

Electricity North West Limited (the “Company”) is pleased to announce its Annual Financial Report for the year ended 31 March 2014.

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 2014

Introduction

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

We are pleased to present our Annual Report and Consolidated Financial Statements to shareholders for the year ended 31 March 2014. Further information on our Company can also be found by visiting our website: www.enwl.co.uk.

Notice regarding limitations on Directors’ Liability under English Law

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

Strategic Report

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

Cautionary statement regarding forward-looking statements

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

Regulatory reporting and regulatory audits for the year ended 31 March 2014

Certain regulatory performance data contained in this Annual Report remains subject to regulatory audit by Ofgem. The final regulatory reporting pack and regulatory financial statements for the year ended 31 March 2014 are not due for submission to Ofgem until July 2014, and will be reviewed by Ofgem thereafter.

Website and Investor Relations

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

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Chairman's Statement

I am pleased to present the results for the year ended 31 March 2014. The Group has continued to demonstrate strong financial and operational performance at a critical time of investment in the power network as we work to deliver a reliable, sustainable and affordable network for people and businesses across the region.

I am delighted to have joined the Company as Chairman on 3 March 2014. I would like to thank Mike Nagle for his excellent work as Acting Chairman since July 2012.

I look forward to working with the Board and Executive Leadership Team at this exciting and challenging time as we enter the final year of the current price review period, whilst also preparing for the start of a new, eight year, regulatory period.

The Board

I would like to take the opportunity to thank my Board colleagues for their contributions to its effective operation throughout the year. We continue to refresh and strengthen the Board membership, both to meet the requirements of good corporate governance and of our regulator, Ofgem, maintaining a strong balance of skills, knowledge and experience to drive the Group forward.

I would like to welcome Mark Walters, who joined the Board as a Non-Executive Director in March 2014, and Chris Dowling, an additional independent Non-Executive Director who joined in May 2014. The recruitment process for a Chief Financial Officer is ongoing and I would like to thank David Brocksom for his continued contribution as Interim CFO.

Strategic Report and Governance Reporting

The year has seen a number of changes in the corporate governance landscape, including the introduction of the Strategic Report in line with the Companies Act 2006. The Strategic Report includes a review of

the Group's Business Model, performance for the year and its position at the year end and a review of the principal risks and uncertainties.

We have kept our governance under review this year to ensure we keep pace with these changes, embracing best practice where applicable despite our more limited obligations as a privately owned company. For example, we have included additional disclosure on gender diversity and greenhouse gas emissions, mandatory for listed companies, within the Strategic Report.

Employees

Finally, I would like to thank the Executive Leadership Team and all employees for their hard work and commitment in delivering this year's financial and operational results. In particular I would like to thank those members of staff and our contractors who worked tirelessly, and in sometimes dreadful weather, to maintain or restore power to homes and businesses in the North West. With the continued drive and determination of our staff, we can continue to deliver for our customers and our communities, and develop a reliable network to meet their growing needs.

Dr John Roberts CBE
Chairman

Chief Executive Officer's Statement

We continue our focus on delivering reliability and affordability to our customers in a safe and sustainable manner, and in the context of delivering improved customer service. I am pleased to report that, with one exception, we have had another good year.

We have improved our customer experience, with the two principle measures of network reliability, Customer Interruptions and Customer Minutes Lost, both reflecting the increasing reliability of our network. Supporting the improvement in reliability, 2013/14 saw us invest £147m of capital spend on our network and operational IT systems, our largest ever annual total.

Safety, of both the public and our own employees and contractors, continues to be the top priority in all our endeavours. This can only be reinforced by the tragic loss of John Flowers in a workplace accident. John was a widely respected member of our team and he was a devoted family man who will be missed by his family, his friends and his colleagues. We continue, and have reinforced, our focus on safety behaviours and investment in safety across our business and network. As a result of this focus, lost time accidents have continued to fall to 7 in 2013/14, down from 10 in 2012/13.

Our Well Justified Business Plan

From a corporate point of view, the year has been dominated by two themes; preparation for the 2015-23 regulatory price review (RIIO-ED1) and an increased public scrutiny from the media and Government.

During the year we submitted our business plan for the next regulatory period to Ofgem. Our Well Justified Business Plan was the result of three years of dialogue with our customers and other stakeholders and set out our proposed commitments for the period 2015 to 2023, acting on the feedback we received. We have developed a plan which offers an exceptional

combination of network performance, customer service and value-for-money.

Our initial plan narrowly missed selection for "fast track" by Ofgem, failing marginally on one of the five measures. We therefore submitted a second plan in March 2014 focusing on further cost efficiencies and additional justification of our proposed efficient costs. Feedback on our second submission is expected in July 2014.

