Electricity North West Limited (the "Company") is pleased to announce its Annual Financial Report for the year ended 31 March 2013.

The Annual Financial Report is available to view on the Company's website: www.enwl.co.uk.

In accordance with the requirements of Listing Rule 17.3.1, a copy of the annual financial report has been submitted to the National Storage Mechanism and will shortly be available for inspection at: http://www.hemscott.com/nsm.do.

In accordance with Disclosure and Transparency Rule 6.3.5 the Annual Financial Report is here reproduced in full unedited text (the Company has not taken advantage of the exemption afforded in 6.3.5 (2)).

For further information please contact Electricity North West's press office on 0844 2091957 or email jonathan.morgan@enwl.co.uk.

Electricity North West Limited

Registered number 2366949

Annual Report and

Consolidated Financial Statements for the year ended 31 March 2013

Chief Executive Officer's Statement

The financial year ended 31 March 2013 has been another strong year for the Company, characterised by robust operational and financial performance against a background of preparation for the 2015-2023 regulatory price review ('RIIO-ED1') and a focus on our company values, to ensure they remain firmly at the heart of everything we do.

We have encapsulated our Company values in five key statements:

Customer – to delight our customers in everything we do;
People – to work together openly, honestly and in a professional manner to achieve exceptional results;
Safety – to protect our people, our customers and our environment;
Performance – to exceed expectations in how we perform, today, tomorrow and in the future; and
Innovation – to constantly challenge and improve how we do things.

Our **Customer** value, "*to delight our customers in everything we do*" will ensure that our customers continue to be at the core of our work. We appointed a Customer Director in April 2012 to lead our Customer Strategy and this has resulted in a number of customer driven achievements during the year, including the creation of an integrated Customer Contact Centre based at our Head Office in Warrington.

Our **People** value, to "*work together openly, honestly and in a professional manner to achieve exceptional results*" recognises the role that our people play in our continued success. We are delighted that our Engineering Training Scheme was accredited by the Institute of Engineering and Technology in June 2012. To support this programme we began construction of a state of the art Training Centre at Whitebirk, in Blackburn, Lancashire, in March 2013. We are also committed to the development of our existing employees with the launch of our Management Development Programme in May 2012.

We take the safety of all stakeholders affected by our operations extremely seriously. Our **Safety** value, "*to protect our people, our customers and our environment*" is essential to how we run our business. I am pleased that we maintained our OHSAS 18001 standard for Health and Safety Management this year and, in addition, earned the ISO 14001 accreditation. Our ongoing Behavioural Safety Programme continues to underpin our commitment to a zero harm culture.

We continue to make solid progress in terms of our **Performance** value "*to exceed expectations in how we perform, today, tomorrow and in the future*". This year, our operating profit was £225m compared to £189m in 2011/2012, achieved through operational efficiencies and commitment. A key performance indicator is our Customer Minutes Lost (CML) and Customer Interruptions (CI). CML for the year were 49.2 compared to achieving 47.6 in 2011/12 and CI were 46.1 (45.9 in 2011/12). Our continuing investment programmes ensure we focus on providing the best value in all that we do.

To ensure that we are in a position to meet the very real challenges ahead, including responding effectively to the need for a low carbon future, delivering security of supply across the region and meeting the increasing need for electricity, it is essential that we continue to be innovative in all areas of our business. This is reflected in our **Innovation** value, "*to constantly challenge and improve how we do things*". In 2011 we began a three year, £25m programme to invest in new technologies, including our C2C (Capacity to Customers) project, a technical innovation that allows us to release significant network capacity back to customers, supported by enhanced network management software and a revised approach to managing our response in the event of a fault. In addition, in December 2012 we were awarded £9m funding under the government's Low Carbon Network Fund for our Customer Lead Active System Services (CLASS) project. The project began in January 2013 and will run until September 2015. £9m will be spent to trial a cutting edge technique to release capacity on our network by marginally reducing voltage to thousands of homes which aims to ensure our customers get the power they need in future without building costly new infrastructure.

Chief Executive Officer's Statement *(continued)*

As well as the revision of our values this year, we have been planning for the new regulatory price control model, setting Revenue using Incentives to deliver Innovation and Outputs ('RIIO'). Our robust stakeholder engagement strategy, based on our stakeholder engagement framework, has ensured that a wide variety of views and opinions have contributed to our RIIO business plan for the eight year price control period, 2015-2023, due for submission in summer 2013. Our Strategic Direction Statement 2013, published in March 2013, outlines our final preparations for this submission and can be found on our website www.enwl.co.uk.

I would like to take this opportunity to thank my Executive Leadership Team and everyone whose hard work and commitment has helped us with the achievements in 2012/13. My thanks also go to my board colleagues for their continued strategic leadership and support. In particular, may I take this opportunity to thank both Christine O'Reilly and Phil White, who have resigned this year, for their significant contribution to the Company during their tenure as board members. I would like to welcome Mark Rogers, who replaced Christine in September 2012, and I would like to thank Mike Nagle for stepping into the role as Acting Chairman following Phil's resignation in July 2012.

I look forward to working with all of our people over the coming year to ensure that we achieve our aim of being the leading energy delivery business.

Steve Johnson
Chief Executive Officer

Business Review

Key Performance Indicators

	2013	2012	2011	2010	2009
Non-Financial (Group)					
Safety: RIDDOR (1)	**5**	7	5	6	9
Customer minutes lost ('CML') (2)	**49.2**	47.6	47.4	49.9	50.9
Customer interruptions per 100 customers ('CI')(3)	**46.1**	45.9	49.2	50.6	48.4
Overall customer satisfaction 2012 onwards (4)	**76%**	77%	n/a	n/a	n/a
Overall customer satisfaction (4)	**n/a**	**n/a**	89%	87%	82%
Financial (Group)					
Revenue	**£468m**	£405m	£394m	£324m	£342m
Operating profit	**£225m**	£189m	£210m	£156m	£181m
Profit before tax	**£176m**	£55m	£139m	£17m	£142m
Operating cash flow	**£294m**	£232m	£246m	£218m	£217m
RAV Gearing (5)	**58%**	61%	56%	57%	46%
Interest cover (6)	**6.0 times**	4.5 times	5.9 times	4.2 times	n/a
Capital expenditure on tangible and intangible assets (cash flow)	**£217m**	£223m	£177m	£174m	£179m

Key Performance Indicators *(continued)*

- Continued strong safety performance characterised by low number of reported injuries in the year.
- Strong performance in network reliability despite challenging weather conditions has seen us continue to out-perform regulatory targets.
- The adverse customer satisfaction score in the year has resulted in an increased focus on this key performance measure. During the year there has been improved performance in the satisfaction of our politeness of staff and speed of complaint resolution and steps have been taken to set the foundations for a successful customer culture within Electricity North West. The centralisation of the contact centre is the cornerstone for our ambition to significantly enhance our customer satisfaction measure into 2014 and beyond. For the year ending 31 March 2014 we are targeting 85% customer satisfaction.
- Revenue has increased to £468m (2012: £405m) as a result of: an increase in allowed DUoS (Distribution Use of System) revenue, using RPI; and the recognition of £5.8m

income under the capacity to customer project which is a project funded by Ofgem's Low Carbon Network Fund ('LCNF'). Over the life of the project, the LCNF revenue is offset by costs relating to the scheme. An under-recovery of revenue in the prior year which arose due to a combination of price mix and volume changes has been passed back to customers through reduced pricing in the year end 31 March 2013, partially offsetting the increase in allowed revenue. This year closed with an under recovery of £17.1m and pricing will be adjusted to recover this over the next year.

- Operating profit has increased to £225m (2012: £189m) as a result of an increase in allowed revenues and rising RPI; partially offset by:
  - increased operational costs; and
  - the recognition of a property provision, see principal risks and uncertainties section on page 26.

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 and dividing by the number of connected customers as at 30 September each year. This outperforms the Ofgem target for 2013 of 55.6. The 2013 figure is yet to be audited by Ofgem and is subject to Ofgem's acceptance of the severe weather event exemption from January. The forecast position assumes this exemption is agreed.

(3) Customer interruptions per 100 customers is calculated as: (total customers affected/total customers connected to the network) x 100. This outperforms the Ofgem target for 2013 of 52.5. The 2013 figure is yet to be audited by Ofgem and is subject to Ofgem's acceptance of the severe weather event exemption from January. The forecast position assumes this exemption is agreed.

(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) RAV Gearing is measured as borrowings at nominal value, plus accretion where applicable, net of cash and short-term deposits divided by the allowed Regulatory Asset Value ('RAV') of £1,631m (2012: £1,519m) based on March closing prices. Distribution restrictions are enforced by lenders once 65% is surpassed, default level is 70%.

(6) Interest cover is the number of times the adjusted net interest expense is covered by adjusted operating profit from continuing operations. Restated in year to remove the adjustment for regulatory depreciation; in keeping with the banking covenants that have been in place at ENWL since 2010.

Company Background

Our Business

Electricity North West Limited (‘Electricity North West’ or ‘ENWL’ or ‘the Company’) and its subsidiaries (‘the Group’) plays a vital role in the North West region. We own, operate and maintain the electricity network, delivering energy to 5 million customers in 2.4 million households and business premises safely and reliably.

In the five year period to 2015, we will be investing over £1.4 billion in the network – supporting the North West’s economic growth, providing jobs and apprenticeships to the region’s young people, and supporting the move to a low carbon future.

Industry Structure

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

- **Generators** include the large power stations and smaller renewable generators. The generators produce electricity from a variety of fuel sources.
- **Transmission companies** own and operate the 400kV and 275kV transmission networks that link the major power stations and transport electricity in bulk across the country. National Grid Electricity Transmission is responsible for the transmission network in England and Wales.
- **Distribution companies** own and operate the lower voltage electricity networks, connecting the smaller power stations and the national grid to every electricity customer in Britain. Originally there were fourteen regional Distribution Network Operators (DNOs), but these have been joined by a number of smaller Independent Distribution Network Operators (IDNOs). The fourteen regional DNOs are currently owned by six different companies.
- **Electricity suppliers** who buy the electricity produced by the generators, sell that electricity to their customers and pay the network operators for the transportation of that electricity across their networks.

The electricity market is regulated by the Gas and Electricity Markets Authority which governs and acts through the Office of Gas and Electricity Markets (‘Ofgem’). Distribution operators are directly regulated by Ofgem and their charges for use of their networks are subject to a price control mechanism (see “Our Regulatory Environment” on page 10).

Electricity North West is one of the fourteen regional DNOs, operating in the North West of England.

Electricity North West is a private limited company registered in England and Wales. We are owned by a consortium of funds controlled by First State Investments Fund Management Sàrl on behalf of First State European Diversified Infrastructure Fund as the responsible entity for First State European Diversified Infrastructure Fund FCP-SIF (EDIF) and IIF Int'l Holdings GP Limited.

Our assets and key facts

In simple terms our network is made up of overhead lines, underground cables and items of plant, such as switchgear and transformers, which are used to distribute electricity to consumers' premises.

The bulk of electricity enters our network from the National Grid at Grid Supply Points. It then travels through our 132kV network to a substation where the voltage is transformed to enter our 33kV network. Similar transformations take place from 33kV to HV (High Voltage) and from HV to LV (Low Voltage).

Through this network we deliver nearly 24 terawatt hours[1] of electricity each year to 2.4 million customer premises across an area of 12,500 square kilometres. Our network covers a diverse range of terrain and customers range from isolated farms in rural areas, to areas of heavy industry, urban populations and city centres.

The network performs such that on average a customer will experience a power cut once every two years and on average is without electricity for less than one hour every year. This represents a reliability of over 99.99%.

Our network comprises the following key assets:

- Around 13,000 km of overhead lines
- Over 44,000 km of underground cables
- Almost 86,000 items of switchgear
- More than 34,000 transformers

[1] A terawatt hour is equal to a thousand million kilowatt hours. Based on average consumption this is enough to power over 250,000 UK homes each year.

Strategy and objectives

Our Company vision is 'to be the Leading Energy Delivery Business', measured against the following strategic objectives:

- Understand and Influence the Market
- Understand and Deliver for our Customers and Stakeholders
- Develop a High Performance Organisation; and
- Delivering Sustainable Growth with Robust Financial Performance

In order to support these strategic objectives, we need to ensure we have the right people using the right systems and processes aligned to a clear vision and targets.

Our plan includes investment in excess of £20m over the regulatory period in renewing our workforce, recruiting approximately 250 apprentices and graduates. The plan also includes enabling initiatives in the areas of IT systems, process transformation and capital delivery to ensure the more efficient targeting and delivery of network activity.

Our Regulatory Environment

Economic Regulation

The electricity market is regulated by the Gas and Electricity Markets Authority (GEMA) which governs and acts through the Office of Gas and Electricity Markets (Ofgem).

The amount of income that we receive from suppliers is governed by a price control framework which is subject to review every five years. The electricity distribution price control for the five year period from 1 April 2010 (DPC5) was agreed with Ofgem in January 2010. Electricity North West is permitted to increase prices by an average of 8.5% plus inflation (RPI) in each of the five years of DPC5. The cost of capital has been set at 4.0% post-tax for DPC5.

These revenues fund our ability to operate and maintain the network, to replace existing assets and to build new ones. This is undertaken whilst at all times focusing on the industry-wide challenges of securing a low carbon future, security of energy supply and efficient delivery for our customers.

Future economic regulation - RIIO

Since privatisation in 1990, distribution companies such as Electricity North West have been subject to an 'RPI-X' form of regulation, which is designed to encourage efficiency. The amount of revenue that companies are allowed to recover from customers is increased by RPI less an efficiency factor 'X' each year, encouraging them to reduce costs, although in recent years the emphasis has changed and DNOs have been allowed to increase their prices to reflect the need for greater investment in the network.

From April 2015 the regulatory framework will change so that DNOs are incentivised to invest in greater innovation and to deliver specific outputs which will form a contract with the regulator for a period lasting eight years rather than five.

This model, known as RIIO (setting Revenue using Incentives to deliver Innovation and Outputs) is designed to put a much greater emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers today and in the future.

During 2012-13 we have monitored closely the decisions Ofgem has made in implementing the RIIO framework for electricity and gas transmission network companies and for gas distribution companies. We have worked closely with Ofgem during the development of the strategic policy for this new price control review which was published in March 2013. The policy framework clearly sets out the Outputs that DNOs will be expected to deliver, a range of acceptable financing parameters and a series of mechanisms for dealing with uncertain costs. Against this emerging strategic policy we have been developing a detailed business plan covering the entire period of the next price control until 1 April 2023. This plan will be finalised and submitted to Ofgem in June 2013. Extensive customer and stakeholder engagement has shaped our future plans and priorities to the extent that we were able to publish considerable detail on the draft plan in our Strategic Direction Statement. The overall impact of our proposed programme is to increase the levels of network investment, addressing the needs of our aging asset base, improving the resilience of the network and accommodating the needs of the transition to a low carbon economy. Due to extensive efficiency improvements achieved to date in the DPC5 price control period and planned for the future we will be able to deliver this large increase in activity whilst significantly reducing prices for our customers.

Where our income comes from and what we use it for

Other than charges for new connections, we have no direct financial relationship with customers. We charge electricity suppliers for the use of our network and the suppliers pass these costs on to their customers. Typically, distribution charges account for 20% of the final electricity bill for domestic consumers.

At each price review, we submit our business plan for the period to our regulator, Ofgem. Ofgem analyses our submission and compares it to those of the 13 other DNOs, together with data from other comparable industries. Based on this analysis they then decide how much revenue we are allowed to recover from customers in each year of the price review period under discussion.

Using these revenues we raise the finance to operate and maintain the network, replacing and renewing our assets.

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 may be reduced.

We are incentivised to minimise the number of interruptions that our customers suffer and to reduce the average length of interruptions. We are also incentivised to decrease the amount of electrical losses from our network.

We have a responsibility to look after our network in the long term. Through the monitoring of two specific indices:

- Health Indices – HI; and
- network loading using Load Indices – LI,

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 into the future.

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, either through the Innovation Funding Incentive (IFI) or the Low Carbon Network Fund (LCNF).

Electricity North West Businesses Structure

ELECTRICITY NORTH WEST
R E G U L A T E D

Distribution Network	Owns, operates and maintains the electricity network for the North West of England providing power to 5 million people.
Connections	Provides connections to our network for new houses and small businesses, industries, wind farms and housing developers.

N O N - R E G U L A T E D

Construction & Maintenance Services	Manages high voltage private networks for large customers, for example airports and shopping centres. This business is operated through Electricity North West (Construction and Maintenance) Limited

Our Corporate Values

Our Business Review is structured around our five corporate values of 'Customer', 'People', 'Safety', 'Performance', and 'Innovation'.

The Customer section below contains an update on customer satisfaction and customer complaints and includes a case study on our recently created central Customer Contact Centre. Our connections business, also referred to in that section, which provides connections services for households, small businesses, industry, and house developers, is a key part of our customer facing team. Some of the project work we are involved in to divert our assets to allow infrastructure developments throughout the region is also detailed.

Our People section includes information on employees and our workforce renewal activities. It also outlines our employee development activity and commitment to equality and diversity.

Our Safety update focuses on key indicators in health, safety and the environment.

The Performance section contains details of our network reliability and availability, as well as our ongoing network investment plans.

The Innovation section consider progress in our C2C and CLASS.

This is followed by a section on CSR (Corporate Social Responsibility) Stakeholder Engagement, and Financial performance.

Customer

"To delight our customers in everything we do"

Customer satisfaction

Customer satisfaction is measured by the Broad Measure of Customer Satisfaction which is used by Ofgem to set incentives for improving performance in this area. This allows Ofgem to compare and measure the ongoing performance of all DNOs. It comprises three different components: a customer satisfaction survey; a complaints metric; and stakeholder engagement.

The customer satisfaction survey contacts three categories of customers separately.

- Connections: customers that have received a connection quotation or a completed connection;
- Interruptions: customers that have experienced a planned or unplanned supply interruption; and
- General enquiry: customers that have raised a general enquiry with the DNO.

Our current performance using this measure is 76%. However, our ambition is to increase this to over 85% and to provide our customers with even higher levels of satisfaction with our services. We have produced ongoing action plans aimed to deliver this improvement.

As part of our drive to put Customer Service at the heart of the organisation we established a new Customer Directorate in April 2012 under the leadership of our new Customer Director, Susan Stockwell. We have identified key areas in our business processes where there is scope for improvement and we are taking steps to address them. A key achievement was the establishment of a centralised Customer Contact Centre in November 2012, based in the North West, which is at the very core of our Customer Contact team. It acts as a one-stop shop and is manned by highly skilled and experienced people who are passionate about what they do.

We carry out a monthly customer satisfaction survey with Impact Research, which provides qualitative as well as quantitative data, and from which we have developed customer satisfaction improvement plans across the business. In addition we continue to utilise the "Engaged Consumer Panel" we established last year which provides feedback to us on what customers view as important services for us to deliver. The message from this panel is very clear, they expect us to keep electricity flowing to their homes and businesses, but on the odd occasion when there is an interruption in supply they expect us to restore their supply as quickly as possible.

