge funds	-	-	9.4	102.9
Total fair value of assets	100.0	1,242.9	100.0	1,093.4
Present value of liabilities		(1,276.6)		(1,130.5)
Net retirement benefit obligation		(33.7)		(37.1)

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

21 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	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2013	253.3	(24.4)	(18.8)	210.1
(Credited)/charged to the Income Statement	(37.0)	(3.6)	9.4	(31.2)
Deferred tax on remeasurement of defined benefit pension schemes	-	14.8	-	14.8
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	5.7	-	5.7
At 1 April 2014	216.3	(7.5)	(9.4)	199.4
Charged/(credited) to the Income Statement	10.6	(0.2)	(27.5)	(17.1)
Deferred tax on remeasurement of defined benefit pension schemes	-	0.9	-	0.9
At 31 March 2015	**226.9**	**(6.8)**	**(36.9)**	**183.2**

21 DEFERRED TAX (continued)

Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2013	253.3	(24.4)	(18.8)	210.1
(Credited)/charged to the Income Statement	(37.0)	(3.6)	9.4	(31.2)
Deferred tax on remeasurement of defined benefit pension schemes	-	14.8	-	14.8
Adjustment due to change in future tax rates of brought forward	-	5.7	-	5.7
At 1 April 2014	216.3	(7.5)	(9.4)	199.4
Charged /(credited) to the Income Statement	10.6	(0.2)	(27.5)	(17.1)
Deferred tax on remeasurement of defined benefit pension schemes	-	0.9	-	0.9
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	-	-	-
At 31 March 2015	**226.9**	**(6.8)**	**(36.9)**	**183.2**

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

22 CUSTOMER CONTRIBUTIONS

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

Group and Company	£m
At 1 April 2013	514.7
Additions during the year	29.1
Amortisation	(14.2)
At 1 April 2014	529.6
Additions during the year	41.1
Amortisation	(14.8)
At 31 March 2015	**555.9**

	2015 £m	2014 £m
Amounts due in less than one year (see note 16)	**17.4**	30.5
Amounts due after more than one year	**538.5**	499.1
	555.9	529.6

23 REFUNDABLE CUSTOMER DEPOSITS

Refundable customer deposits are those customer contributions which may be partly refundable, dependent on contracted targets.

Group and Company	2015 £m	2014 £m
Amounts due in less than one year (see note 16)	**0.2**	0.3
Amounts due after more than one year	**4.8**	2.6
	5.0	2.9

24 CALLED UP SHARE CAPITAL

	2015 £	2014 £
Authorised:		
569,999,996 (2014: 569,999,996) ordinary shares of 50 pence each	**284,999,998**	284,999,998
4 'A' ordinary shares of 50 pence each	**2**	2
Special rights redeemable preference share of £1	**1**	1
	285,000,001	285,000,001

	2015 £	2014 £
Allotted, called up and fully paid:		
476,821,341 (2014: 476,821,341) ordinary shares of 50 pence each	**238,410,671**	238,410,671
4 'A' ordinary shares of 50 pence each	**2**	2
	238,410,673	238,410,673

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

25 DIVIDENDS

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

Group and Company	2015 £m	2014 £m
Dividends paid during the year ended 31 March 2015 of 7.76 pence per share (31 March 2014: 17.41 pence per share)	**37.0**	83.0

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, no liabilities have been included in the financial statements at 31 March 2014 and 31 March 2015 respectively.

26 SHAREHOLDERS' EQUITY

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2014	238.4	4.4	104.5	8.6	332.3	688.2
Profit for the year	-	-	-	-	71.8	71.8
Transfer from revaluation reserve	-	-	(5.3)	-	5.3	-
Remeasurement of defined benefit schemes	-	-	-	-	4.4	4.4
Tax on components of comprehensive income	-	-	-	-	(0.9)	(0.9)
Total comprehensive (expense)/income for the year	**-**	**-**	**(5.3)**	**-**	**80.6**	**75.3**
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(37.0)	(37.0)
At 31 March 2015	**238.4**	**4.4**	**99.2**	**8.6**	**375.9**	**726.5**

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

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

26 SHAREHOLDERS' EQUITY (continued)

Company	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2014	238.4	4.4	104.5	8.6	332.0	687.9
Profit for the year	-	-	-	-	71.8	71.8
Transfer from revaluation reserve	-	-	(5.3)	-	5.3	-
Remeasurement of defined benefit schemes	-	-	-	-	4.4	4.4
Tax on components of comprehensive income	-	-	-	-	(0.9)	(0.9)
Total comprehensive income for the year	**-**	**-**	**(5.3)**	**-**	**80.6**	**75.3**
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(37.0)	(37.0)
At 31 March 2015	**238.4**	**4.4**	**99.2**	**8.6**	**375.6**	**726.2**

The profit after tax for the Company for the year ended 31 March 2015 was £71.8m (2014: £187.3m) and the revenue for the year was £533.7m (2014: £508.0m). As permitted by s408 of the Companies Act 2006, the Company has not presented its own Income Statement.

27 CAPITAL STRUCTURE

Details of the authorised and allotted share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 24. The Company has Ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The Company also has 'A' ordinary shares which rank pari passu in all respects save that dividends may be declared on one class of shares without being declared on the other.

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

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

No person has any special rights of control over the Company's share capital and all issued shares are fully paid up.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, copies of which are available on request, and the Corporate Governance statement on pages 26 to 43.