Increased Public Focus

The impact of the major storms throughout the country during the year, most notably over the Christmas period, has led to increased media and political focus on the electricity companies in general. Given that the reliance on electricity by consumers will only increase as we move into a lower carbon age, this focus will continue. We understand the inconvenience and distress that occurs where people are off-supply, and strive to reinstate the network as quickly as possible. There will always be constraints, not least the safety of our staff and contractors who often go out in very difficult conditions to restore power.

Similarly, we understand the need to improve the information that we supply to customers, both in normal and in storm conditions, and the frustrations that result from the uncertainties in not knowing how long restoration of power will take. We are very focussed on providing more and better information to customers.

Outlook

Operationally, the past year has been focused around getting the business ready for RIIO. The new price review period will be extremely challenging for all DNOs, demanding a better service for customers at a reduced cost. Over the past few years, we have been getting the business ready to meet these challenges. We now have a wide range of initiatives in place and discuss these further in the Strategic Report. Not only does this involve completion of our £1.4 billion investment programme for the current regulatory

period, but involves significant change programmes and new IT investment aimed at improving our efficiency and reducing costs for consumers. Through the enthusiasm and support of our employees I am confident that we will be ready for the challenge of RIIO.

Steve Johnson

Chief Executive Officer

Strategic Report

Company Background

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



We own and operate a safe, reliable and efficient network of pylons, poles, cables, transformers and switchgear. We charge electricity supply companies for the use of our network and they in turn pass on these costs to their customers. Our costs account for around 16% of a typical annual domestic electricity bill, or £105 per annum in 2013/14 (2012/13: £93).

The electricity industry and our role in it

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

- (i) The **generation** companies produce electricity from a variety of sources such as coal and gas power stations and wind turbines.
- (ii) The **transmission** companies own and operate the extra high voltage network which links the major power stations to the distribution networks and transport electricity in bulk across the country. National Grid Electricity Transmission is responsible for the transmission network in England and Wales.

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

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

Our regulatory environment

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

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

Ofgem regulates our charges to electricity supply companies through a price control framework. We are currently entering the final year of the fifth price control period since privatisation (DPC5): this covers the period 2010 to 2015. In 2015 the regulatory framework will change to make way for RII0-ED1, a new eight-year regulatory mechanism. RII0-ED1 is the first electricity distribution price control to reflect the new RII0 (Revenue = Incentives + Innovation + Outputs) model for network regulation. RII0-ED1 will link our revenue to our outputs delivered, using incentives and innovation to ensure even better value for our customers now and in the future. The RII0-ED1 price review determines how much we can charge to fund our network investment and operating costs from 2015 to 2023.

Strategic Report *(continued)*

Our Delivery Model

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

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

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

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

We are incentivised to minimise the number of interruptions that our customers suffer and to reduce the average length of interruptions.

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

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

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

Company ownership

Electricity North West Limited is a private limited company registered in England and Wales. We are ultimately owned by a consortium of funds as shown in note 30. Investors in these funds will include the likes of pension funds and other long term investments.

Our vision and values

We are driven by a vision to be the leading energy delivery business. To support this, we have developed a set of values which underpin our culture, behaviours and how we interact with our stakeholders.

These values support everything we do and influence our activities from strategy development, such as the creation of our business plan for the RIIO-ED1 period, to operational delivery, such as the way in which we talk to our customers and employees. For example, our new employee recognition scheme, “Leading Lights”, is structured around our five values, and recognises and celebrates employees who have demonstrated one of our corporate values.

Our values are:

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

Customer: To delight our customers in everything we do

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

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

Innovation: To constantly challenge and improve how we do things

Strategic Report (continued)

Group objectives

We have four strategic goals which support our vision to be the leading energy delivery business.

- Understand and influence the market;
- Understand and deliver for customers and stakeholders;
- Deliver sustainable growth with robust financial performance; and
- Develop a high performance organisation.

These four goals also hold a range of complex and detailed metrics and tools to monitor performance with our shareholders. The five values support these strategic goals and the values themselves have been used to structure clearly and concisely articulate simple Group objectives that we want everyone to focus on.

Individual teams and departments will look at what these objectives mean to them and how they can actively support them. These in turn will develop into personal objectives giving a clear link between everyone's individual performance and our overall collective success.

Ready for RIIO

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

An initial Well Justified Business Plan was submitted to Ofgem in July 2013. Despite it being a strong plan and meeting Ofgem's expectations in most areas the plan was not selected to be fast tracked by Ofgem. Out of the five areas of 'Process', 'Outputs', 'Efficient Costs', 'Efficient Finance', and 'Uncertainty and Risk' that Ofgem measured, our submission met expectations in all areas other than in 'Efficient Costs'. A second plan was submitted in March 2014 focusing on justification of our efficient costs and some

further cost efficiencies. Feedback from Ofgem on the second submission is expected in July 2014. This leaves uncertainty around our revenues for the next price review while we await Ofgem's final determination.