We have also improved the services that we provide to vulnerable customers during the year, by entering into a partnership with the British Red Cross, to offer extra care to those customers who need assistance during power outages. This partnership has been very well received by our customers.

Customer complaints

We encourage and make it easy for our customers to tell us where the service we have provided falls short of what they would have expected and around 6,192 customers have done so during the year. We measure our performance in how quickly we respond to these expressions of dissatisfaction with our service. We currently resolve 36% of these issues with 24 hours and less than 9% take over 31 days to resolve. We have had one Ombudsman case against us during this year and we have had two repeat complaints.

In order to further improve this performance we are introducing a number of initiatives specifically targeted at improving the number of issues that we can resolve by the end of the first working day with a target resolution of 65%.

Case Study

Establishing the Centralised Customer Contact Centre

In June 2012 we announced the creation of a central Customer Contact Centre to ensure exceptional one-stop customer service and create a centre of excellence for customer service across the business.

After reviewing a number of options we agreed that our Head Office at Bridgewater Place, Warrington would provide the ideal environment, allowing us to integrate our existing teams into one dedicated customer resource.

We consulted with employees affected by the proposed location and with the respective trade unions. Within six months, in November 2012, the Customer Contact Centre was operational at Bridgewater Place.

Customer Comments

Tweets:
“Thanks to @ElectricityNW for restoring my power tonight, and the Engineers who braved the weather to do it”
(Sept 24, 8.08pm via iOS)

“@ElectricityNW: Peak District scenery given new lease of life as power lines are removed . . . “yay” Much prettier!”
(Oct 12, 4.12pm via Twitter for iPhone)

“Thanks Ian at @ElectricityNW for ringing my mum very quickly and resolving problem”
(Nov 2, 4.57pm via Web)

“Got to say @ElectricityNW did well last night. Had us back on supply within an hour and a half, thanks”
(Jan 22, 10:19am)

Mr I commended a member of the team on his “excellent customer service”. Mr I said that the employee’s skills in customer service were above and beyond what he would have expected and even offered the employee a role within his own company!

Ms L used the website to say how impressed she was with our customer service. In particular being called back with information on the fault and then later asked if her supply was restored.

“We are so amazed at the speed and efficiency with which your men dealt with the tree cutting on our property this morning. It was not the easiest of jobs and your team arrived in atrocious weather, we thought they wouldn’t be able to work in a snow blizzard – how wrong we were!”

Connections

As well as being licensed to distribute energy in the North West of England, Electricity North West also provides connections services. This service enables us to deliver new electricity connections to fulfil the needs of our customers, including new homes, commercial and industrial properties (those over 60kVA), and new building developments.

During 2012/13 our Connections activity has focussed on delivering excellent customer service, achieved by acting upon feedback from customers and other key stakeholders.

We have performed well on the GSoP (Guaranteed Standard of Performance) targets in the year averaging over 99% on connections quotations and delivery; we are now focused on reducing the time between quotation and connection in line with customer expectations.

We will continue to contact our customers proactively throughout in order to identify where we can improve the overall customer experience.

Competition in Connections

Electricity North West has continued in its pursuit of extending competition in the new connections market by working in partnership with many Independent Connection Providers (ICPs).

Our success in opening up live jointing to our existing low voltage network has resulted in this becoming an area of active competition since August 2012.

Opening competition in this area has allowed local authorities to benefit from a choice of tailored, cost effective services from their appointed contractors. Currently around 93% of all local authority unmetered disconnections, transfers and new connections are completed by an ICP.

Following the success of live jointing to our low voltage network, trials to open up our high voltage network in the same way were successful, allowing us to open active competition in this area in 2012.

We are currently engaged in a number of initiatives designed to develop our work in this area, including sharing our skills and experience and expanding the scope of our live jointing work to include overhead connections.

Here are just a few of the statements we have received from our ICP colleagues supporting our approach to our Connections activity:

“We see Electricity North West as the leading DNO in this area. They have invested a lot of effort into finding the best way to open their RMS’s for competition and we believe that other DNOs should look at Electricity North West’s approach as the market leading way to deal with competition issues.”

GTC (Independent Utility Infrastructure and Networks Provider)

“Electricity North West continue, in our opinion, to be the DNO that promotes free and fair competition more actively than any other DNO or IDNO in the country”

P N Daly (IDNO)

“Electricity North West has been most accommodating in developing the agreements to suit the specific cases ensuring that fair opportunities are available for competition to exist.......

Electricity North West are definitely the leading DNO when it comes to getting agreements in place. The process you have for the application for unmetered connections and getting the drawings returned is simpler . . . than most other DNOs ”

E.On Energy Services

Diversions: Case Studies

There are situations when our existing assets must be diverted for major capital projects, for example new train lines our roads etc. In such situations, our connections team assists by diverting this existing infrastructure – these are called diversions. The following Diversions case studies illustrate some examples over the past 12 months.

Transport for Greater Manchester (TfGM)

TfGM have continued to be a key stakeholder for ENWL over the past 12 months as we work in partnership with them to deliver the diversions required for the expansion to the Manchester Metrolink system. Throughout 2012/13, ENWL have completed asset diversion projects to assist in the expansion to Ashton, Oldham, Rochdale and Manchester Airport. We have also worked closely with TfGM designers to provide a best cost option for the diversion required for the Second City Crossing (2CC), a new route for trams across Manchester City Centre, that is due to commence construction in 2013/14.

Plans are also being developed to further extend the Metrolink network to the Trafford Centre and Port Salford in Irlam. Although the extent of these works is unclear at present, ENWL will work closely with TfGM to develop efficient diversion proposals.

Network Rail

2013 saw enquiries from Network Rail for the electrification of rail lines throughout the North West of England. The project will see diversion of Electricity North West assets across a large number of highway bridges along the proposed electrified rail network. The project is due to begin in late 2013 and will run for a period of three years.

In addition to the electrification works, we are working closely with Network Rail on the Northern Hub project to install a new rail link from Manchester to Salford and expansion works at Oxford Road and Piccadilly Railway Stations.

The government has also announced HS2, a new high speed rail link from Birmingham to Manchester City Centre. Although it is unclear at present how this will affect ENWL assets, we expect that construction of the link will require the diversion of a significant amount of ENWL assets in and around central Manchester and Crewe. Construction of the link is not expected for a number of years, but it is anticipated that design work may need to start over the next 12 months.

National Grid Transmission (NGT)

Works commenced in 2012 on a project for NGT to re-string their 400kV overhead line between Harker and Quernmore. ENWL have been appointed to relocate overhead line assets underground in approximately 50 locations. The project is due to run until July 2013 and covers LV, HV and EHV assets.

Regular liaison with NGT and their contractors Electricity Alliance West (EAW) and Morgan Sindall (MSVE) has enabled Electricity North West to achieve some challenging programme delivery deadlines under pressure from land owners and their agents.

Manchester Airport & Airport City

Our project team are working with Manchester Airport Group (MAG) and TfGM to deliver a solution for connection of Airport City. We have also provided a number of different solutions for electricity supplies to the new retail and commercial development planned close to Manchester Airport.

Lancashire County Council (LCC) & Highways Agency

Work is due to commence in late summer 2013 on a link road between the M6 and Heysham. Electricity North West have worked closely with LCC on a number of different diversion options to minimise disruption wherever possible.

General Non Trading Rechargeable (NTR) Diversions

In 2012/13, Electricity North West took the step to combine general diversions into the Connections delivery operations. This will ensure an integrated approach for customers ensuring consistency and improving communications. Unfortunately, the economic climate has taken toll on the demand for general diversions and whilst enquiries continue to be received, the volume of acceptances does reflect the caution being exercised across the construction industry.

People

"To work together openly, honestly and in a professional manner to achieve exceptional results"

Employees

Our people remain our most important asset, and a key driver for us is ensuring the future sustainability of the business by developing the right mix of skills and resources to meet present and future needs. Ensuring our staff have access to structured development programmes allows us to develop and maintain a workforce of high performing and capable individuals, and be competitive in attracting new people to the organisation. With over 1,600 employees, Electricity North West is a major employer in the North West of England. We are investing significantly in our graduate and apprentice programmes, as part of our work force renewal programme, and by doing so play a key part in providing secure, long term employment and career development opportunities in the region.

Workforce renewal, learning and development

During 2012/13 we continued with our bespoke structured development programmes to enable us to train individuals to fulfil engineering and craft roles across the organisation. We have been successful in appointing a number of Electrical Engineering Graduates, Trainee Engineers and Apprentices, who have been involved in a range of activities to develop their technical and operational skills as well as undertaking placements within the business to consolidate their learning.

Our Trainee Engineer Development Programmes have been accredited by the Institute of Engineering and Technology (IET), garnering praise for the high standard of trainees within the business and the experience that they gain during their time with us. We are continuing to invest to fulfill our training strategy and are building a new training academy in Blackburn to support the development of our new employees as well as maintaining the skills and capabilities of our existing workforce.

Four of our Graduate Engineer intake from 2011/12 have successfully completed their development programme and have been appointed to substantive roles within our Major Projects and Maintenance teams, where they will design, manage, repair and deliver projects on our High Voltage (HV) network.

We also continue our focus on supporting our existing workforce to develop their skills to fulfil their current and future aspirations and have a range of formal up-skilling programmes running during 2012/13.

Leadership development

A key element of building a sustainable organisation is developing the capability of our leaders and our people. Last year we invested significantly in our top managers, each attending a three day transformational leadership programme designed to develop our leaders' ability to manage change and coach for success. Feedback from all of the participants is that this programme has had a positive impact on their development.

We have also developed a Leadership Competency Framework which, in tandem with our Company values, defines how we expect our leaders, managers and employees to conduct themselves in Electricity North West.

Management development

We began our Management Development Programme in May 2012 for current and aspiring people managers at all levels of the organisation. The programme supports individuals to develop the practical skills and tools they need to be effective in their role. We have 130 delegates participating in the programme and feedback from delegates, line managers and trainers has been extremely positive.

Equality and diversity

We have established a Steering Group to champion and support the organisation's strategy in relation to equality and diversity. We are committed to promoting a culture that values difference and believe that by embracing this we can improve our market competitiveness, foster creativity and innovation, enhance our corporate social responsibility and create an inclusive and positive work environment where everyone feels respected and able to give their best. Our Steering Group have helped us to develop our Policy and action plans throughout the year, working on a number of projects such as improving the accessibility of our website and creating a range of fact sheets to raise awareness of key issues in this area, for example gender and religion.

Employees with disability

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

Internal employee engagement

Keeping our workforce fully informed and up-to-date with latest Company and local information is extremely important to Electricity North West. An internal communications strategy ensures that employees can find out about corporate and depot information in a verity of different ways.

The bi-monthly company news magazine, 'NewsWire', Monthly Team Briefs and Weekly Bulletins ensure that our people receive regular communications. All Company and directorate scorecards are available on our intranet, The VOLT, along with a wide range of other Company information.

The scorecards ensure that our employees can clearly understand the Company performance and how their role and department feeds into this success. Departmental team meetings and one-to-one meetings with line managers is also a key way to engage with our people.

Safety

"To protect our people, our customers and our environment"

Health, Safety and Environment

The Group is committed to achieving the highest standards of health and safety for all our customers, employees and contractors. We continue to drive zero harm culture to meet our performance targets, whilst developing our safety culture and improving our processes and systems. As a clear demonstration of our commitment in this area there is a formal committee of the board charged with setting health and safety strategy, objectives and targets; reviewing and monitoring performance; and reporting to the board.

Underpinning the business' drive to achieving the highest standards of health and safety is our health and safety management system, which is certified to the OHSAS 18001 standard, together with robust leadership being demonstrated at every level of management.

This year, we delivered training programmes to provide employees with the skills to positively influence safety on site and continued to invest in enhanced controls to minimise the risk to employees and members of the public.

Electricity North West continues to support both the Health and Safety Executive's UK five year strategy and the ENA's 'Powering Improvement' strategy.

The continued investment in health and safety has delivered the Groups' accident frequency rate targets in the year and kept the number of RIDDOR reportable accidents involving employees to five (2012: seven).

Environment

Electricity North West is committed to achieving excellence in environmental performance through minimising adverse environmental impacts whilst investing in a future that supports the low carbon economy. This commitment is founded on an investment programme with environmental concerns at its core and a robust environment management system.

In terms of our investment strategy, a wide range of capital projects were completed in the year including enhancing oil bunding and containment, flood protection, noise containment, contaminated land remediation, vegetation management, fluid filled cable losses reductions and improved visual amenity.

The environment management system was further developed in the year and was certificated to the ISO 14001 standard.

Performance

"To exceed expectations in how we perform, today, tomorrow and in the future"

Network reliability and availability

Quality of Service

Electricity North West continues to invest in repairing and upgrading the network and we continue the installation of automated

technology that reduces the number of customers affected by faults and restores the supply more quickly by fixing problems remotely.

Under the regulatory Interruptions Incentive Scheme, Electricity North West has been set network performance targets for the number and duration of customer supply interruptions.

The average number of interruptions per 100 customers per annum was 46.1[2] (2012: 45.9). The average number of minutes for which customers were without supply was 49.2 minutes[2] (2012: 47.6).

The worsening position is mainly due to severe weather conditions during the year 2012/13; heavy rain in 2012 and prolonged heavy snow in 2013. As an example, during the extreme rain in 2012, we experienced a 30% increase in low voltage (transient) faults compared to the previous year. We understand that keeping our customers' 'lights on' is a key priority and have been investing in Quality of Service to reduce the effects of supply interruption. We have also focused on reducing the effects of planned supply interruptions.

Worst served customers

Quality of Service incentives have been very effective in improving the average performance of the network, but an anomaly arises where the network which supplies the worst served customers may be deemed to be uneconomic to improve. We worked closely with Ofgem and other industry members throughout the previous price review to develop a new incentive mechanism which encourages investment to improve the service afforded to the community of these 'Worst Served' Customers. This mechanism has facilitated additional work programmes which would previously have been considered inefficient.

'Worst Served' customers are defined as those who experience at least 15 higher voltage interruptions over a three-year period and a minimum of three in each qualifying year. 1,136 of our customers met the qualifying criteria in 2012/13 (2011/12: 1,032).

In 2012/13, we invested £0.2m in the implementation of improvement schemes for these customers.

Network Investment

Overall

Our investment programme is aimed at delivering a reliable and sustainable network that delivers excellent customer service at an affordable price. To achieve this, we invest in a range of programmes which ensure that we replace unreliable assets, ensure there is enough capacity to satisfy demand and manage a range of other impacts including environmental effects and the requirements of legislation.

2012/13 saw the delivery of our largest network investment programme to date, with a total of £108.3m being delivered (2012: 108.5), consistent with our planned rising investment profile of DPC5 and the plans we shared with Ofgem in 2011. The programmes below highlight the investments we have been making to ensure safe and reliable electricity supplies in the North West.

Programmes

We have continued to make progress on delivering a number of enhancement programmes in 2012/13, as part of our five-year investment programme.

[2] 2013 figures are draft subject to Ofgem audit and are stated after allowed exclusions, i.e. severe weather events as per 2012.

£5.5m of investment was completed in our ongoing programme to install remote control and automation technology on the network to minimise the effect of faults when they occur. This brings the total invested in the 2010-2015 period to date to £14m.

This investment is having a real impact - in 2012/13, each unplanned fault affected 77 people compared to 92 five years previously. For those who did experience a fault, power was restored in an average of 92 minutes compared to 113 minutes five years ago.

However, although these improvements are hard won and significant, we believe we can and should do even better. Customers consistently tell us that the reliability of their electricity supply should be our number one priority and we will continue to invest in further improvements.

Innovation

"To constantly challenge and improve how we do things"

C2C Update

Since being awarded funding from Ofgem's Low Carbon Network Fund (LCNF) for C2C in December 2011, our future networks team have achieved a number of key milestones. The project will trial the use of new technology and innovative commercial contracts to increase the amount of energy that can be transmitted through our network to help meet the UK's tough low carbon targets.

Stakeholder engagement

Direct Customer mailing, detailed customer surveys, dedicated website and videos have been used to engage with stakeholders and possible customers. The first major industry event was held in December 2012 at Reebok Stadium, Bolton to inform and engage with new connections customers about C2C. Following a post seminar survey, results showed that 86% of customers would recommend their organisation get involved with the trial.

Before the trial started in April 2013, much preparation needed to be carried out. Nearly 500 remote control devices have been fitted in substations on 10% of the network which forms the trial circuit area. This remote control takes away the need for an engineer to attend the site when a fault occurs.

In April, the first trial customer was signed up. The Bolton Arena, an existing customer agreed to a managed contract for the 18 month trial period.

CLASS

The Future Networks Team are also working on the CLASS (Customer Load Active System Services) project following Ofgem announcement of funding for the £9m project last November. CLASS runs from January 2013 until September 2015. Like C2C, CLASS will trial a cutting edge technique to maximise the use of the existing network. But while C2C frees up capacity by reconfiguring the network and using our 'reserved emergency' capacity, the CLASS trial will reduce demand by reducing voltage.

Corporate Social Responsibility

We define Corporate Social Responsibility (CSR) as ensuring our business is successful in the inclusion of social and environmental considerations into our operations.

This means satisfying our customers' demands whilst also managing the expectations of other people such as employees, suppliers and the community around us. It means contributing positively to the North West region and managing our environmental impacts.

2012 CSR review

Following a review of our CSR strategy in 2012, and working in conjunction with our stakeholders, we have identified the 4 key areas' that will form the basis of our CSR strategy going forward. They are:

- Community
- Marketplace
- Workplace
- Environment

100 commitments

As part of our CSR strategy, we have promised to complete 100 CSR commitments over the next 10 years. We have 23 currently underway, which have been agreed and approved through the appropriate governance channels. More information can be found online at http://www.enwl.co.uk/about-us/corporate-social-responsibility-(csr)/100-commitments.

Business in the Community

We continue our close working relationship with Business in the Community and completed their CR (Corporate Responsibility) Index for the first time during the year 2012/13. The index measures a wide range of activities including, community strategies, health, safety and environment targets as well as charitable giving and employee volunteering. We gained a score of 54% and the associated feedback report has provided us with key information that we are able to use to build on our success and our aim is to gain a score of above 70% in 2013/14 in order to achieve bronze status.

Stakeholder Engagement

Engaging with our key stakeholders - understanding their views and concerns, listening to their ideas and opinions and truly getting to know what is important to them – is incredibly important to Electricity North West.

Equally important is our ability to react to this feedback and directly integrate stakeholder views in the way we run our business and how and where we invest their money. Fundamentally we want to deliver great value for our customers and give them what they want.

Our aim is to provide all our stakeholders with the best service possible, delivering reliable efficient and safe electricity to homes and businesses 24 hours a day and 7 days a week.