28 OPERATING LEASES

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

	Land and buildings 2015 £m	**Plant and machinery 2015 £m**	Land and buildings 2014 £m	Plant and machinery 2014 £m
Within one year	**-**	**-**	-	-
In the second to fifth years inclusive	**2.2**	**-**	0.2	-
After five years	**3.1**	**3.0**	5.6	3.1
	5.3	**3.0**	5.8	3.1

29 RELATED PARTY TRANSACTIONS

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

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Ltd	**0.6**	**0.6**	1.1	1.1
Recharges from Electricity North West (Construction and Maintenance) Ltd	**0.2**	**0.2**	0.4	0.4
Executive Directors' remuneration (note 5)	**1.9**	**1.9**	1.4	1.4
Directors' services	**0.2**	**0.2**	0.2	0.2
Interest payable to North West Electricity Networks plc	**4.5**	**4.5**	4.4	4.4
Interest payable to ENW Finance plc	**12.4**	**12.4**	12.6	12.4
Dividends paid to North West Electricity Networks plc	**37.0**	**37.0**	83.0	83.0

Amounts outstanding with related parties are as follows:

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Amounts owed to related parties				
Group tax relief to North West Electricity Networks plc	**10.8**	**10.8**	11.3	11.3
Group tax relief to North West Electricity Networks (Holdings) Ltd	**-**	**-**	-	-
Interest payable to North West Electricity Networks plc	**1.3**	**1.3**	1.2	1.2
Interest payable to ENW Finance plc	**2.5**	**2.5**	2.5	2.5
Amounts owed to Electricity North West (Construction and Maintenance) Ltd	-	-	-	-
Amounts owed to Electricity North West Services Limited	**-**	**15.4**	-	15.4
Borrowings from North West Electricity Networks plc	**89.7**	**89.7**	67.4	67.4
Borrowings from ENW Finance plc	**196.7**	**196.7**	196.3	196.3
Amounts owed by related parties				
Amounts owed by North West Electricity Networks plc	**3.6**	**3.6**	3.7	3.7
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	**0.4**	**0.4**	0.5	0.5
Amounts owed by North West Electricity Networks (Jersey) Limited	**0.1**	**0.1**	-	-
Amounts owed by North West Electricity Networks (Holdings) Ltd	**0.2**	**0.2**	0.3	0.3

29 RELATED PARTY TRANSACTIONS (continued)

The loan from North West Electricity Networks plc accrues interest at 6.5% (2014: 6.5%) and is repayable in March 2023. The loan from ENW Finance plc accrues interest at 6.125% (2014: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2014: £0.1m) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party as per note 32.

Fees of £0.1m (2014: £0.1m) were payable to IIF Int'l Holding GP Ltd ('IIF') in respect of the provision of Directors' services which is identified as a related party as per note 32.

For disclosure relating to Executive Directors remuneration see note 5.

30 CASH GENERATED FROM OPERATIONS

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Operating profit	**301.3**	**301.3**	280.4	280.4
Adjustments for:				
Depreciation of property, plant and equipment	**95.0**	**95.0**	93.7	93.7
Amortisation of intangible assets	**3.6**	**3.6**	7.2	7.2
Amortisation of customer contributions	**(14.8)**	**(14.8)**	(14.2)	(14.2)
Profit on disposal of property, plant and equipment	**(0.7)**	**(0.7)**	(0.2)	(0.2)
Cash contributions in excess of pension charge to operating profit	**(0.2)**	**(0.2)**	1.3	1.3
Operating cash flows before movements in working capital	**384.2**	**384.2**	368.2	368.2
Changes in working capital				
(Increase)/decrease in inventories	**-**	**-**	(2.0)	(2.0)
Increase in trade and other receivables	**(1.9)**	**(4.1)**	(7.0)	(1.4)
(Decrease)/increase in payables	**(4.5)**	**(4.5)**	(14.0)	(14.0)
Cash generated from operations	**377.8**	**375.6**	350.8	350.8

31 CONTINGENT LIABILITY

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

Under the terms of the Deed of Covenant if there was such discontinuance event the Company is liable to pay 6.7% of the discontinuance deficit. Management do not consider that this event is probable and no provision has been made in these accounts. The total deficit has been estimated at £74.3m as at 31 March 2015, of which the Company's share would be £5m.

32 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is North West Electricity Networks plc, a company incorporated and registered in the United Kingdom. The ultimate parent undertaking is North West Electricity Networks (Jersey) Limited, a company incorporated and registered in Jersey. The address of the ultimate parent company is: Ogier House, The Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG.

This Group is the smallest group in which the results of the Company are consolidated. The largest group in which the results of the Company are consolidated is that headed by North West Electricity Networks (Jersey) Limited.

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

Glossary

C2C	Capacity to Customers (LCNF/ future networks project)
CGU	Cash Generating Unit
CI	Customer Interruptions
CLASS	Customer Load Active System Services
CML	Customer Minutes Lost
CSR	Corporate Social Responsibility
DECC	Department of Energy and Climate Change
DNO	Distribution Network Operator
DPC5	Distribution Price Control 5, 2010-2015
DUoS	Distribution Use Of System
ELT	Executive Leadership Team
ENWL	Electricity North West Limited
ENWSL	Electricity North West Services Limited (formerly 'UUES')
ESPS	Electricity Supply Pension Scheme
ESQCR	Electricity Safety and Quality Continuity (Amendment) Regulations
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Principles
HI	Health Indices
IFI	Innovation Funding Incentive
IFRS	International Financial Reporting Standard
KPI	Key Performance Indicators
LCNF	Low Carbon Network Fund
LI	Load Indices
Ofgem	Office of Gas and Electricity Markets
PPE	Property, Plant and Equipment
RAV	Regulatory Asset Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation
RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RPI	Retail Price Index
SID	Sufficiently Independent Director
UUES	United Utilities Electricity Services Limited

Notes

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