We have developed a clear strategy and framework to ensure an integrated approach to our stakeholder engagement activities by working with AccountAbility, a leading global organisation providing reliable frameworks and standards in CR and Stakeholder engagement. During the year we have set up an Internal and External Stakeholder forum, both chaired by our CEO, Steve Johnson. Stakeholder engagement has also played a vital role in influencing our plans as we prepare our Well Justified Business Plan as part of our RIIO-ED1 submission. We will continue to develop this commitment to Stakeholder Engagement with the aim of achieving AccountAbility's AA1000 Standard in 2013/14.

Financial Performance

Group	2013	2012
Revenue	**£468m**	£405m
Operating profit	**£225m**	£189m
Profit before tax and fair value movements	**£174m**	£136m
Profit before tax	**£176m**	£55m
Taxation charge/(credit)	**£29m**	(£15m)
Operating cash flow	**£294m**	£232m
Interest cover	**6.0 times**	4.5 times
Capital expenditure on tangible and intangible assets (cash flow)	**£217m**	£223m

Revenue

Revenue has risen to £468m during the year, as a result of an increase in allowed DUoS (Distribution Use of System) revenue, rising RPI and the recognition of £5.8m of income under the Capacity to Customers project which is funded by Ofgem's Low Carbon Network Fund (LCNF). Over the life of the project, the LCNF revenue is offset by costs relating to the scheme.

Under recovery of DUoS revenue at 31 March 2013 was £17.1m (2012: £12.7m under-recovery). This under recovery will be recovered through increased pricing in the next two years.

Operating profit

Operating profit has increased to £225m (2012: £189m) as a result of:

- Increased DUoS Revenue; offset by
- Increased operational costs
- The creation of a provision for retail property obligations, refer to principal risks and uncertainties (page 28)

Profit before tax and fair value movements

Profit before tax and fair value movements has increased as a result of increased operating profit and a decrease in interest expense due to RPI movements on index linked debt.

Profit before tax

The 2013 position reflects a net fair value gain of £2m being recognised in the income statement for this year (2012: £79m loss). Of this, £12m has no cash flow impact and £10m is a cash payment of accretion on index-linked swaps.

Taxation

In July 2012, a reduction in the UK Corporation tax rate was substantively enacted bringing the rate down from 24% to 23% from 1 April 2013. The reduction in corporation tax rate resulted in a deferred tax credit to the Group's income statement of £10.8m (2012: £21.3m).

The prior year current tax credit of £1.9m arises as a result of changes between the estimated tax position in the prior year financial statements and the final tax computation position, due primarily to work done during the year on the optimisation of capital allowance and research and development tax claims.

Dividends and dividend policy

In the year ended 31 March 2013, the Company paid dividends of £66m (2012: £62m). This figure represents interim payments of £23m paid in June 2012 and £43m paid in December 2012 (2012: This figure represented interim payments of £25m paid in June 2011 and £37m paid in December 2011).

Dividends and dividend policy *(continued)*

On 24 May 2013, the Board of Directors approved an interim dividend for the financial year ending 31 March 2014, of £15m, (3.15 pence per share) payable in June 2013.

Electricity North West's dividend policy is that the Company shall distribute the maximum amount of available cash in each financial year at semi-annual intervals, after taking due account of forecast business needs and the Group's treasury policy on liquidity.

Distributions are limited by the maximum amount permitted by applicable law in any financial year and are subject to the Company's licence obligations and financing restrictions.

Financial Position

Property, plant and equipment

The Company's business is asset-intensive and highly regulated both operationally (e.g. Electricity Safety & Quality Continuity (Amendment) Regulations, 'ESQCR', legislation) and economically. The Group allocates significant financial resources to the renewal of its network to maintain services, improve network reliability and customer service and to invest to meet the changing demands of the UK energy sector. The total cost of the Group's property, plant and equipment at 31 March 2013 was £3,741m (2012: £3,531m), with a net book value of £2,560m (2012: £2,431m). In the year ended 31 March 2013, the Group invested £217m (2012: £224m) in capital expenditure. This is mainly related to a large number of projects for the renewal and improvement of the network as described above. New investment is financed through a combination of operating cash flows and increased borrowing capacity against a growing RAV.

Working capital: Inventories, Trade and other receivables and Trade and other payables

ENWL holds inventories of £5m (2012: £7m).

Trade and other receivables have increased to £61m (2012: £54m) primarily as a result of an increase in the level of accrued income and amounts owed by Group undertakings.

Trade and other payables have decreased to £139m (2012: £151m) primarily as a result of a reduction in the amounts owed to other group companies.

Net Debt

Net debt has increased by £41m primarily due to capital investment and dividends paid exceeding the net operating cash flows generated by the Group.

	2013	2012
	£m	£m
Cash and deposits	**69**	84
Borrowings repayable:		
- After one year	**(1,113)**	(1,087)
Net debt	**(1,044)**	(1,003)

Borrowings repayable after one year include bonds with long term maturities of £704m (2012: £683m). 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 loan from the European Investment Bank ('EIB') is also repayable after one year. This 1.5911% index-linked loan matures in 2024. Also included in long-term borrowings are inter-company loans at 31 March 2013 of £263m (2012: £263m).

Pension obligations

The valuation of the Company's pension scheme under IAS 19 results in a net pension deficit at 31 March 2013 of £106m (31 March 2012: £14m). The deficit as at March 2013 is higher than the prior year end mainly due to the impact of lower corporate bond yields leading to a lower discount rate and a higher value being placed on the liabilities, partially offset by good asset performance over the year and deficit contributions paid by the Company.

The pension scheme funding valuation as at 31 March 2010 (using assumptions agreed by the Trustee, in consultation with the Scheme Actuary) has been agreed with the scheme's Trustee and a deficit repair schedule agreed over 15 years to March 2025, which aligns to Ofgem's funding assumptions.

Commitments

Details of commitments and contractual obligations are provided in notes 9, 10, 18 and 26 of the financial statements.

Cash flow

The Group's net cash generated from operating activities after interest paid and taxation received was £248m, an increase of £78m from 2012, reflecting the increased profit position. The Groups net cash outflow from investing activities was £188m, a decrease of £5m due to a decrease in property, plant and equipment purchases in the year. Net cash outflow from financing activities was £51m (2012: outflow of £45m).

Liquidity

The Group's primary source of liquidity is retained profit plus funding raised through external borrowings. The Company has an agreed regulatory price control to March 2015 which provides certainty for a large majority of the Group's revenues from ongoing operations, providing both stable and predictable cash flows.

Short-term liquidity

Short-term liquidity requirements are met from the Group's normal operating cash flows. Further liquidity is provided by cash and short-term deposit balances.

In total at 31 March 2013, unutilised committed facilities of £50m (31 March 2012: £55m), together with £69m (31 March 2012: £84m) of cash and short-term deposits provide substantial short-term liquidity for the Group and Company.

Utilisation of undrawn facilities will be with reference to RAV gearing restrictions for the Group.

Long-term liquidity

The Group's term debt was £1,113m at 31 March 2013, compared with £1,087m at 31 March 2012. Amounts repayable after more than five years comprise bonds and bank and other loans.

The Group's long-term borrowings mature at dates between 2015 and 2046. Our long-term debt ratings have remained stable. Currently ENWL 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.

Conclusion

The board has reviewed the 31 March 2014 Budget, the Company's updated DPC5 business plan and the requirements of the Company's licence Condition 30 ('availability of resources') and considers that the Company has sufficient liquidity to meet its anticipated financial and operating commitments for at least the next 12 months.

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 act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available in line with policy and to maintain the agreed targeted headroom to key financial ratios.

Long-term borrowings are at fixed rates to provide certainty or are indexed to inflation to match the Group's ('RPI') inflation linked cash flows.

Treasury operations

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

Credit (counterparty) risk management

There is a risk that failure of one of Electricity North West's counterparties in the current economic climate could result in a financial loss for the business.

Exposure limits with counterparties are reviewed regularly. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Liquidity risk management

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 (discussed on previous page).

Market risk management

The Group manages interest rate exposure by seeking to match financing costs as closely as possible with the revenues generated by its assets. The Group's exposure to interest rate fluctuations is periodically managed in the medium-term through the use of interest rate swaps.

Derivatives are used to hedge exposure to fluctuations in interest rates and inflation. A derivative is a financial instrument, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date. At present, the Company uses interest rate swaps to manage interest rate risk and inflation swaps to convert fixed rate debt to index-linked borrowing. No formal hedge accounting is undertaken.

The Group's use of derivative instruments relates directly to underlying indebtedness. No speculative or trading transactions are undertaken. 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).

Principal risks and uncertainties

The Group considers the following risks to be the principal ones that may affect Electricity North West's performance and results but cautions that the risks listed in this section do not address all the factors that could cause results to differ materially. There may be additional risks that the Group has no control over, or that are deemed immaterial based on either information currently available or the Group's current assessment of the risk. Nevertheless, in its ongoing review of risk, the Group is confident that its assessment of the principal risk categories is correct and that its analysis of individual risks is soundly-based.

Changing Regulatory Framework

There is a risk that Ofgem's revised framework for future price controls ('RIIO') may adversely affect the cash flow, financeability and/or valuation of the Company, if implemented in an unfavourable manner. Ofgem's RIIO objectives set out the principles that the regulator will employ in agreeing future price controls with distribution companies. These include a number of significant changes from the principles employed in previous price controls. In the main they represent an opportunity to grow the Company by demonstrating the key role that networks have to undertake in the transition to a low carbon economy and in delivering a long-term value for money network services for existing and future customers. In the current year a significant amount of resource has been dedicated to planning for the RIIO-ED1 period, which includes the development of the Well Justified Business Plan which will be submitted to Ofgem in the summer of 2013 and also to influence Ofgem on our specific plans and ambitions for the period from 2015 to 2023.

Financing our investment needs

The Group and the Company are financed to a large extent by long term external funding. There is no guarantee that new external funding requirements under the RIIO regulatory settlement will be financed by external debt providers. Forecast operating cash flows, the present cash position and committed undrawn facilities provide sufficient liquidity to meet the Company's anticipated financial and operating commitments for at least the next 12 months. The Company has in place a financing strategy to meet future financing needs, including a regular dialogue with the main institutional debt investors. As a result of the dependence on debt for long term finance, interest is a significant cost to the Group and Company. The approach to managing and mitigating the potential interest rate risks are discussed in note 16.

Failure to deliver efficiently will have adverse impact on regulatory settlement for RIIO-ED1

Due to the Company being a sole DNO and, unlike the rest of the sector, not part of a larger group of DNOs, there is a risk that we are, in comparison to the sector, seen as inefficient for RIIO-ED1 because of high direct unit costs, business support and indirect costs leading to an unfavourable regulatory settlement for RIIO-ED1.

Direct unit costs

Management are tracking costs of the capital programme against Ofgem regulatory allowances. We have benchmarked unit costs to where the upper quartile is forecast to be. Outputs are being tracked with measures on the corporate scorecard to ensure the effectiveness of capital programming and efficiency of capital delivery. Management are using these new measures to enhance forecasting of unit costs for RIIO and are developing robust plans to achieve or beat these targets.

Business support and indirect costs

We are reviewing business support/indirect costs and substantial further efficiencies have been identified. Furthermore, we have provided Ofgem with compelling evidence of the substantial scale of fixed costs that Electricity North West bears that all other DNOs, by virtue of being members of wider ownership groups, will be able to share. Reputable expert consultants have estimated the efficient fixed cost uplift required above the costs of a two licensee group. These factors will all be incorporated into our Well Justified Business Plan submission to Ofgem for the RIIO-ED1 period.

Retail Price Index (‘RPI’) fluctuations

Fluctuations in RPI impact the Company in a number of ways, most notably in revenues and Regulatory Asset Value (‘RAV’). In order to monitor potential exposure to fluctuating RPI, each month the Company sources RPI forecasts from a selection of financial institutions. These are used to refresh the Company’s forecasts and sensitivities on at least a quarterly basis. Any significant exposure arising from these updates is advised to the Executive Leadership Team and the Board as appropriate.

The losses incentive mechanism

There is a risk that revenues will be adjusted downwards in 2015-16 as a result of the Losses Rolling Retention Mechanism (‘LRRM’). This mechanism (part of the previous price control, DPCR4) allows for a final reconciliation of losses benefits achieved during the DPCR4 period, based on the cumulative losses performance at the end of the period.

The final year of DPCR4, which is key to the calculation of the LRRM, saw major fluctuations in settlement data due to corrections being applied by electricity suppliers. This has been recognised at an industry level and Ofgem has stated that it will take steps to ensure there are no windfall gains or losses arising from settlement data corrections, including the restatement of 2009-10 data where it is shown to be abnormal. Ofgem have issued their ‘minded to’ position for all DNOs in a consultation on the LRRM calculation. For Electricity North West this is a credit of £0.5m. There has been a robust challenge to Ofgem’s proposals in consultation responses, leaving the residual risk of a change from the ‘minded to’ position. The quantum of any resulting LRRM liability is uncertain at this stage. Ofgem have removed the deadline by which this matter must be resolved from our licence.

Delivery of network investment plans and outputs

The Company has agreed its network investment requirements for the period to 31 March 2015 with Ofgem. These plans include a significant increase in the volume of activity, particularly with respect to the refurbishment and renewal of overhead lines from both an operational and safety perspective. Failure to deliver the capital plans may lead, in some circumstances, to non-compliance with safety legislation and perceived non-delivery by Ofgem and our customers, leading to potential claw-back of efficiencies, penalties under the outputs regime and/or loss of credibility for future regulatory submissions.

Electricity North West has developed implementation plans to ensure sufficient contractor resources are procured, work content of projects is designed in a timely manner and processes are in place to fully deliver our outputs efficiently.

High wholesale energy prices

There is a risk of increased political and/or regulatory sensitivity to Distribution Use of System (DUoS) prices because of high wholesale/retail energy prices leading to limitations to DUoS price rises, associated investment plans, price changes or a price control reset. A political, unsustainable decision may be made which would put a large amount of pressure on Ofgem.

Customer satisfaction

There is a risk that the company will not meet the required level of performance against Ofgem's customer satisfaction measure. This measure rewards or penalises DNOs for their relative performance on customer satisfaction, complaints and stakeholder engagement. A programme of improvement activities is being coordinated by the Customer Service Strategy Steering Group optimise Electricity North West's relative position against all three elements of the measure.

A major event causing significant service interruptions adversely affects profitability

The majority of service interruptions relate to minor network issues that are rectified promptly with limited effect on customer supplies. However, the network occasionally experiences widespread disruption, typically as a result of climatic effect, such as a major storm or flooding. Such an event could cause a more significant interruption to the supply of services (in terms of duration or number of customers affected), which may have an adverse effect on the Company's results or financial position due to the impact of non-exempt events.

The Company has comprehensive contingency plans for all network emergencies, including key contract resources such as mobile generators and overhead line teams. These resources are contracted to carry out the capital programme under business as normal, but will be the first line of escalation in the event of a major event. Our plans also include reciprocal arrangements with other DNOs to provide resources should we need them.

Counterparty insolvency

There is a risk that failure of one of the Company's counterparties in the current economic climate could result in a financial loss for the business. This is controlled through the use of a list of approved counterparties with financial limits of investment by the Group established based on credit rating and overall spread of the total available invested cash.

Pension scheme obligations

The Company 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, the assets of which are held in Trust, independent of Company finances.

There is a risk, as with all funded defined benefits, that under performance of the pension scheme investments and/or an increase in the scheme's pension liabilities will give rise to a higher scheme deficit which requires increased Company contributions. Currently pension contributions and the scheme deficit as at 31 March 2010 that are assessed as efficient by Ofgem are recoverable through the price controls set by Ofgem. Active monitoring of the performance of the scheme's investments is carried out formally on a quarterly basis by the pension Trustee. The Trustee engages external professional legal, actuarial and investment advice for all decisions taken and regularly consults with the Company.

The scheme undertook a funding valuation as at 31 March 2010 which identified a funding deficit of approximately £145m (31 March 2008: £107m). Following constructive engagement between the Company and the pension scheme Trustee, a revised deficit repair contribution schedule has been agreed over a period of 15 years to 31 March 2025, in line with Ofgem's funding assumptions.

Retail property obligations

Electricity North West previously held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. In the financial statements at 31 March 2012 ENWL disclosed a contingent liability in respect of a group of 39 retail units that had been previously assigned to a third party. In the period since 31 March 2012 the third party has entered administration and ENWL has become liable under privity of contract for the costs associated with these properties. At 31 March 2013 six of these leases have been disposed of or disclaimed and a further eight units remain occupied by third parties, leaving 25 properties for which future cash outflows are considered probable. Additionally, there are a further four legacy retail units where ENWL has an obligation. Leases for these properties have a range of expiry dates from 2013 to 2021.

In the remote event of all property leases reverting to the Company, the maximum total annual accommodation cost (which includes rent, rates, service charge, insurance and maintenance), based on certain leases extending until 2021, would be approximately £54.4m profiled over an eight year period from 2013 to 2021 (£66.4m undiscounted).

Based on the Company's current risk assessment which considers the location and size of the stores, expectations regarding the ability to both defend its position and also to re-let the properties, cash exposure is forecast to peak at approximately £8.5m in 2013/14 with the remaining outflows falling over the period to 2020/21. A provision of £20.0m has been included within the financial statements at 31 March 2013 as further disclosed in note 18. This includes £18.0m in respect of 25 leases for which management consider it probable that a liability will arise and an additional £2.0m transferred from accruals, relating to the further four legacy retail properties. The assessment of ENWL's liability in relation to these properties is subject to uncertainty as it involves making judgements on individual retail premises, the period of vacant possession and negotiations with individual landlords, letting agents and tenants.

In response to the change in circumstances regarding the retail properties management have taken action to mitigate the evolving risk through the creation of a cross functional team. This team, working with relevant external specialists, is focussed on the identification of potential new tenants and the disposal of units, whilst also planning for the reduction of any ongoing holding costs associated with properties that are not re-tenanted.

Our Board

Mike Nagle

Acting Chairman

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

EXECUTIVE DIRECTORS

Stephen Johnson, Chief Executive

Steve joined Electricity North West 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 and is a member of the Institute of Engineering and Technology. Steve is currently Chair of the Energy Networks Association; the Trade Association for Electricity and Gas Networks in the UK and Ireland and represents the industry on DECC and Ofgem's Smart Grid Forum.

Michael McCallion FCA, Chief Financial Officer

Michael joined Electricity North West in 2007 as Commercial Director. Following the in-sourcing of the services provided by United Utilities Group PLC, he was appointed to his current role in September 2010. Michael was previously Head of Capital Programme Finance for United Utilities' regulated businesses and prior to that he was a Marketing Finance Director with AstraZeneca plc. He is a Fellow of the Institute of Chartered Accountants, having qualified with PricewaterhouseCoopers.

NON-EXECUTIVE DIRECTORS

John Gittins (Independent)

John is an Independent Non-Executive Director. He is Finance Director at Fairpoint Group PLC. Prior to that 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.

Niall Mills

Niall is Head of Infrastructure Asset Management, Europe for First State Investments (UK). He is also a director of Anglian Water Group, Digita Oy, Reganosa and Healthcare Support (Newham). He has more than 20 years of infrastructure experience across a variety of sectors.

Niall is a Fellow of the Institution of Civil Engineers and holds a Masters of Business Administration from the London Business School. He has a Diploma in Company Directorship from the Institute of Directors.

Mark Rogers

Mark joined the ENWL Board in September 2012. He is Asset Manager for the Australian Infrastructure Investment team for Colonial First State Global Asset Management. Mark is also a director of Anglian Water Group and Healthcare Support (Newham) in the UK, a partner representative for Hazelwood Power, a director of Hazelwood Power Corporation, joint venture representative for the Somerton Pipeline Joint Venture and is Deputy Chairman of the Infrastructure Sustainability Council of Australia.

Surinder Toor

Surinder is a Managing Director at JP Morgan Asset Management and the global head of asset management for JP Morgan's Infrastructure Investments Group. In addition to Electricity North West, he holds directorships in Southern Water and Noatum Ports. Previously, he was the Chief Financial Officer at Scotia Gas Networks plc and prior to that he was Managing Director of American Electric Power's European operations. He has also held positions with Arthur Andersen, PowerGen plc and at PricewaterhouseCoopers, where he started his career. Surinder holds an MA in Engineering, Economics and Management from the University of Oxford and he is a Chartered Accountant.

The UK Corporate Governance Code Statement

ENWL is a private company with bonds listed on the London Stock Exchange. As it does not have listed equity, the Company has not been required under the UK Listing Authority's Listing Rules to report against compliance with the UK Corporate Governance Code (the 'Code') at any time during the period under review.

However, ENWL's Electricity Distribution Licence requires that, in its regulatory financial statements, the Company prepares a corporate governance statement that has the coverage and content of the corporate governance statement that a quoted company is required to prepare under the UK Corporate Governance Code.

In the interests of transparency for all of the Company's stakeholders, the Board has decided to also include this statement in the Company's statutory financial statements.

The Board has reviewed its governance in light of the revised UK Corporate Governance Code issued by the Financial Reporting council (FRC) in September 2012 and the revised Guidance on Audit Committees. The Terms of Reference of the Audit Committee were amended to reflect the updated guidance in January 2013.

Compliance statement

The FRC's Listing Rules require UK quoted companies to explain to shareholders how they have applied the Main Principles of the Code or explain why they have not done so.

The intention of the Code is that companies should be able to explain their governance in the light of the principles which have led them to a particular approach. The Directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Code, the approach is justifiable given the privately held nature of the Company and that the provisions of the Code are disproportionate or less relevant in their case.

The Company has set out below and in the following pages its compliance with the main principles of the Code or explains any non-compliance.

Leadership and Effectiveness

The Role of the Board

The Company's aim is to become the leading energy delivery business, measured against the following strategic objectives:

- Understand and Influence the Market;
- Understand and Deliver for Customers and Stakeholders;
- Develop a High Performance Organisation; and
- Deliver Sustainable Growth with Robust Financial Performance.

The Board's role is to ensure that the Company is equipped to deliver this strategy both today and in the long term.

To ensure that it achieves this, the Board meets regularly to provide leadership, set strategic direction and objectives, and ensure that appropriate financial and other resources are made available to enable the Company to meet those objectives. The Board has agreed its Business Plan to ensure the Company's strategic objectives are delivered through:

- A stable financial structure, providing necessary financing to support business operations;
- Improved financial performance that meets financial covenants governing the business;
- Sustainable dividend profile while retaining gearing within the target level; and
- Capital and maintenance plans that deliver financial and network outputs in line with regulatory contract commitments.

In addition, the Board oversees the work of the Audit Committee in drawing up and maintaining a framework of controls that assess and manage the risks the business is exposed to. This is discussed in more detail on pages 36 and 37.

The Company has identified a number of key areas that are subject to regular reporting to the Board. There is in place a schedule of decisions reserved for the Board which includes: strategy approval and management; succession planning; business plan approval; internal controls; Company policies; and delegation of authority. Projects and contracts have various limits of approval to Board level.

The names of the current Directors, who served during the year, and their biographical details, are set out on page 29.

Since 1 April 2012, the Board has formally met nine times. Attendance by individual Directors at meetings of the Board during the year ended 31 March 2013 was as follows:

Board

	Meetings during appointment	**Meetings attendance**
P White (Chair – to 4 July 2012)	2	2
J Gittins	9	7
S Johnson	9	9
M McCallion	9	9
N Mills	9	8
M Nagle (Chair – from 4 July 2012)	9	9
C O'Reilly (to 17 September 2012)	6	6
S Toor	9	7
M Rogers (from	3	3

17 September 2012)		

Surinder Toor, personally or through his Alternate (Mark Walters), and Niall Mills, personally or through his Alternate (Marcus Ayre), attended all meetings and Committees.

Board Committees

The terms of reference of each Committee are available to the shareholders of the Company and can be obtained by written request from the Company's registered office.

All Committees report to the next meeting of the Board.

Audit Committee and auditors

Since 1 April 2012, the Audit Committee has formally met three times. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2013 was as follows:

Audit Committee (Non-Executive)

	Committee meetings during appointment	**Committee meetings attendance**
J Gittins (Chair)	3	3
N Mills	3	3
M Nagle	3	3
C O'Reilly (to 17 September 2012)	2	2
S Toor	3	3
P White (to 4 July 2012)	1	1
M Rogers (from 17 September 2012)	1	1

The activities of the Audit Committee are discussed in more detail on pages 38 and 39.

Remuneration Committee

Since 1 April 2012, the Remuneration Committee has formally met four times. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2013 was as follows:

Remuneration Committee (Non-Executive)

	Committee meetings during appointment	**Committee meetings attendance**
P White (Chair – to 4 July 2012)	1	1
J Gittins	4	3

N Mills (Chair – from 4 July 2012)	4	4
M Nagle	4	4
C O'Reilly (to 17 September 2012)	3	3
S Toor	4	4
M Rogers (from 17 September 2012)	1	1

The activities of the Remuneration Committee are discussed in more detail on pages 34 and 35.

Health and Safety Committee

The remit of the Health and Safety Committee includes: setting the health and safety strategy, objectives and targets; reviewing and monitoring performance; and reporting to the Board.

The UK Corporate Governance Code Statement *(continued)*

Health and Safety Committee *(continued)*

Since 1 April 2012, the Health and Safety Committee has formally met twice. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2013 was as follows:

Health and Safety Committee

	Committee meetings during appointment	**Committee meetings attendance**
P White (Chair – to 4 July 2012)	0	0
S Johnson	2	2
N Mills (Chair – from 4 July 2012)	2	2
M Nagle	2	2

The following employees are also members of the Health and Safety Committee, in addition to the Non-Executive Directors listed above: Greg Fernie, Operations Director; Helen Sweeney, Business Services Director and Mike Kay, Network Strategy and Technical Support Director.

Pensions Committee

The duties of the Pensions Committee include monitoring the investment strategy adopted for the defined benefit pension liabilities by the Trustee and assessing the efficient running of the pension scheme to meet regulatory requirements.

At its meeting on 29 January 2013, following a review of its corporate governance and formal committee structure, the Board agreed that the Pensions Committee would cease to operate and be replaced by a Pensions Working Group, no longer a formally constituted committee of the board.

Since 1 April 2012, the Pensions Committee had formally met once before the Board's decision to cease its formal operation. Attendance by individual Directors at this meeting was as follows:

Pensions Committee

	Committee meetings	Committee meetings attendance
M McCallion (Chair)	1	1
N Mills	1	1
M Walters (Alternate)	1	1

The following employees were members of the Pensions Committee in addition to the Non-Executive Directors listed above: Fiona Brown, Head of Pensions; Rob O'Malley, Head of Treasury & Investor Relations; Helen Sweeney, Business Services Director; and Sarah Walls, Head of Economic Regulation. It is expected that the Pension Working Group will retain a similar membership profile.

Financing Committee

The Financing Committee was constituted as a formal committee of the Board in December 2012. Duties include assisting the board in overseeing the financial risk management strategy and treasury matters delegated to it and approving major financial transactions on behalf of the Board.

Members of the Committee are Niall Mills, Surinder Toor, Michael McCallion and Steve Johnson. The Committee has met once during the period.

Use of System Pricing, Financing and Banking Committees

In addition to the above, there are two executive committees of the Board. The Use of System Pricing Committee meets to approve all the prices contained in the Standard Licence Condition 14 statement and met three times during the year.

The Banking Committee met once during the year and has been established to deal with banking matters.

Non-Standing Committees

As the need arises, non-standing committees are established to deal with special issues. During the year a Training Centre committee met to approve the purchase and funding of a training facility.

The UK Corporate Governance Code Statement *(continued)*

The Chairman and Division of Responsibilities

There is a clear division of responsibilities between the Chairman and the Chief Executive and these responsibilities are set out in their respective contracts.

Phil White resigned as Chairman on 4 July 2012 and Mike Nagle acted as Chairman for the remainder of the period to ensure this division of responsibilities remained in place.

Although Mike Nagle is a Non-Executive Director, he is not considered independent as he is a Board representative of one of the Company's shareholders. Therefore, the Company does not comply with the criteria for independence of the Chairman required by section A.3.1. of the Code.

In January 2013 Ofgem published its formal licence modifications for conditions in all of the network operator licences. One of the requirements will be for an operator to have two sufficiently independent directors (SIDs) on their Board. Directors will not be considered "sufficiently independent" where they are directors or employees of any company which has any of the same ultimate controllers as ENWL, unless that company has a gas transporter, electricity transmission or distribution licence. Nor would directors sit on any holding company unless its sole holding is the licensee and other wholly owned subsidiaries having such a licence.

This licence condition will come into effect on 1 April 2014, or twelve months after the licence condition is enacted (whichever is the latter). ENWL will therefore review the composition of its Board and the independence of its Non- Executive Directors and its Chairman to ensure compliance with the Licence Conditions and the Code.

The role of the Chairman is key in creating overall board and individual director effectiveness. To facilitate this and encourage openness and debate, two Board meetings in the period were scheduled over two days to allow time for full discussion of any arising issues.

The Chairman, with the assistance of the Company Secretary, sets the board agenda and ensures the board receives accurate, timely and clear information to enable sound decision making and effective monitoring.

Non-executive Directors

Non-executive directors participate fully in discussions on strategy and are responsible, through the Remuneration Committee, for Executive Directors' remuneration, appointments and succession planning for the Executive Leadership Team.

As there are representatives of both shareholders on the Board, it has not been considered necessary to appoint a Senior Independent Director to be available to shareholders as required by section A.4.1. of the Code.

Formal meetings between Non-Executive Directors without Executives being present took place during the year and these provide a forum to raise any issues.

Composition of the Board

John Gittins fulfils the requirements of independence as set out in the Code. There are four additional Non-Executive Directors on the Board, each of whom represents one of the Company's ultimate shareholders. The Company believes that these Directors, together with the CEO and CFO, are a good balance of Executive and Non-Executive representation to enable the Board and its Committees to discharge their duties effectively and to ensure that no individual or small group of individuals can, or do, dominate the Board's decision making. In addition, employees have been included in the membership of the Health and Safety Committee and the Pensions Committee in order to further enhance the effective discharge of these respective responsibilities.

The Company is not an equity listed company and therefore the quota of Independent Directors listed in the Code, section B.1.2, is not considered appropriate for the Company, having regard to its privately held status.

Appointments to the Board and Board Member Commitment

The Board is satisfied that the process of appointing new Directors to the Board is formal, rigorous and transparent. Succession planning is in place for the Executive Leadership Team and senior management to ensure the Company has the appropriate mix of skills and experience.

It is the Company's aim to ensure an appropriate level of diversity in the Boardroom as vacancies arise. Appointments are made on merit, taking into account relevant skills, experience, knowledge, ethnicity and gender.

These issues are also taken into consideration by shareholders when appointing their representatives to the Board.

The strength of the Board is vital and the overriding aim in any new appointment will always be to select the best candidate to support the achievement of the Company's objectives.

There is no formal Nominations Committee for the appointment of Directors, the function is dealt with by the Remuneration Committee, and the Company does not comply, therefore, with the sections of the Code (B.2.1, B.2.2, B.2.4, B.3.1 and E.2.3) which deal with Nomination Committees.

The Remuneration Committee has been delegated this function by the Board and in any appointment of an independent Non-Executive Director, an external recruitment company is used.

The terms and conditions of Non-Executive Director appointments are made available to shareholders. The expected time commitment is conveyed to Directors, either in written or verbal form and all are required to confirm that they have sufficient time to fulfil the role. The Board is regularly updated on other significant appointments undertaken by any Director.

Development, information and support

New Directors are given an induction on joining the Board, detailing the Company's business, corporate governance and reporting procedures. This induction process is tailored to the skills, knowledge and experience of the individual and is designed to enable them to discharge their duties effectively.

All Directors receive comprehensive information on a regular basis. Board papers are distributed via the Company Secretary's office sufficiently well in advance of the relevant meeting to allow time for full consideration. The papers are detailed enough to ensure a thorough understanding of the management and financial performance of the Company and its business. In addition, one-day Board meetings are held throughout the year to enable Directors to better understand major projects or processes in more depth. Meetings with senior management have been facilitated during the year, together with asset tours to consolidate their knowledge of the business.

The Company Secretary assists with professional development when required and advises on governance matters both on an individual basis and in the form of papers to the Board. All members of the Board have access to independent professional advice at the company's expense where they consider it necessary to fulfil their responsibilities.

Evaluation

A Board evaluation was conducted by Ffion Hague of Independent Board Evaluation in May 2011 and the Board have continued to build on the process undertaken at that time. The findings have been widely discussed and the Board will continue to undertake self evaluation and development initiatives to ensure members continue to enhance their skills and expertise with regard to their Board responsibilities.

The Committee structure was evaluated and amended in January 2013 to ensure Committee membership remained effective and appropriate. Amendments were made to appointment a secretary to the Health and Safety, Pensions, Use of System Pricing and Banking Committees.

Re-election of Directors

As a private company, the Company is not required to hold an Annual General Meeting (AGM) unless requested by the shareholders. The Articles of the Company do not require that Directors retire by rotation. The Company has strong links, however, with its ultimate shareholders: Board membership includes shareholder representatives and although the Company is not compliant with section B.7. of the Code due to its private status, shareholders are involved in Director appointments to at least as great an extent as if re-election took place at an AGM. Should any Executive Director serve as a Non-Executive Director elsewhere in a situation where remuneration would be provided for that role, a decision would be made as to whether the director was authorised to retain that remuneration.

Remuneration level and components

The primary principle for the Company's remuneration policy is that remuneration and other terms of employment shall be fair and competitive to attract, retain and motivate Executive Directors ('Executives') of sufficient quality to deliver the objectives of the Group.

As a private Company, a remuneration report is not required to form part of the Company's Annual Report and therefore the Company does not comply with section D.1.2. of the Code.

The Remuneration Committee is careful to ensure that compensation arrangements in Executives' terms of appointments are appropriate, reward good performance and safeguard against rewarding poor performance. Notice periods are set at one year or six months.

Performance-related elements of remuneration formed a significant portion of the total remuneration package of the Executive Directors in the year under review and these are linked to both corporate and individual performance objectives.

Remuneration procedure

The Remuneration Committee sets the policy and procedures for Executive remuneration and for setting the remuneration packages of Executive Directors. No Director is involved in setting his or her own remuneration.

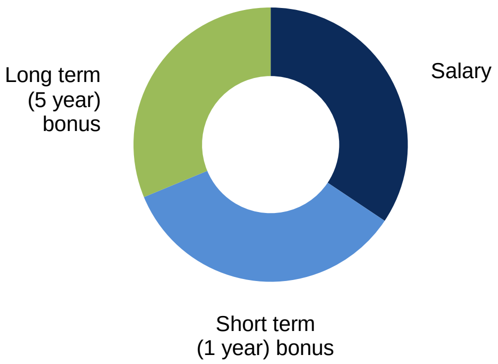
The Board has established a Remuneration Committee, the terms of reference of which are available to shareholders on request. Membership is solely made up of Non-Executive Directors including Independent Director, John Gittins. The Company does not, therefore, comply with section D.2.1. of the Code. The Board is confident, however, that the Committee remains independent and objective and that the Committee membership is effective and enables the successful discharge of the Committee's responsibilities.

The Committee has responsibility to make recommendations to the Board on the policy and framework for the remuneration of the Executive Directors, approve employment related benefits for other Company employees and implement employees' bonus and long term incentive plans. The Remuneration Committee has responsibility for setting remuneration and succession planning for the Company's Executive Team.

The Board uses external consultants to provide benchmark data for base salary, bonus and other benefits of Directors and the Executive Team. These are reviewed annually and pension benefits are considered when reviewing the overall compensation package. There is no entitlement nor is there a commitment to award an increase year on year.

The Remuneration Committee also determines the remuneration of the Non-Executive Directors, approves all long-term incentive schemes and significant changes to existing bonus schemes.

The allocation of total reward to base salary and, (maximum) performance-based, short-term and long-term incentive plans for the CEO is broadly as follows:



Short term corporate objectives are based on a balanced scorecard approach with approximately 55% of the total related to financial performance and efficiency and 45% of the total comprising key operational metrics. The long term bonus is based on financial performance and DPC5 comparative performance, as assessed by Ofgem, and is deferred until June 2015.

Share options are not offered as an incentive to Executives or Non-Executive Directors as the Company is privately owned. Remuneration for Non-Executives is reviewed by the Remuneration Committee which ensures that this reflects the time commitment and responsibilities of the role.

Financial and Business Reporting

The Board takes seriously its responsibility to ensure that a balanced and understandable assessment of the Company's performance, position and prospects is given in the Annual Report and in any other report published by it for Ofgem or other stakeholders as necessary.

Directors' responsibilities in relation to the preparation of the annual report and financial statements and their statement in relation to information given to auditors are given in the Directors' Report.

Details of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the objectives of the Company are given on pages 13 to 21 of the Business Review.

As discussed in the Directors' Report and accounting policies, after making diligent enquiries, the Directors have a reasonable

expectation that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Company's financial statements.

Internal Control framework

The Board is responsible for the Group's system of internal control and its ongoing review. There is an established process for identifying, evaluating and managing the significant risks faced by the Company. This internal control framework has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements. It is reviewed regularly by the Board and accords with the revised Internal Control: Guidance to Directors (formerly the Turnbull guidance).

The internal control framework is designed to identify and manage the principle risks and uncertainties of the business outlined in the business review on pages 6 to 21, rather than to eliminate the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The key features of Electricity North West's internal control framework are:

- The highest standards of behaviour are expected from our employees. At Electricity North West we are proud of our strong commitment to having high ethical standards in the way that we work. We have outlined what those principles are in our Employee Code of Conduct document, which summarises our approach to doing business. All our employees must act in accordance with those principles.
- Engagement and commitment are obtained from all levels of the organisation in order to promote a strong control environment with clearly defined accountabilities and organisation structures, operating within a framework of policies and procedures covering every aspect of the business.
- Comprehensive compliance regimes are in place to help ensure that the business meets its various financial, statutory and regulatory obligations.
- A well established ‘Table of Accountabilities’, which is updated (as a minimum) annually, is in place which details the obligations under the standard and special licence conditions that we must adhere to. It outlines who has specific responsibility for compliance with each of our licence conditions.
- Comprehensive business planning, risk assessment and financial reporting policies and procedures are in place. They include the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years.
- A Capital Programme Management Group and Project Approvals Group with defined policies and procedures, for planning, approving and monitoring major capital investment projects, provide effective governance in this area.
- Monthly reporting of financial and non-financial performance to the Board and Executive Leadership Team. Reviews are made of monthly performance against budgeted and targeted performance.
- A detailed Internal Control Manual is maintained, acting as the cornerstone of the internal control framework, which our employees are required to adhere to. This has been subject to extensive revision in the year to streamline certain approval processes and improve efficiency.
- The Risk, Control and Assurance team has responsibility for independently assessing the adequacy and effectiveness of the management of significant risk areas and internal control. This ongoing assessment helps to inform our annual risk-based audit strategy and plan.
- A designated audit team reporting to the Head of Health, Safety and Environment serves to monitor the effectiveness of our key Health and Safety controls and reporting processes, overseen by a committee of the Board.
- The Disclosure (“Whistleblowing”) policy for Electricity North West seeks to ensure that any employee may voice any concerns about particular incidents of wrongdoing, or other suspected malpractice, without fear of criticism or future discrimination, provided that any matters raised are in good faith.
- Formal briefings are provided to our employees on key areas of the internal control framework in order to promote understanding and commitment, and relevant information is included within induction for new employees.

Risk Management

At Electricity North West 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 company 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 Company has a well embedded structure and process to help identify, assess and manage risks, forming key elements of the risk management system.

The risk management system has been externally validated during the year as being in accordance with ISO 31000 ’Risk Management - Principles and Guidelines’.

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

- Mandate and commitment demonstrated through the risk management policy statement and endorsed by the Executive Leadership Team.
- Clear risk management strategy in place to support continual improvement.
- Roles and responsibilities clearly defined to ensure effective ownership and delivery of risk management.
- Appropriate operational and non-operational risks are managed on a single corporate risk register which is maintained by the Head of Risk, Control and Assurance.
- 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 designated to a member of the Executive Leadership Team (ELT) who has the overall responsibility for managing that risk.
- 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 has been established to enhance the risk monitoring process. Importantly this strengthens risk accountability within the business. This group meets formally on a bi-monthly basis.
- 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.
- An annual risk review is formally held with the Electricity North West Board.

Audit Committee and Auditors

The main purpose of the Audit Committee is to review and maintain oversight of ENWL’s corporate governance, particularly with respect to financial reporting, internal control and risk management.

The Committee meets regularly during the year aligned to the financial reporting timetable and during the 2012/13 period it met three times. Significant member time is also spent at meetings with executive management, understanding the key issues and underlying processes, setting agendas and meeting with auditors.

The Committee consists of Non-Executive Directors who have relevant experience. Committee Chairman, John Gittins, is considered an Independent Non-Executive Director. Therefore ENWL complies with the Disclosure and Transparency Rule 7.1.1 to have one Independent Non-Executive Director, but not with the requirement of section C 3.1 of the Code which requires three. The composition is considered by the Board, however, to be objective and effective given the Company’s private ownership, shareholder representatives on the Committee, input from Executives and representation from the Company’s external auditors.

By invitation, Audit Committee meetings are regularly attended by the Chief Executive Officer, the Chief Financial Officer and the Head of Risk, Control and Assurance and representatives from the external auditors, Deloitte LLP. The Committee also meets privately, without any member of management present, with both the internal auditor and external auditors.

Minutes of the Committee meetings are made available to the Board. Additionally, the Chairman of the Committee reports to the Board after each meeting on any issues where action or improvement is required.

The main role and responsibilities of the Audit Committee are set out in its terms of reference and include those items detailed in section C 3.2 of the Code, except that the Company does not hold an AGM and therefore the appointment of Deloitte LLP as external auditors was approved by the Board based on the review and recommendations of the Audit Committee.

The terms of reference are available to shareholders although a summary of the roles and responsibilities and a list of its members is detailed on the ENWL website.

The Committee's principal responsibilities include:

- Monitoring the integrity of the financial statements of the Company, including its annual and half yearly reports and any other formal announcements relating to its financial performance.
- Reviewing and monitoring the effectiveness of the Company's internal control and risk management systems.
- Reviewing whistleblowing arrangements.
- Considering the appointment, re-appointment, fees and removal of the external auditor and making necessary recommendations to the Board.

In December 2012 the Board reviewed the terms of reference in light of the FRC's Guidance on Audit Committees and the revised UK Corporate Governance Code issued in September 2012. Going forward, the Committee will ensure that the external audit contract is put out to tender at least once every 10 years. The Committee will also advise the Board on whether, taken as a whole, the Company's financial reporting is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

Work of the Audit Committee

During the financial period, key areas of focus for the Audit Committee included:

- Internal Controls – continued monitoring and review of the Company's system of internal controls, taking account of the findings of both internal and external audit reports.
- Risk Management – monitoring the process for managing ENWL's significant risks, including regular presentations and reporting from the Head of Risk, Control and Assurance. A risk review was also completed by the ENWL Board, feeding in to the work of the Committee.
- Relationship with External Auditors – overseeing the Company's relationship with the external auditors, including recommending reappointment, the scope and approach to their work and their fees.
- Financial Reporting – reviewing the Group's financial statements, including reports from management and from the external auditors regarding compliance with accounting standards, key judgements made in preparation of financial statements and compliance with legal and regulatory requirements.
- Internal Audit Workplan – overseeing the work of internal audit, including approval of the plan of work for the period and resulting actions and recommendations.

With specific regard to the independence and effectiveness of the Company's external auditor, the Audit Committee considers the appointment, reappointment and fees, reviews performance, expertise, objectivity and independence.

The 2013 annual audit was Deloitte LLP's sixth as the Company's external auditor and on completion of the 2012 audit the Company's audit partner was replaced by rotation to ensure continued independence and objectivity.

Due to this audit partner rotation, it was decided at the Committee's January 2013 meeting that it is not necessary to conduct a tender process. The Committee will keep this position under review, mindful of the requirements of Section C.3.8 of the Code to tender for the external audit at least once every ten years. To ensure continued independence, the Audit Committee reviewed:

- Succession planning for the rotation of the audit partner;
- Non audit work provided and compliance with the Company's policy on non-audit work; and
- The auditor's statement of independence and compliance with the APB Revised Ethical Standards for auditors.

To assess the effectiveness, the Committee reviewed:

- The audit plan and scope and the auditor's subsequent performance against the agreed programme;
- Feedback from the business evaluating the performance of the audit team; and
- The proposed audit fee and the required time commitment to ensure it reflects the scope of the proposed audit.

Provision of Non-Audit Services

To ensure external auditor independence and objectivity, the Company has in place a policy for the provision of non-audit services by the external auditor, which is managed by the Audit Committee. The policy defines the nature of non-audit work that may be undertaken in order that auditor independence is maintained. The Committee is required to authorise any work not falling into the permitted categories defined in the policy or falling above a financial limit of £250,000.

Proposed work is reviewed for compliance with regulatory requirements that preclude auditors from performing certain types of work and to assess if the nature of the work would create a conflict of interest. The Committee is updated on the nature, cumulative costs and extent of non-audit services provided by the auditors.

The only significant non-audit services provided by Deloitte LLP in the year were taxation advisory services regarding capital contribution work.

Internal Audit

- All internal audit activity is conducted by a single team under the leadership of the Head of Risk, Control and Assurance. The role has a dual reporting line into the Audit Committee Chairman and the Chief Financial Officer.
- The Risk, Control and Assurance team has responsibility to the Audit Committee for agreement of the annual risk-based audit strategy and plan, providing regular updates on findings and progress against the plan. The audit strategy is subject to robust review each year in order to ensure that the plan addresses key areas of focus for the business.
- A formal quarterly meeting between the Head of Risk, Control and Assurance and the Audit Committee Chair takes place outside of the formal Audit Committee meetings in

order to discuss findings and progress against / adequacy of the annual plan, and ensure sufficient resources are in place.

- The Risk, Control and Assurance team comprises both financial and operational expertise and works closely with related areas of assurance and compliance activity within the business, including legal, health and safety and regulation.
- When issues or control deficiencies are identified during audit engagements, the Risk, Control and Assurance team works with business managers to develop corrective action plans to address the causes of non-compliance and gaps in internal controls. The team employs a rigorous monitoring process to track these plans to completion and report results on a monthly basis to the Executive, and at each Audit Committee meeting.
- To supplement the internal skills required to complete the audit programme, the Group uses external financial and operational professionals, where appropriate, to provide independent assurance of internal control processes in accordance with a pre-defined scope. During the year, Internal Audit has been subject to an external review of how it operates within the Company, including its roles, responsibilities and capabilities in order to be able to benchmark against its comparator group. The review yielded positive results.

In compliance with the Code, the Board regularly and at least annually reviews the effectiveness of the Company's system of internal control. This monitoring covers all controls, including financial, operational, and compliance controls, and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses identified are promptly remedied or managed by more extensive monitoring. Furthermore the Audit Committee have reviewed and approved the adoption of IFRS13 in these financial statements.

The Audit Committee assists the Board in discharging its review responsibilities.

Relationship with shareholders

Electricity North West Limited is a private company and the ultimate holding Company, North West Electricity Networks (Jersey) Limited, has just two major shareholders. Board membership includes four Non-Executive Directors taken proportionately from both the Company's ultimate shareholders. The Board as a whole therefore has a full understanding of the views of the major shareholders of the Company including on strategy and governance.

The Company's relationship with the shareholders as described above is a strong one not requiring a formal AGM as outlined in section E.2 of the Code.

Directors' Report

The Directors present their annual report and the audited financial statements of Electricity North West Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2013.

Business review and principal activities

The principal activity of the Company is the operation and maintenance of the North West's electricity distribution network. The distribution of electricity is regulated by the terms of Electricity North West Limited's ('ENWL's') Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority. The Chief Executive Officer's statement on page 4 and the Business Review on pages 6 to 29 report on the Group's activities during the year and on likely future developments. In addition the Business Review has been compiled to inform the Company's shareholders and help them assess how the Directors have performed their duty to promote the success of the Company under the Companies Act 2006. A summary of key performance indicators can be found on pages 6 and 7. The Directors, in preparing the Business Review, have not sought to comply with the Accounting Standards Board's 2006 Reporting Statement on operating and financial reviews.

Principal risks and uncertainties

Principal risks and uncertainties are discussed on pages 26 to 28.

Dividends

In 2013 the Company paid dividends of £66m (2012: £62m). This figure represents interim payments of £23m paid in June 2012 and £43m paid in December 2012 (2012: This figure represented interim payments of £25m paid in June 2011 and £37m paid in December 2011). The Directors do not propose a final dividend for the year ended 31 March 2013 (2012: same).

On 24 May 2013, the Board of Directors approved an interim dividend for the financial year ending 31 March 2014, of £15m, (3p per share) payable in June 2013.

Directors

The Directors of the Company during the year ended 31 March 2013 are set out below. Directors were appointed for the whole year except where otherwise indicated.

Executive directors

S Johnson

M G McCallion

Non-executive directors

P M White (Chair) (resigned 4 July 2012)

J A Gittins

N P Mills

M A Nagle

C E O'Reilly (resigned 17 September 2012)

M Rogers (appointed 17 September 2012)

S S Toor

Alternate Directors during the year were:

M L Ayre

M A Walters

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 Company's business.

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:

- Management has prepared, and the Directors have reviewed, updated Group forecasts for the remainder of the DPC5 period and at 31 March 2013 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 to key covenants and that sufficient resources are available within the forecast period.
- 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.
- Short-term liquidity requirements are forecast to be met from the Company'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 and 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 2015 indicate there is significant headroom.

Consequently, after making appropriate enquiries, the Directors have a reasonable expectation that the Company has 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 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.

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.

Political and charitable donations

The Group made no political donations in the year (2012: £nil). Charitable donations by the Group in the year amounted to £4,100 (2012: £4,700) in support of causes in the local communities in which it operates.

People

The Company'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 Business Review.

Corporate Social Responsibility

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

Essential contractual relationships

Certain suppliers to the Company contribute key goods or services, the loss of which could cause disruption to the Company's services. However, none are so vital that their loss would affect the viability of the Company as a whole; nor is the business of the Company overly dependent upon any one individual customer.

Policy on the payment of suppliers and creditors

The Company's policy is to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Company seeks to adhere to the payment terms, provided the relevant goods and services have been supplied in accordance with the contracts.

As at 31 March 2013, the average credit period taken for trade purchases was 15 days from receipt of invoice (2012: 20 days).

Research and development

The Company 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 Business Review.

Financial instruments

The risk management objectives and policies of the Company in relation to the use of financial instruments can be found in the Business Review and in note 16 to the financial statements.

Fixed assets

Further details on Property, Plant and Equipment are provided in the Business Review and note 10 to the financial statements.

Capital structure

See note 29 for details of the Company's capital structure.

Statement of Directors' responsibilities

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 company's ability to continue as a going concern.

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

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

Information given to auditor

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

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) the Director has taken all the steps that he ought to have taken as a Director in order to make himself 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 company.

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: 2366949

Approved by the Board on May 2013 and signed on its behalf by:

S Johnson
Director

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

We have audited the financial statements of Electricity North West Limited for the year ended 31 March 2013 which comprise the Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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.

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of Directors' responsibilities, 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.

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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2013 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jane Boardman BSc ACA
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2013

	Note	**Group 2013 £m**	Group 2012 £m
Revenue	*2*	**468.0**	404.6
Employee costs	*3,4*	**(39.3)**	(35.3)
Depreciation and amortisation expense (net)	*3*	**(85.5)**	(81.2)
Retail property provision charge	*18*	**(20.6)**	-
Other operating costs		**(97.2)**	(98.7)
Total operating expenses		**(242.6)**	(215.2)
Operating profit	*3*	**225.4**	189.4
Investment income	*5*	**4.4**	4.4
Finance expense (net)	*6*	**(54.3)**	(138.8)
Profit before taxation		**175.5**	55.0
Taxation	*7*	**(28.5)**	14.7
Profit for the year attributable to equity shareholders	*25*	**147.0**	69.7

The results shown in the consolidated income statement for the current and preceding years are derived from continuing operations.

CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 March 2013*

	Note	Group 2013 £m	Group 2012 £m
Profit for the financial year		**147.0**	69.7
Other comprehensive (expenses)/income			
Actuarial losses on defined benefit pension schemes	*20*	**(113.3)**	(18.6)
Deferred tax on actuarial losses on defined benefit pension schemes taken directly to equity	*21*	**26.0**	4.4
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	*21*	**(0.8)**	(1.2)
Other comprehensive expense for the year		**(88.1)**	(15.4)
Total comprehensive income for the year attributable to equity holders		**58.9**	54.3

	Note	Company 2013 £m	Company 2012 £m
Profit for the financial year		**144.7**	69.7
Other comprehensive (expenses)/income			
Actuarial losses on defined benefit pension schemes	*20*	**(113.3)**	(18.6)
Deferred tax on actuarial losses on defined benefit pension schemes taken directly to equity	*21*	**26.0**	4.4
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	*21*	**(0.8)**	(1.2)
Other comprehensive expense for the year		**(88.1)**	(15.4)
Total comprehensive income for the year attributable to equity holders		**56.6**	54.3

CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF FINANCIAL POSITION

at 31 March 2013

	Note	Group 2013 £m	Company 2013 £m	Group 2012 £m	Company 2012 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	*9*	**29.2**	**29.2**	37.5	37.5
Property, plant and equipment	*10*	**2,559.6**	**2,559.6**	2,430.7	2,433.7
Investments	*11*	**-**	**15.4**	-	15.4
		2,588.8	**2,604.2**	2,468.2	2,486.6
Current assets					
Inventories	*12*	**5.2**	**5.2**	6.8	6.8
Trade and other receivables	*13*	**60.7**	**60.6**	53.7	53.7
Money market deposits	*14*	**-**	**-**	25.0	25.0
Cash and cash equivalents	*14*	**68.5**	**68.5**	59.0	59.0
Current tax asset		**-**	**-**	14.9	14.9
		134.4	**134.3**	159.4	159.4
Total assets		**2,723.2**	**2,738.5**	2,627.6	2,646.0
LIABILITIES					
Current liabilities					
Trade and other payables	*17*	**(139.3)**	**(154.9)**	(151.2)	(166.9)
Derivative financial instruments	*16*	**(31.7)**	**(31.7)**	-	-
Provisions	*18*	**(8.5)**	**(8.5)**	-	-
Current income tax liabilities		**(18.3)**	**(18.3)**	-	-
		(197.8)	**(213.4)**	(151.2)	(166.9)
Net current (liabilities)/assets		**(63.4)**	**(79.1)**	8.2	(7.5)
Non-current liabilities					
Borrowings	*15*	**(1,112.8)**	**(1,112.8)**	(1,087.0)	(1,087.0)
Derivative financial instruments	*16*	**(65.3)**	**(65.3)**	(126.1)	(126.1)
Provisions	*18*	**(11.5)**	**(11.5)**	-	-
Deferred tax	*21*	**(210.1)**	**(210.1)**	(238.0)	(238.7)
Customer contributions	*22*	**(486.5)**	**(486.5)**	(470.3)	(470.3)
Refundable customer deposits	*23*	**(3.1)**	**(3.1)**	(3.4)	(3.4)
Retirement benefit obligations	*20*	**(105.8)**	**(105.8)**	(14.2)	(14.2)
		(1,995.1)	**(1,995.1)**	(1,939.0)	(1,939.7)
Total liabilities		**(2,192.9)**	**(2,208.5)**	(2,090.2)	(2,106.6)
Total net assets		**530.3**	**530.0**	537.4	539.4
EQUITY					
Called up share capital	*24*	**238.4**	**238.4**	238.4	238.4
Share premium account	*25*	**4.4**	**4.4**	4.4	4.4
Revaluation reserve	*25*	**105.7**	**105.7**	107.9	107.9
Capital redemption reserve	*25*	**8.6**	**8.6**	8.6	8.6
Retained earnings	*25*	**173.2**	**172.9**	178.1	180.1
Total equity		**530.3**	**530.0**	537.4	539.4

The financial statements of Electricity North West Limited (registered number 2366949) were approved by the Board of Directors on May 2013 and signed on its behalf by:

S JohnsonDirector

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2013

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 2011	238.4	4.4	109.9	8.6	183.8	545.1
Profit for the year	-	-	-	-	69.7	69.7
Transfer from revaluation reserve	-	-	(2.0)	-	2.0	-
Actuarial losses on defined benefit schemes	-	-	-	-	(18.6)	(18.6)
Tax on components of comprehensive income	-	-	-	-	3.2	3.2
Total comprehensive (expense)/income for the year	**-**	**-**	**(2.0)**	**-**	**56.3**	**54.3**
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
At 31 March 2012	238.4	4.4	107.9	8.6	178.1	537.4
Profit for the year	-	-	-	-	147.0	147.0
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Actuarial losses on defined benefit schemes (note 20)	-	-	-	-	(113.3)	(113.3)
Tax on components of comprehensive income	-	-	-	-	25.2	25.2
Total comprehensive (expense)/income for the year	**-**	**-**	**(2.2)**	**-**	**61.1**	**58.9**
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(66.0)	(66.0)
At 31 March 2013	**238.4**	**4.4**	**105.7**	**8.6**	**173.2**	**530.3**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2013

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 2011	238.4	4.4	109.9	8.6	185.8	547.1
Profit for the year	-	-	-	-	69.7	69.7
Transfer from revaluation reserve	-	-	(2.0)	-	2.0	-
Actuarial losses on defined benefit schemes	-	-	-	-	(18.6)	(18.6)
Tax on components of comprehensive income	-	-	-	-	3.2	3.2
Total comprehensive (expense)/income for the year	**-**	**-**	**(2.0)**	**-**	**56.3**	**54.3**
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
At 31 March 2012	238.4	4.4	107.9	8.6	180.1	539.4
Profit for the year	-	-	-	-	144.7	144.7
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Actuarial losses on defined benefit schemes (note 20)	-	-	-	-	(113.3)	(113.3)
Tax on components of comprehensive income	-	-	-	-	25.2	25.2
Total comprehensive (expenses)/income for the year	**-**	**-**	**(2.2)**	**-**	**58.8**	**56.6**
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(66.0)	(66.0)
At 31 March 2013	**238.4**	**4.4**	**105.7**	**8.6**	**172.9**	**530.0**

CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2013

	Note	Group 2013 £m	Company 2013 £m	Group 2012 £m	Company 2012 £m
Operating activities					
Cash generated from operations	*28*	**289.4**	**289.4**	231.9	231.9
Interest paid		**(47.5)**	**(47.5)**	(46.9)	(46.9)
Tax received/(paid)		**2.1**	**2.1**	(15.2)	(15.2)
Net cash generated from operating activities		**244.0**	**244.0**	169.8	169.8
Investing activities					
Interest received and similar income		**0.7**	**0.7**	1.4	1.4
Purchase of property, plant and equipment		**(212.8)**	**(212.8)**	(222.0)	(222.0)
Purchase of intangible assets		**-**	**-**	(0.8)	(0.8)
Acquisition of subsidiary, deferred consideration		**-**	**-**	(2.0)	(2.0)
Customer contributions received		**28.4**	**28.4**	30.3	30.3
Proceeds from sale of property, plant and equipment		**0.5**	**0.5**	0.6	0.6
Net cash used in investing activities		**(183.2)**	**(183.2)**	(192.5)	(192.5)
Financing activities					
Transfer from money market deposits		**25.0**	**25.0**	15.0	15.0
Receipt on close out of swap		**-**	**-**	1.8	1.8
Accretion payment		**(10.3)**	**(10.3)**	-	-
Dividends paid to equity shareholders of the Company		**(66.0)**	**(66.0)**	(62.0)	(62.0)
Net cash used in financing activities		**(51.3)**	**(51.3)**	(45.2)	(45.2)
Net increase/(decrease) in cash and cash equivalents		**9.5**	**9.5**	(67.9)	(67.9)
Cash and cash equivalents at the beginning of the year	*14*	**59.0**	**59.0**	126.9	126.9
Cash and cash equivalents at the end of the year	*14*	**68.5**	**68.5**	59.0	59.0

Notes to the Financial Statements

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 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:

- Management has prepared, and the Directors have reviewed, updated Group forecasts for the remainder of the DPC5 period (as at 31 March 2013) which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over/under recoveries of allowed revenue, and demonstrate that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period.
- 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.
- The Group and Company have considerable financial resources. Short-term liquidity requirements are forecast to be met from the Company's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, committed undrawn bank facilities are available from lenders of £50m within ENWL and £121.4m in North West Electricity Networks Limited which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions the covenants are not forecast to pose any operational restrictions.

Consequently, after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Group has net current liabilities; however it is part of the North West Electricity Networks (Jersey) Limited Group which is in a net asset position. 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 supporting assumptions or qualifications as necessary, that has been prepared in accordance with ‘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

In the current year the following new and revised standards and interpretations have been adopted and have affected the amounts reported in these financial statements.

IFRS 13, Fair value measurement

These financial statements are the first financial statements in which the company has early adopted IFRS 13 ‘Fair Value Measurement’ in advance of the latest effective date, being annual periods beginning on or after the 1 January 2013. IFRS 13 has been applied prospectively. The Standard defines 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. This change has led to a change in the methodology the Group uses to value its index-linked swaps.

The fair value methodology for derivative financial instruments under IFRS 13 has been amended in the year to take 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. This change in methodology has had an impact in the year of a £109.4m gain on the net finance expense line on the income statement, and correspondingly reducing the amounts shown in the derivative financial instruments line under non-current liabilities on the statement of financial position. The impact of this change in future periods is not disclosed as it is impractical to estimate.

Other Standards

In the current year, the Group also adopted Amendments to IAS 12, ‘Income Taxes’, which had no impact on the amounts reported or the presentation and disclosure in the financial statements. However it may impact the accounting for future transactions and arrangements.

Recently issued accounting pronouncements - International Financial Reporting Standards

At the date of approval of these financial statements, the following relevant standards and interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the EU). The Directors anticipate that the Group will adopt these standards and interpretations at their effective dates:

- IFRS 9, ‘Financial Instruments’;
- IFRS 10, ‘Consolidated Financial Statements’;
- IFRS 11, ‘Joint Arrangements’;
- IFRS 12, ‘Disclosures of Interests in Other Entities’;
- Amendment to IFRS 1, ‘First time adoption’ on government loans;
- Amendment to IFRS 7, ‘Financial Instruments: Disclosures’;
- Amendment to IAS 1, ‘Financial Statement Presentation’ regarding other comprehensive income;
- Amendment to IAS 19, ‘Employee Benefits’;
- Amendment to IAS 32, ‘Financial Instruments: Presentation’ regarding offsetting financial assets and financial liabilities;

Recently issued accounting pronouncements - International Financial Reporting Standards *(continued)*

- IAS 27 (revised 2011), ‘Separate Financial Statements’;
- IAS 28 (revised 2011), ‘Associates and Joint Ventures’;
- Improvements to IFRSs (2012); and
- IFRIC 20, ‘Stripping Costs in the Production Phase of a Surface Mine’.

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group’s financial statements, except as follows:

- Amendment to IAS 19, ‘Employee Benefits’ will impact the measurement of various components representing movements in the defined benefit pension obligation and associated disclosures, but not the company’s total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the period will be reduced and accordingly other comprehensive income increased. Beyond this, it is not practicable to provide a reasonable estimate of the effect of this standard 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 comprises operational structures and other assets (including properties, over ground plant and equipment and electricity operational assets).

Operational structures

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

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

Other assets

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

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

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 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 on initial investment into known amounts of cash within three months and which are subject to an insignificant risk of change in value.

Money market deposits

Money market deposits with terms to maturity in excess of three months are not included as cash or cash equivalents and are separately disclosed on the face of the statement of financial position.

Financial investments

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

Financial assets

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

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

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

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

Financial liabilities and equity

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

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. 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. 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.

Borrowing costs and finance income *(continued)*

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 £0.3m (2012: £0.6m), using an average annual capitalisation rate of 5.4% (2012: 6.9%).

Derivatives and borrowings

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

Embedded derivatives

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

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

The Group is therefore subject to volatility in the income statement due to changes in the fair values of the derivative financial instruments. Further information is provided in note 16 to the financial statements.

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

The Group applied the fair value through profit or loss option 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 and the otherwise inconsistent accounting treatment that would have resulted allowed the Group to satisfy the criteria for this designation.

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 16.

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'.

In the year the Group has elected to adopt IFRS 13 which provides clarity around the methodology for measuring fair value. The Group now 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. This change has lead to a change in the methodology the Group uses to value index-linked swaps.

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

The fair value methodology for derivative financial instruments under IFRS 13 has been amended in the year to take 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. This change in methodology has resulted in financial liabilities for the derivatives being valued £109.4m lower than they would have been had we not elected to adopt IFRS 13. The impact of this change in future periods is not disclosed as it is impractical to estimate.

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. Currently the Group has no formal hedging relationships.

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.

Deferred taxation *(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 2010 and actuarial valuations will be carried out thereafter at intervals of not more than three years. The 31 March 2013 report is being completed and expected to be finalised before 31 March 2014. The pension cost under IAS 19 '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.

The cost of providing pension benefits to employees relating to the current year's service and the difference between the expected return on scheme assets and interest on scheme liabilities are included within the income statement within employee costs.

All actuarial gains and losses are recognised outside the income statement in retained earnings and presented in 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 recognized 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 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.

Revenue recognition *(continued)*

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 receivable 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.

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 2013 was £2,559.6m (2012: £2,430.7m). Additions to PPE, totalled £217.2m (2012: £220.3m) and the depreciation charge was £88.2m (2012: £83.9m) in the year ended 31 March 2013. 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.

Critical accounting policies *(continued)*

Carrying value of long-life assets (continued)

In the financial year ended 31 March 2013, 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 (CGUs). 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 DPC5 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 requires judgements to be made regarding the application of tax law and the results of negotiations with, and enquiries from tax authorities.

Accounting for provisions and contingencies

The Group is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable 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

ENWL 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 the year and ENWL 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 2013 to 2021. The Directors have recognised a provision based on the probable financial exposure, having consulted with both internal and external

Critical accounting policies *(continued)*

Property provision (continued)

property advisors and property management agents. Further information on the judgements involved is provided in note 18 to the financial statements.

Retirement benefits

The pension cost under IAS 19 '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 16 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 ENWSL. 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 £10.1 million 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	2013 £m	2012 £m
Revenue	**468.0**	404.6

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 £345.9m (2012: £306.1m) which arose from sales to the Group's five (2012: five) largest customers. Customer 1 represented £108.4m (2012: £98.2m), Customer 2 £94.4m (2012: £78.7m), Customer 3 £65.3m (2012: £56.3m), Customer 4 £40.3m (2012: £37.8m) and Customer 5 £37.5m (2012: £35.1m) 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	2013 £m	2012 £m
Employee costs		
Employee costs (see note 4)	**39.3**	35.3
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
Owned assets (see note 10)	**88.2**	83.9
Amortisation of intangible assets and customer contributions		
Software (see note 9)	**8.3**	8.3
Customer contributions[1] (see note 22)	**(11.0)**	(11.0)
Depreciation and amortisation expense (net)	**85.5**	81.2
Other income		
Profit on disposal of property, plant and equipment	**(0.6)**	(0.6)
Retail property provision charge (see note 18)	**(20.6)**	-
Other operating costs include:		
Research and development	**2.0**	1.6
Restructuring costs[2]	**-**	1.9
Operating leases:		
- land and buildings	**0.9**	1.3
- hire of plant and machinery	**0.1**	0.1

[1] In the current year £2.6m (2012: £1.9m) of customer contributions amortisation has been amortised through revenue in line with IFRIC 18.

[2] Restructuring costs include severance costs of £nil (2012: £1.9m).

Analysis of the auditor's remuneration is as follows:

	Group 2013 £m	Group 2012 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**0.1**	0.1
Total audit fees	**0.1**	0.1
Audit-related assurance services	**0.1**	0.1
Taxation advisory services	**0.2**	-
Total non-audit fees	**0.3**	0.1
Total fees	**0.4**	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 are required to disclose such fees on a consolidated basis.

4 EMPLOYEE COSTS

	Group 2013 £m	Group 2012 £m
Wages and salaries	**70.9**	70.5
Social security costs	**6.8**	7.0
Pension costs (see note 20)	**12.1**	11.5
Employee costs (including Directors' remuneration)	**89.8**	89.0
Costs transferred directly to fixed assets	**(50.5)**	(53.7)
Charged to operating expenses	**39.3**	35.3

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

	Group 2013 Number	Group 2012 Number
Electricity distribution	**1,622**	1,613

5 INVESTMENT INCOME

	Group 2013 £m	Group 2012 £m
Interest receivable on short-term bank deposits held at amortised cost	**0.7**	1.8
Expected return on pension scheme assets (see note 20)	**52.3**	52.4
Interest cost on pension scheme obligations (see note 20)	**(48.6)**	(49.8)
Net pension interest	**3.7**	2.6
Total investment income	**4.4**	4.4

6 FINANCE EXPENSE

Group	**2013 £m**	2012 £m
Interest payable		
Interest payable on Group borrowings	**17.0**	17.0
Interest payable on borrowings held at amortised cost	**22.4**	22.8
Interest payable on borrowings designated at fair value through profit or loss	**22.2**	22.2

Net receipts on derivatives held for trading	**(13.5)**	(14.1)
Other finance charges related to index-linked bonds	**8.2**	12.3
Capitalisation of borrowing costs under IAS 23	**(0.3)**	(0.6)
Total interest expense	**56.0**	59.6
Movements on financial instruments		
Fair value movement on borrowings designated at fair value through profit or loss	17.1	30.2
Fair value movement on derivatives held for trading	(29.1)	50.8
Accretion payable on index-linked swaps	10.3	-
Cash settlement on close-out of amortising swaps	**-**	(1.8)
Total fair value movements	**(1.7)**	79.2
Total finance expense	**54.3**	138.8

In respect of the movement in the fair value of borrowings designated as at fair value through profit or loss, a £17.1m loss (2012: £30.2m loss),which includes a £6.0m loss (2012: £8.6m gain) is attributable to changes in credit spread assumptions which is partially offset by changes in interest rates and therefore interest payable.

7 TAXATION

	Group 2013 £m	Group 2012 £m
Current tax		
Current Year	**33.1**	12.1
Prior year	**(1.9)**	(9.4)
Deferred tax (see note 21)		
Current year	**10.4**	1.8
Prior year	**(2.3)**	2.1
Impact of change in future tax rates	**(10.8)**	(21.3)
Tax charge/(credit) for the year	**28.5**	(14.7)

Corporation tax is calculated at 24% (2012: 26%) of the estimated assessable profit for the year.

The prior year corporation tax credit arises as a result of changes between the estimated tax position in the prior year statutory financial statements and the final tax computation position due primarily to work done during the year on the optimisation of capital allowance and research and development tax claims. This is partly offset by the prior year deferred tax charge.

The March 2013 Budget announced that the UK corporation tax main rate will further reduce to 21% from April 2014 and to 20% from 1 April 2015. The total deferred tax credit in respect of the change from 24% to a 20% tax rate is expected to be in the region of £40m.

The deferred tax liability at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the statement of financial position date.

7 TAXATION *(continued)*

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

	Group 2013 £m	Group 2012 £m
Profit before tax	**175.5**	55.0
Tax at the UK corporation tax rate of 24% (2012: 26%)	**42.1**	14.3
Prior year tax adjustments	**(4.2)**	(7.3)
Reduction in current year deferred tax due to rate change	**(0.3)**	-
Non taxable expense/(income)	**1.7**	(0.4)
Impact from change in future tax rates	**(10.8)**	(21.3)
Tax charge/(credit) for the year	**28.5**	(14.7)

In addition to the amount charged to the Income Statement, deferred tax relating to actuarial gains on defined benefit schemes of £26.0m credit (2012: £4.4m credit) and deferred tax due to changes in future tax rates of the brought forward deferred tax asset of £0.8m charge (2012: £1.2m charge) were taken to the Statement of Comprehensive Income.

8 DIVIDENDS

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

Group and Company	**2013 £m**	2012 £m
Interim dividends paid during the year ended 31 March 2013 of 13.84 pence per share (31 March 2012: 13.00 pence per share)	**66.0**	62.0

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 liability has been included in the financial statements at 31 March 2013 and 31 March 2012 respectively.

On 24 May 2013, the Board of Directors approved an interim dividend for the financial year ending 31 March 2014, of £15m, (3.15 pence per share) payable in June 2013. This dividend has not been included as a liability in these financial statements.

9 INTANGIBLE ASSETS AND GOODWILL

Group and Company	Goodwill £m	Software £m	Assets under the course of constructio n £m	Total £m
Cost				
At 1 April 2011	10.1	38.0	5.9	54.0
Additions	-	-	0.8	0.8
Reclassification from Tangibles to Intangibles[1]	-	-	15.2	15.2
Transfers	-	18.5	(18.5)	-
Disposals	-	(1.8)	-	(1.8)
At 31 March 2012	10.1	54.7	3.4	68.2
Additions	-	0.1	-	0.1
Transfers	-	3.3	(3.3)	-
Disposals	-	-	(0.1)	(0.1)
At 31 March 2013	**10.1**	**58.1**	**-**	**68.2**
Amortisation				
At 1 April 2011	-	24.2	-	24.2
Charge for the year	-	8.3	-	8.3
Disposals	-	(1.8)	-	(1.8)
At 31 March 2012	-	30.7	-	30.7
Charge for the year	-	8.3	-	8.3
Disposals	-	-	-	-
At 31 March 2013	**-**	**39.0**	**-**	**39.0**
Net book value				
At 31 March 2013	**10.1**	**19.1**	**-**	**29.2**
At 31 March 2012	10.1	24.0	3.4	37.5

[1] The reclassification between tangible and intangible assets was as a result of the large number of ongoing ITRP projects at the last year end. At 31 March 2011, although the total cost was known, the split between tangible and intangibles (hardware and software) was unclear. This split has been determined in prior year and transferred accordingly.

9 INTANGIBLE ASSETS AND GOODWILL *(continued)*

In the Company, Goodwill arose on the transfer of assets and liabilities (the 'hive-up') of ENWSL in 2010. 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 ENWL. The value of the investment was consequently reduced by this same amount.

At 31 March 2013, the Group and Company had entered into no contractual commitments for the acquisition of intangible assets (2012: £nil).

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 7.56% (2012: 7.56%) reflecting an assumed level of risk associated with the cash flows generated from the licence.

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.

10 PROPERTY, PLANT AND EQUIPMENT

Group

	Operational Structures £m	Non operational land and buildings £m	Fixtures, equipment, vehicles and other £m	Assets under the course of construction £m	Total £m
Cost or valuation					
At 1 April 2011	3,080.1	12.8	35.0	208.6	3,336.5
Additions	78.0	0.1	34.5	107.7	220.3
Transfers	92.5	0.1	(12.5)	(80.1)	-
Tangibles to Intangibles[1]	-	-	-	(15.2)	(15.2)
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	3,245.4	13.0	51.3	221.0	3,530.7
Additions	66.8	2.2	3.7	144.5	217.2
Transfers	88.8	0.2	7.1	(96.1)	-
Disposals	(4.9)	-	(1.7)	-	(6.6)
At 31 March 2013	**3,396.1**	**15.4**	**60.4**	**269.4**	**3,741.3**
Depreciation and impairment					
At 1 April 2011	1,003.5	4.0	19.5	-	1,027.0
Charge for the year	74.1	0.4	9.4	-	83.9
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	1,072.4	4.4	23.2	-	1,100.0
Charge for the year	76.0	0.5	11.7	-	88.2
Disposals	(4.9)	-	(1.6)	-	(6.5)
At 31 March 2013	**1,143.5**	**4.9**	**33.3**	-	**1,181.7**
Net book value					
At 31 March 2013	**2,252.6**	**10.5**	**27.1**	**269.4**	**2,559.6**
At 31 March 2012	2,173.0	8.6	28.1	221.0	2,430.7

At 31 March 2013, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £74.7m (2012: £87.9m restated).

[1]See note 9

10 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 2011	3,083.1	12.8	35.0	208.6	3,339.5
Additions	78.0	0.1	34.5	107.7	220.3
Transfers	92.5	0.1	(12.5)	(80.1)	-
Tangible to Intangibles[1]	-	-	-	(15.2)	(15.2)
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	3,248.4	13.0	51.3	221.0	3,533.7
Additions	63.8	2.2	3.7	144.5	214.2
Transfers	88.8	0.2	7.1	(96.1)	-
Disposals	(4.9)	-	(1.7)	-	(6.6)
At 31 March 2013	**3,396.1**	**15.4**	**60.4**	**269.4**	**3,741.3**
Depreciation and Impairment					
At 1 April 2011	1,003.5	4.0	19.5	-	1,027.0
Charge for the year	74.1	0.4	9.4	-	83.9
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	1,072.4	4.4	23.2	-	1,100.0
Charge for the year	76.0	0.5	11.7	-	88.2
Disposals	(4.9)	-	(1.6)	-	(6.5)
At 31 March 2013	**1,143.5**	**4.9**	**33.3**	**-**	**1,181.7**
Net book value					
At 31 March 2013	**2,252.6**	**10.5**	**27.1**	**269.4**	**2,559.6**
At 31 March 2012	2,176.0	8.6	28.1	221.0	2,433.7

At 31 March 2013, 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 approximately £2,424.4m (2012: £2,291.8m). The revaluation surplus is disclosed in note 25, net of deferred tax. The revaluation surplus arose following Norweb's acquisition of North West Water.

11 INVESTMENTS

	Group £m	Company £m
Cost and carrying value		
At 31 March 2012 and 31 March 2013	**-**	**15.4**

Details of the principal investments as at 31 March 2013, all of which were incorporated in the UK, are as follows. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Company

	Description of holding	Proportion held	Nature of business
Subsidiary undertakings			
Electricity North West Services Limited	Ordinary shares of £1 each	100%	Dormant

Group and Company	Description of holding	Proportion held	Nature of business
Associated undertaking			
NorWeb Limited	Ordinary shares of £1 each	50%	Dormant
Joint ventures			
Selectusonline Limited	Ordinary shares of 66.67p each	16.67%	Planning and Procurement

12 INVENTORIES

	Group 2013 £m	Company 2013 £m	Group 2012 £m	Company 2012 £m
Raw materials and consumables	**5.2**	**5.2**	6.8	6.8

13 TRADE AND OTHER RECEIVABLES

	Group 2013 £m	Company 2013 £m	Group 2012 £m	Company 2012 £m
Trade receivables	**6.1**	**6.1**	6.5	6.5
Amounts owed by Group undertakings	**4.3**	**4.3**	0.3	0.3
Prepayments and accrued income	**50.3**	**50.2**	46.9	46.9
Balance at 31 March	**60.7**	**60.6**	53.7	53.7

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.3m (2012: £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 (2012: 14 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Of the Group trade receivables, 31% (2012: 23%) are past due but not impaired. The majority of balances are less than 45 days past due; a balance of £0.5m is greater than 45 days past due at 31 March 2013 (2012: £1.5m), against which an allowance for doubtful debt of £0.3m (2012: £0.4m) has been made.

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

	Group 2013 £m	Company 2013 £m	Group 2012 £m	Company 2012 £m
Opening balance	**0.4**	**0.4**	0.1	0.1
(Credited)/charged to the income statement	**(0.1)**	**(0.1)**	0.3	0.3
Utilised	**-**	**-**	-	-
Closing balance	**0.3**	**0.3**	0.4	0.4

13 TRADE AND OTHER RECEIVABLES *(continued)*

Trade receivables comprise 356 (2012: 488) 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 2013 £2.7m (2012: £2.9m) of cash had been received as security.

The allowed RAV is set by Ofgem for each year of DPC5 (1 April 2010 to 31 March 2015) and is £1,631.0m for the year ended 31 March 2013 based on March closing prices (2012: £1,519.2m).

At 31 March 2013 £91.2m (2012: £97.0m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £10.7m (2012: £9.9m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

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

14 CASH AND CASH EQUIVALENTS AND MONEY MARKET DEPOSITS

Group and Company	2013 £m	2012 £m
Short-term bank deposits including cash at bank and in hand	**68.5**	59.0
Cash and cash equivalents	**68.5**	59.0
Short-term money market deposits (maturity over three months)	**-**	25.0
	68.5	84.0

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

The effective interest rate on all short-term deposits was a weighted average of 0.6% (2012: 1.25%) and these deposits had an average maturity of 7 days (2012: 245 days).

15 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 16.

Group and Company	**2013 £m**	2012 £m
Non-current liabilities		
Bonds	**703.9**	682.8
Bank and other term borrowings	**145.6**	141.2
Amounts owed to parent undertaking	**67.4**	67.4
Amounts owed to affiliated[1] undertaking	**195.9**	195.6
	1,112.8	1,087.0

Carrying value by category

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

Group and Company	Year of maturity	**2013 Carrying value £m**	2012 Carrying value £m
Borrowings designated at fair value through profit or			
8.875% £250m bond	2026	**382.5**	365.4
Borrowings measured at amortised cost			
8.875% £200m bond	2026	**195.7**	195.5
1.4746%+RPI[2] £100m index-linked bond	2046	**125.7**	121.9
1.5911%+RPI[2] £135m index-linked loan	2024	**145.9**	141.5
Amortising costs re: Long term loans at LIBOR plus 0.70%	2017	**(0.3)**	(0.3)
Amounts due to parent undertaking	2015	**67.4**	67.4
Amounts due to affiliated[1] undertaking	2021	**195.9**	195.6
Other financial liabilities held at amortised cost		**730.3**	721.6

[1.] Affiliated companies being those owned by Companies above ENWL 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).

All loans and borrowings are unsecured. There is no formal bank overdraft facility in place between 1 April 2011 and 31 March 2013. All borrowings are in sterling. The fair values of the Group's financial instruments are shown in note 16.

Included within the borrowing note are capitalised facility arrangement fees of £0.3m (2012: £0.3m) relating to the undrawn Revolving Credit Facilities.

Borrowing facilities

The Group and Company had £50m (2012: £55m) in unutilised committed bank facilities at 31 March 2013 of which £nil expires within one year (2012: £nil), £nil expires after one year but less than two years (2012: £5.0m) and £50m expires in more than two years (2012: £50m).

16 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 which the Group is exposed to 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 (RPI) 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, these 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. ENWL’s treasury function, which is authorised to conduct the day-to-day treasury activities of the Group, reports on a regular basis to the Committee. The Group’s processes for managing risk and the methods used to measure risk have not changed since the prior year. In the year, there have been changes to the Group’s policies in relation to the management of credit risk; risk limits and minimum credit ratings of counterparties have been amended to reflect changes to market conditions and the associated level of perceived risks.

Credit risk

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

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

Credit risk *(continued)*

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 2013 was 356 (2012: 488), however there are only five (2012: five) principal customers, see note 2. The creditworthiness 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.

a) 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 2013 there was £1.9m receivables past due (2012: £1.5m) against which an allowance for doubtful debts of £0.3m has been made (2012: £0.4m).

b) 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 both amounts placed on deposit with counterparties and asset interest rate swaps).

As at 31 March 2013 none (2012: 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:

	2013	**2013**	2012	2012
Credit Rating	**£m**	**%**	£m	%
AAA	**43.9**	**52.7**	12.3	13.2
AA	**-**	**-**	-	-
AA-	**-**	**-**	-	-
A+	**14.9**	**17.9**	15.0	16.1
A	**24.4**	**29.4**	65.9	70.7
	83.2	**100.0**	93.2	100.0

The rating profile of counterparties has decreased due to change in market conditions as a result of global economic uncertainty. To combat this, during the year there has been increased investment by the Group into AAA rated liquidity funds.

At the statement of financial position date, no collateral is held in relation to Treasury assets.

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, 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	**2013 Group £m**	**2013 Company £m**	2012 Group £m	2012 Company £m
Trade receivables	**6.1**	**6.1**	6.5	6.5
Cash and cash equivalents	**68.5**	**68.5**	59.0	59.0
Money market deposits (original maturity over three months)	**-**	**-**	25.0	25.0
	74.6	**74.6**	90.5	90.5

Trade receivables and cash and cash equivalents are measured at cost. Derivative financial instruments are measured at fair value in accordance with IAS 39 and IFRS 13.

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 project cash flows out 40 years ahead, and a medium-term view is provided by the five year Group business plan, which is updated and approved annually by the Board. Shorter-term liquidity is monitored via an 18 month liquidity projection and this is reported to the Board. The Board has approved a liquidity framework within which the business operates.

Available liquidity at 31 March was as follows:

Available liquidity	**2013 Group £m**	**2013 Company £m**	2012 Group £m	2012 Company £m
Cash and cash equivalents	**68.5**	**68.5**	59.0	59.0
Money market deposits (original maturity over three months)	**-**	**-**	25.0	25.0
Committed undrawn bank facilities	**50.0**	**50.0**	55.0	55.0
	118.5	**118.5**	139.0	139.0

Liquidity risk *(continued)*

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with maturity of three months or less, net of any bank overdrafts which are payable on demand.

Committed undrawn bank facilities include £nil (2012: £nil) of facilities that expire within one year, £nil (2012: £5.0m) that expires after one year but less than two years and £50.0m (2012: £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.

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

Group and Company At 31 March 2013	**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	**(18.3)**	**-**	**-**	**-**	**-**	**-**	**(18.3)**
Amounts owed to parent undertaking	**-**	**(4.4)**	**(73.0)**	**-**	**-**	**-**	**(77.4)**
Amounts owed to affiliated undertaking	**-**	**(12.3)**	**(12.3)**	**(12.3)**	**(12.3)**	**(255.1)**	**(304.3)**
Bonds	**-**	**(42.0)**	**(41.8)**	**(41.8)**	**(41.8)**	**(993.9)**	**(1,161.3)**
Borrowings and overdrafts	**-**	**(2.3)**	**(2.3)**	**(2.3)**	**(2.3)**	**(162.6)**	**(171.8)**
Derivative financial instruments (net)	**-**	**(25.6)**	**6.2**	**6.2**	**6.2**	**(76.3)**	**(83.3)**
	(18.3)	**(86.6)**	**(123.2)**	**(50.2)**	**(50.2)**	**(1,487.9)**	**(1,816.4)**

Group and Company At 31 March 2012	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	(23.5)	-	-	-	-	-	(23.5)
Amounts owed to parent undertaking	-	(4.4)	(4.4)	(73.0)	-	-	(81.8)
Amounts owed to affiliated undertaking	-	(12.3)	(12.3)	(12.3)	(12.3)	(267.4)	(316.6)
Bonds	-	(41.8)	(41.8)	(41.8)	(41.8)	(1,030.0)	(1,197.2)
Borrowings and overdrafts	-	(2.3)	(2.3)	(2.3)	(2.3)	(159.8)	(169.0)
Derivative financial instruments (net)	-	14.2	(23.6)	7.0	7.0	(33.6)	(29.0)
	(23.5)	(46.6)	(84.4)	(122.4)	(49.4)	(1,490.8)	(1,817.1)

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 (RPI), 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 using risk limits, approved by the Chief Financial Officer or Treasurer under delegated authority. 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.

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

Sensitivity analysis on interest

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

	2013			2012		
	Change in interest rates			Change in interest rates		
	-0.5%	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
	£m	**£m**	**£m**	£m	£m	£m
Debt held at fair value	**(18.2)**	**17.2**	**33.4**	(17.9)	16.8	32.7
Interest rate swaps	**(0.1)**	**0.1**	**0.2**	(0.2)	0.2	0.4
Inflation-linked swaps	**(40.8)**	**35.5**	**66.4**	(35.5)	30.5	56.6
Total fair value movement	**(59.1)**	**52.8**	**100.0**	(53.6)	47.5	89.7

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.

	2013			2012		
	Change in interest rates			Change in interest rates		
	-0.5% £m	**+0.5% £m**	**+1% £m**	-0.5% £m	+0.5% £m	+1% £m
Interest rate swaps	**-**	**-**	**-**	-	-	0.1
Total finance expense impact	**-**	**-**	**-**	-	-	0.1

Throughout the year to 31 March 2013, the Group had no floating rate borrowings or derivatives that are exposed to a risk of change in cash flows due to changes in interest rates.

Although the above measures provide an indication of the Group's exposure to market risk, such measures are limited in that historical data is not necessarily a good guide to future events, and the exposures are calculated on static statement of financial position balances, with future changes in the structure of the statement of financial position ignored.

Index-linked debt is carried at amortised cost and as such the statement of financial position in relation to this debt is not exposed to movements in interest rates.

Inflation risk

The Group's revenues are linked to movements in inflation, as measured by the Retail Prices Index (RPI). To economically hedge exposure to RPI, ENWL 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 arising from a risk of change of future cash flows due to changes in inflation rates. The Company's revenues are also 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.

	2013			2012		
	Change in inflation rates			Change in inflation rates		
	-0.5%	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
	£m	**£m**	**£m**	£m	£m	£m
Inflation-linked swaps	**45.9**	**(50.9)**	**(107.4)**	37.1	(41.5)	(87.8)
Total fair value movement	**45.9**	**(50.9)**	**(107.4)**	37.1	(41.5)	(87.8)

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 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.

	2013			2012		
	Change in inflation rates			Change in inflation rates		
	-0.5%	**+0.5%**	**+1%**	-0.5%	+0.5%	+1%
	£m	**£m**	**£m**	£m	£m	£m
Debt held at amortised cost – inflation-linked interest basis	**1.4**	**(1.4)**	**(2.8)**	1.3	(1.3)	(2.7)
Inflation-linked swaps	**-**	**-**	**-**	-	-	(0.1)
Total finance expense impact	**1.4**	**(1.4)**	**(2.8)**	1.3	(1.3)	(2.8)

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 2013, the

Group's derivatives are not designated in formal hedging relationships (2012: none), and instead are measured at fair value through the income statement.
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 light of the adoption of IFRS 13 in the year, the rates used to discount these cash flows have been adjusted for the non-performance risk of either the Company or the counterparty where appropriate. The non-performance risk has been calculated by reference to the most recent comparable transactions and market-corroborated data adjusted for market and Company specific events subsequent to the transactions. The adjustment for non-performance risk of the Company as at 31 March 2013 is £109.4m (2012: £nil).

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.

All of the fair value measurements recognised in the statement of financial position for the Group and Company occur on a recurring basis.

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

Fair values

		2013		2012
Group and Company	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Non-current assets	-	-	-	-
Current assets				
Trade receivables	**6.1**	**6.1**	6.5	6.5
Cash and cash equivalents	**68.5**	**68.5**	59.0	59.0
Money market deposits (original maturity over three months)	**-**	**-**	25.0	25.0
	74.6	**74.6**	90.5	90.5

Group and Company	2013 Carrying value £m	2013 Fair value £m	2012 Carrying value £m	2012 Fair value £m
Non-current liabilities				
Borrowings designated at FVTPL	**(382.5)**	**(382.5)**	(365.4)	(365.4)
Borrowings measured at amortised cost	**(467.0)**	**(577.3)**	(458.6)	(555.4)
Amounts due to parent undertaking	**(67.4)**	**(67.4)**	(67.4)	(67.4)
Amounts due to affiliated companies	**(195.9)**	**(244.2)**	(195.6)	(234.9)
Derivative financial instruments	**(65.3)**	**(65.3)**	(126.1)	(126.1)
Current liabilities				
Trade and other payables	**(18.3)**	**(18.3)**	(23.5)	(23.5)
Derivative financial instruments	**(31.7)**	**(31.7)**	-	-
	(1,228.1)	**(1,386.7)**	(1,236.6)	(1,372.7)

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 2013 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	-	-	-
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(97.0)	-	(97.0)
Financial liabilities designated at FVTPL	(382.5)	-	-	(382.5)
	(382.5)	(97.0)	-	(479.5)

31 March 2012 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	-	-	-
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(126.1)	-	(126.1)
Financial liabilities designated at FVTPL	(365.4)	-	-	(365.4)
	(365.4)	(126.1)	-	(491.5)

There were no transfers between levels during the current year (2012: same).

17 TRADE AND OTHER PAYABLES

	Group 2013 £m	**Company 2013 £m**	Group 2012 £m	Company 2012 £m
Trade payables	**18.3**	**18.3**	23.5	23.5
Amounts owed to group	**3.6**	**3.6**	15.6	15.6
Amounts owed to subsidiary undertakings	**-**	**15.4**	-	15.4
Other taxation and social security	**11.1**	**11.1**	6.7	6.7
Customer contributions (see note 22)	**28.2**	**28.2**	28.9	28.9
Refundable customer deposits (see note 23)	**-**	**-**	0.4	0.4
Accruals and deferred income	**78.1**	**78.3**	76.1	76.4
	139.3	**154.9**	151.2	166.9

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 15 days from receipt of invoice (2012: 20 days).

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

18 PROVISIONS

	Group Other £m	**Company Other £m**
At 1 April 2012	-	-
Transfer from accruals	2.0	2.0
Additional provision in the year	21.9	21.9
Release to the income statement on re-estimate of liability	(1.3)	(1.3)
Utilisation of provision	(2.6)	(2.6)
At 31 March 2013	**20.0**	**20.0**

	Group and Company Other	Group and Company Other
	2013	2012
	£m	£m
Current	**8.5**	-
Non current	**11.5**	-
At 31 March	**20.0**	-

During the year, an amount of £2.0m in relation to onerous lease commitments on 4 retail properties was reclassified from accruals to provisions to better reflect the nature of the liabilities. This amount reflects the directors' best estimates of the liabilities arising from these leases, and takes account of the directors' expectations that the lease costs arising will be borne by the Group until the leases terminate (hence the amount represents a 100% provision).

Additionally during the year, a provision of £21.9m was created in relation to onerous leases in respect of a portfolio of retail property units that had previously been assigned to a third party. During the year, the third party entered administration and ENWL has become liable under privity of contract for the costs associated with these leases. On initial recognition of the provision, the total portfolio comprised 39 leases, of which:

- On 31 leases, the likelihood of some obligations under the leases becoming payable by ENWL, or the leases being terminated or assigned for a fee, was considered probable and hence a provision has been recorded to reflect management's best estimate of the likely amounts payable, on a discounted basis; and
- On 8 leases, the likelihood of the obligations becoming payable by ENWL was considered remote and hence no amounts were provided. This continues to be the case in respect of these 8 leases and hence no provision or disclosure has been made at 31 March 2013 in respect of these leases.

The provision recorded on the 31 leases was originally £21.9m; since its initial recording, £2.6m of the provision has been utilised. The remaining provision has also subsequently been re-estimated, resulting in a release to the income statement of £1.3m, and a carried forward provision at 31 March 2013 of £18.0m in relation to 25 leases.

18 PROVISIONS *(continued)*

The £18.0m provision on the 25 leases that are still considered probable of giving rise to liabilities has been evaluated by management, supported by relevant external legal and property specialists, and reflects the best estimate as at the statement of financial position date of the amounts that will 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 both the 4 onerous leases and the 25 other retail properties is forecast to peak at approximately £8.5m in 2013/14 with the remaining outflows falling over the period to 2021. The maximum potential exposure in relation to this combined portfolio, on a discounted basis, is £54.4m, profiled over an 8 year period from 2013 to 2021 (total undiscounted exposure of £66.4m).

19 DIRECTORS' REMUNERATION

	2013 **£m**	2012 £m
Salaries	**0.6**	0.7
Accrued bonus	**0.7**	0.6
Pension	**0.1**	0.1
	1.4	1.4

The aggregate emoluments of the Directors in 2013 amounted to £1,375,046 (2012: £1,433,746). Emoluments comprise salaries, fees, taxable benefits and the value of short-term and long-term incentive awards. Amounts payable under long-term incentive awards are not payable until June 2015 and are dependent upon a combination of both financial performance and comparative performance, as assessed by Ofgem, over the DPC5 period. The emoluments of the highest paid Director in 2013 in respect of services to the Group amounted to £774,941 (2012: £757,933). Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 27.

Mr M McCallion is a former member of the United Utilities Pension Scheme and a member of, and contributed to, a defined benefit section of the ENW Electricity Supply Pension Scheme ('ENW ESPS'), which provides an entitlement, on normal retirement of age 65, equal to 1/60th of pensionable earnings for each complete year of service. Mr S Johnson is a member of the defined contribution section of the ENW ESPS scheme.

The pension contributions for the highest paid Director for 31 March 2013 were £nil (2012: £36,013). The accrued pension at 31 March 2013 for the highest paid Director was £nil (2012: £nil).

As at 31 March 2013 the Directors have no interests in the ordinary shares of the Company.

20 RETIREMENT BENEFIT SCHEMES

Group and Company

The Group's defined benefit arrangement is the ENW 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 ENWL 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 defined benefit section of the scheme was closed to all new entrants on 1 September 2006. New employees of the Group are instead provided with access to a defined contribution section of the Scheme. The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2013 was £1.6m (2012: £1.3m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2013 contributions of £0.1m (2012: £0.1m) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

During the year the Group made contributions of £28.5m (2012: £53.3m) to the defined benefit section of the Scheme. The prior year's contribution included the advance payment of the April 2013 to March 2015 deficit contributions paid by the Group on 30 March 2012.

The Group estimates that contributions for the year ending 31 March 2014 will amount to around £11m. The total defined benefit pension expense for the year was £6.8m (2012: £7.6m). Information about the pension arrangements for the Executive Directors is contained in note 19.

As at 31 March 2013 contributions of £2.4m (2012: £3.3m) due in respect of the current reporting period had not been paid over to the defined benefit Scheme.

The last actuarial valuation of the Scheme was carried out as at 31 March 2010. The 31 March 2013 report is being finalised and is expected to be finalised before 31 March 2014. The valuation has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2013. 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 of £105.8m is included in the statement of financial position at 31 March 2013 (2012: £14.2m).

In January 2012 a bulk transfer amount of £4.9m was received into the ENW Group section of the Electricity Supply Pension Scheme ("ESPS") in respect of the transfer of pension liabilities from the United Utilities Pension Scheme and the United Utilities Group Plc section of the ESPS. These pension liabilities related to the transfer of employees into the ENW Group section following the purchase of Electricity North West (Construction and Maintenance) Limited from United Utilities PLC in the prior year. On 1 April 2012 a bulk transfer amount of £2.1m was received into the ENW Group section of the Electricity Supply Pension Scheme ("ESPS") in respect of the transfer of pension liabilities from the Vertex pension scheme.

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

	2013 **%**	2012 %
Discount rate	**4.1**	5.1
Expected return on assets	**5.2**	5.6
Pensionable salary increases	**3.9**	3.9
Pension increases	**3.4**	3.3
Price inflation	**3.4**	3.3

20 RETIREMENT BENEFIT SCHEMES *(continued)*

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 2012). A long term improvement rate of 1.25% p.a. is assumed (2012: 1.25% p.a.). These factors have been taken into account in the calculation of the defined benefit obligations of the Scheme.

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	**2013 Years**	2012 Years
Retired member	**26.5**	26.4
Non-retired member	**28.0**	27.9

In valuing the liabilities of the Scheme at 31 March 2013 mortality assumptions have been made as indicated above. If the life expectancy had been changed to assume that all members of the Fund lived for one year longer, the value of the reported liabilities at 31 March 2013 would have increased by approximately £32m before deferred tax.

As at 31 March 2013, the Scheme's assets and liabilities recognised in the statement of financial position were as follows:

	Scheme assets at 31 March 2013	**Value at 31 March 2013**	Scheme assets at 31 March 2012	Value at 31 March 2012
	%	**£m**	%	£m
Equities	**48.1**	**510.2**	45.5	435.8
Gilts	**10.8**	**114.2**	10.4	100.0
Bonds	**33.4**	**354.3**	34.0	326.1
Property	**7.4**	**78.6**	6.9	66.2
Cash	**0.1**	**1.4**	0.6	5.9
Net current assets	**0.2**	**2.4**	2.6	24.7
Total fair value of assets	**100**	**1,061.1**	100.0	958.7
Present value of liabilities	**-**	**(1,166.9)**	-	(972.9)
Net retirement benefit obligation		**(105.8)**		(14.2)

To develop the expected long-term rate of return on assets assumption, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on the Scheme assets was £122.7m gain (2012: £62.5m). None of the pension scheme assets are held in the Group's own financial instruments or any other assets used by the Group.

20 RETIREMENT BENEFIT SCHEMES *(continued)*

Movements in the present value of the Group's defined benefit obligations are as follows:

	2013	2012
	£m	£m
At 1 April	**(972.9)**	(925.1)
Current service cost	**(9.9)**	(9.9)
Interest cost on Scheme obligations	**(48.6)**	(49.8)

	2013	2012
	£m	£m
Member contributions	**(2.2)**	(2.1)
Augmentation	**(0.6)**	(1.0)
Actuarial losses – assumptions	**(183.7)**	(28.7)
Benefits paid	**53.1**	51.2
Bulk transfers	**(2.1)**	(7.5)
At 31 March	**(1,166.9)**	(972.9)

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

	2013	2012
	£m	£m
At 1 April	**958.7**	883.8
Expected return on Scheme assets	**52.3**	52.4
Actuarial gains	**70.4**	10.1
Company contributions	**28.5**	53.3
Member contributions	**2.2**	2.1
Benefits paid	**(53.1)**	(51.2)
Bulk transfers	**2.1**	8.2
At 31 March	**1,061.1**	958.7

The net pension expense before taxation recognised in the income statement, before capitalisation, in respect of the defined benefit Scheme is summarised as follows:

	2013	2012
	£m	£m
Current service cost	**(9.9)**	(9.9)
Past service cost[3]	**(0.6)**	(0.3)
Expected return on Scheme assets	**52.3**	52.4
Interest cost on Scheme obligations	**(48.6)**	(49.8)
Net pension expense before taxation	**(6.8)**	(7.6)

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

20 RETIREMENT BENEFIT SCHEMES *(continued)*

The reconciliation of the opening and closing statement of financial position is as follows:

	2013	2012
	£m	£m
At 1 April	**(14.2)**	(41.3)
Expense recognised in the income statement	**(6.8)**	(7.6)

[3] For the year ended 31 March 2013, the Past Service Cost includes £0.6m in respect of augmentations. For the year ending 31 March 2012, the Past Service Cost includes £1m in respect of augmentations and (£0.7m) due to the difference between the assets received and the increase in liabilities in respect of the bulk transfers received on 12 January 2012.

	2013 **£m**	2012 £m
Contributions paid	**28.5**	53.3
Actuarial losses gross of taxation	**(113.3)**	(18.6)
At 31 March	**(105.8)**	(14.2)

Actuarial gains and losses are recognised in other comprehensive income. At 31 March 2013, a cumulative gain of £67.2m (2012: £180.5m) had been recorded directly in other comprehensive income.

The history of the Scheme for the current and prior years is as follows:

	2013 **£m**	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligation	**(1,166.9)**	(972.9)	(925.1)	(984.1)	(728.0)
Fair value of Scheme assets	**1,061.1**	958.7	883.8	841.3	700.5
Net retirement benefit obligation	**(105.8)**	(14.2)	(41.3)	(142.8)	(27.5)
Experience adjustments on Scheme liabilities	**-**	-	27.1	-	0.8
Experience adjustments on Scheme assets	**70.4**	10.1	4.4	-	(152.5)

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 2011	285.7	(10.7)	(16.4)	258.6
(Credited)/charged to the income statement	(19.3)	10.5	(8.6)	(17.4)
Deferred tax on actuarial loss on defined benefit pension schemes	-	(4.4)	-	(4.4)
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	1.2	-	1.2
At 1 April 2012	266.4	(3.4)	(25.0)	238.0
(Credited)/charged to the income statement	(13.1)	4.2	6.2	(2.7)
Deferred tax on actuarial loss on defined benefit pension schemes	-	(26.0)	-	(26.0)
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	0.8	-	0.8
At 31 March 2013	**253.3**	**(24.4)**	**(18.8)**	**210.1**

Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2011	286.4	(10.7)	(16.1)	259.6
(Credited)/charged to the income statement	(19.4)	10.5	(8.8)	(17.7)
Deferred tax on actuarial loss on defined benefit pension schemes	-	(4.4)	-	(4.4)
Adjustment due to change in future tax rates of brought forward	-	1.2	-	1.2
At 1 April 2012	267.0	(3.4)	(24.9)	238.7
(Credited)/charged to the income statement	(13.8)	4.2	6.2	(3.4)
Deferred tax on actuarial loss on defined benefit pension schemes	-	(26.0)	-	(26.0)
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	0.8	-	0.8
At 31 March 2013	**253.2**	**(24.4)**	**(18.7)**	**210.1**

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

Other deferred tax relates primarily to derivative financial instruments.

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 lifetime of the relevant asset.

Group and Company	**£m**
At 1 April 2011	477.5
Additions during the year	34.6
Amortisation	(12.9)
At 1 April 2012	499.2
Additions during the year	29.1
Amortisation	(13.6)
At 31 March 2013	**514.7**

	2013 £m	2012 £m
Amounts due in less than one year (see note 17)	**28.2**	28.9
Amounts due after more than one year	**486.5**	470.3
	514.7	499.2

23 REFUNDABLE CUSTOMER DEPOSITS

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

Group and Company	**2013 £m**	2012 £m
Amounts due in less than one year (see note 17)	**-**	0.4
Amounts due after more than one year	**3.1**	3.4
	3.1	3.8

24 SHARE CAPITAL

	2013	2012
	£	£
Authorised:		
569,999,996 (2012: 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

	2013	2012
	£	£
Allotted, called up and fully paid:		
476,821,341 (2012: 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 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 2012	238.4	4.4	107.9	8.6	178.1	537.4
Profit for the year	-	-	-	-	147.0	147.0
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Actuarial loss on defined benefit schemes	-	-	-	-	(113.3)	(113.3)
Tax on components of comprehensive income	-	-	-	-	25.2	25.2
Total comprehensive (expense)/income for the year	**-**	**-**	**(2.2)**	**-**	**61.1**	**58.9**
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(66.0)	(66.0)
At 31 March 2013	**238.4**	**4.4**	**105.7**	**8.6**	**173.2**	**530.3**

In 1997 the Company undertook a revaluation of certain assets, following Norweb's acquisition of North West Water. 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.

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

25 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 2012	238.4	4.4	107.9	8.6	180.1	539.4
Profit for the year	-	-	-	-	144.7	144.7
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Actuarial losses on defined benefit schemes	-	-	-	-	(113.3)	(113.3)
Tax on components of comprehensive income	-	-	-	-	25.2	25.2
Total comprehensive income for the year	**-**	**-**	**(2.2)**	**-**	**58.8**	**56.6**
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(66.0)	(66.0)
At 31 March 2013	**238.4**	**4.4**	**105.7**	**8.6**	**172.9**	**530.0**

The profit after tax for the parent Company for the year ended 31 March 2013 was £144.7m (2012: £69.7m) and the income for the year was £468.0m (2012: £404.6m). As permitted by s408 of the Companies Act 2006, the Company has not presented its own income statement.

26 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 2013 £m	**Plant and machinery 2013 £m**	Re-stated Land and buildings 2012 £m	Re-stated Plant and machinery 2012 £m
Within one year	**-**	**-**	0.1	-
In the second to fifth years inclusive	**0.2**	**-**	1.7	-
After five years	**6.2**	**3.1**	5.6	3.4
	6.4	**3.1**	7.4	3.4

27 RELATED PARTY TRANSACTIONS

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

	Group 2013 £m	**Company 2013 £m**	Group 2012 £m	Company 2012 £m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Ltd	**0.9**	**0.9**	0.4	0.4
Executive Directors' remuneration (note 19)	**1.4**	**1.4**	1.4	1.4
Directors' services	**0.2**	**0.2**	0.2	0.2
Interest payable to North West Electricity Networks Ltd	**4.4**	**4.4**	4.4	4.4
Interest payable to ENW Finance plc	**12.4**	**12.4**	12.4	12.4
Dividends paid to North West Electricity Networks Ltd	**66.0**	**66.0**	62.0	62.0

Amounts outstanding with related parties are as follows:

	Group 2013 £m	**Company 2013 £m**	Group 2012 £m	Company 2012 £m
Amounts owed to related parties				
Group tax relief to North West Electricity Networks Ltd	**10.4**	**10.4**	11.9	11.9
Group tax relief to North West Electricity Networks (Holdings) Ltd	**1.9**	**1.9**	-	-
Interest payable to North West Electricity Networks Ltd	**1.2**	**1.2**	1.3	1.3
Interest payable to ENW Finance plc	**2.4**	**2.4**	2.4	2.4
Amounts owed to Electricity North West (Construction and Maintenance) Ltd	**0.2**	**0.2**	-	-
Amounts owed to Electricity North West Services Limited	**-**	**15.4**	-	15.4
Borrowings from North West Electricity Networks Ltd	**67.4**	**67.4**	67.4	67.4
Borrowings from ENW Finance plc	**198.5**	**198.5**	195.6	195.6
Amounts owed by related parties				
Amounts owed by North West Electricity Networks Ltd	**3.6**	**3.6**	3.7	3.7
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	**0.5**	**0.5**	0.3	0.3
Amounts owed by North West Electricity Networks (Holdings) Ltd	**0.2**	**0.2**	-	-

The loan from North West Electricity Networks Ltd accrues interest at 6.5% (2012: 6.5%) and is repayable in March 2015. The loan from ENW Finance plc accrues interest at 6.125% (2012: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2012: £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 30.

Fees of £0.1m (2012: £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 30.

27 RELATED PARTY TRANSACTIONS *(continued)*

Directors' remuneration is as follows:	**Group 2013 £m**	**Company 2013 £m**	Group 2012 £m	Company 2012 £m
Short-term employee benefits	**1.0**	**1.0**	1.0	1.0
Post-employment benefits	**0.1**	**0.1**	0.1	0.1
Other long-term employee benefits	**0.3**	**0.3**	0.3	0.3
	1.4	**1.4**	1.4	1.4

28 CASH GENERATED FROM OPERATIONS

	Group 2013 £m	**Company 2013 £m**	Group 2012 £m	Company 2012 £m
Operating profit	**225.4**	**222.4**	189.4	189.4
Adjustments for:				
Depreciation of property, plant and equipment	**88.2**	**88.2**	83.9	83.9
Amortisation of intangible assets	**8.3**	**8.3**	8.3	8.3
Amortisation of customer contributions	**(13.6)**	**(13.6)**	(12.9)	(12.9)
Profit on disposal of property, plant and equipment	**(0.6)**	**(0.6)**	(0.6)	(0.6)
Cash contributions in excess of pension charge to operating profit	**(18.0)**	**(18.0)**	(43.1)	(43.1)
Operating cash flows before movements in working capital	**289.7**	**286.7**	225.0	225.0
Changes in working capital				
Decrease/(increase) in inventories	**1.6**	**1.6**	(1.2)	(1.2)
(Increase)/decrease in trade and other receivables	**(7.0)**	**(7.0)**	25.7	25.7
Increase/(decrease) in payables	**5.1**	**8.1**	(17.6)	(17.6)
Cash generated from operations	**289.4**	**289.4**	231.9	231.9

29 CAPITAL STRUCTURE

Details of the authorised and allotted share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 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 nor 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 30 to 40.

30 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is North West Electricity Networks Limited, 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 external 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 incorporated in Jersey.

First State Investments Fund Management S.à.r.l. on behalf of First State European Diversified Infrastructure Fund FCP-SIF ('EDIF') and IIF Int'l Holding GP Ltd ('IIF') have been identified as ultimate controlling parties 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 (LCNF/ future networks project)
CML	Customer Minutes Lost
CSR	Corporate Social Responsibility
DECC	Department of Energy and Climate Change
DNO	Distribution Network Operator
DPC4	Distribution Price Control 4, 2005-2010
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
GEMA	Gas and Electricity Markets Authority
GSoP	Guaranteed Standard of Performance
HI	Health Indices
HV/LV/EHV	High Voltage / Low Voltage/Extra High Voltage
ICP	Independent Connections Provider
IDNO	Independent Distribution Network Operator
IET	Institute of Engineering and Technology
IFI	Innovation Funding Incentive
IFRS	International Financial Reporting Standard
kV	Kilo Volts
kVA	Kilo Volts Ampere
LCC	Lancashire County Council
LCNF	Low Carbon Network Fund
LI	Load Indices
LRRM	Losses Rolling Retention Mechanism
MAG	Manchester Airport Group
NGT	National Grid Transmission
NTR	Non Trading Rechargeable
Ofgem	Office of Gas and Electricity Markets
PPE	Property, Plant and Equipment
RAV	Regulatory Asset Value
RCF	Revolving Credit Facility
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
RIIO – GD1	Revenue using Incentives to deliver Innovation and Outputs – Gas Distribution 1
RIIO – T1	Revenue using Incentives to deliver Innovation and Outputs – Transmission 1
RMS	Relevant Market Segment
RPI	Retail Price Index

TfGM	Transport for Greater Manchester
UUES	United Utilities Electricity Services Limited