This new price review period (2015-2023) will be extremely challenging for all DNOs, demanding a better service and outputs for customers, at the same time as a reduction in costs and improved efficiency. Therefore, over the past few years, we have been getting the business ready to meet these challenges. Under the overall campaign banner of 'Ready for RIIO', a wide range of projects and plans are in place to ensure a seamless transition into the new price period. Getting 'Ready for RIIO' has been an intrinsic part of the 2013/14 year and continues into 2014/15. Some of these projects and plans are mentioned and highlighted in the following sections, structured in line with our corporate values and Group objectives.

Safety

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

This was a mixed year for the Group. While we made significant progress in delivering our planned safety outputs, developing our safety culture and improving processes and systems, this progress was overshadowed in November 2013 when one of our employees was fatally injured in a workplace accident. The tragedy demonstrates the potential risks associated with the Group's activities and why we continue to prioritise, invest in and focus on safety in all our operations.

As part of our RIIO readiness preparation, our aim is to minimise the risk of unwanted incidents through an effective combination of appropriate education, awareness, training and investment in the network.

We have delivered significant safety training during the year, investing in the key network output areas of site security, safe climbing and asbestos management.

Strategic Report *(continued)*

Safety *(continued)*

We made specific improvements in behavioural safety training, and a range of other areas including risk assessment, driver training, health and safety communications, depot management and drug and alcohol testing. By successfully targeting the resolution of known fused neutrals, delivering the requirements of the Electricity Safety and Quality Continuity (Amendment) Regulations (ESQCR) and completing our inspection and maintenance work, we ensure continuing risk control in the operation of the distribution network.

The safety performance targets set for the year were achieved with the exception of the lost time accident frequency rate which was marginally outside the targeted level. Our health and safety management system was successfully re-certificated in the year to the OHSAS 18001 standard.

The total number of lost time accidents for 2013/14 was 7, a decrease of 3 from the previous year. The number of accidents reportable under RIDDOR was 5, the same as the previous year. The corresponding lost time accident frequency rate for 2013/14 was 0.11%, a reduction from 0.16% in 2012/13. The number of road traffic collisions involving employees also fell, with 14 incidents reported compared to 40 in the previous year, reflecting our continued investment in driver training.

The number of near misses reported by employees in 2013/14 was 685 compared with 468 in the previous year. The significant increase is a direct consequence of the new near miss reporting system launched during the year together with the increased focus on this area which is providing valuable data.

Customer

'To delight our customers in everything we do'

Our customer service performance has always been an area of focus but our objective is to be one of the industry leaders in this field. We are committed to putting customers at the heart of our business. We have set ourselves challenging customer service targets for the RIIO-ED1 period and in 2013/14 have made significant progress in achieving those targets.

Stakeholder engagement, especially with our customers, provides a vital role in the new RIIO-ED1 framework. It has provided significant input into our plan.

In early 2012, we created a dedicated customer directorate as the focal point for all our customer interactions. This was supported by the investment of £1 million in a flagship Customer Contact Centre. We further built on this technical investment by investing in recruiting, training and the development of a motivated team of customer service agents. In the year we began to see the results of this investment.

In the year 2012/13 our overall customer satisfaction rating was 76% compared to an industry leading position of 86%. In the year 2013/14 we increased customer satisfaction for the year to 81% compared to an industry leading position of 88%.

We have achieved this significant improvement in performance by analysing customer satisfaction data in detail and developing action plans that address the issues identified by our customers. The analysis showed fault information within our messaging service and minor connections as key issues. As a result, we have highlighted the layout of the messaging service, enhanced the information provided, included tips to help during a power outage and introduced a report to highlight customers who have made repeat calls during the same interruption and not reached an advisor. For minor connections, we have focused primarily on improving our communication with customers throughout the process.

Strategic Report *(continued)*

Customer *(continued)*

In the year to 31 March 2014, proactive communication with our customers has been a priority area for us. We have introduced social media as a direct communication channel for our customers. Text messaging and voice blasts have been implemented across our processes for planned and unplanned outages, providing our customers with more information.

In January 2014 we introduced and issued a 'weather warning' text or voice blast to over 30,000 vulnerable customers, allowing them to prepare for incoming weather fronts. This marks the launch of our 2014/15 focus to deliver a better service offering for our vulnerable customers.

Electricity North West actively encourages feedback on customer dissatisfaction so that we not only give our customers a voice but also highlight areas that we must improve. The year has seen a 22% increase in the volume of complaints as we proactively embrace our customers' views. However, we have also seen a 21% improvement in the volume of complaints resolved in 24 hours improving to 56% at 31 March 2014 from 35% at 31 March 2013. In addition, the overall length of complaint resolution has reduced by 3 days, to 7 days. The focus in 2014/15 is to reduce the volume of complaints by improving our service and to reduce further our complaint resolution time.

Our commitment to customer service excellence is reflected in our collaboration with the Institute of Customer Service (ICS) to develop our plans. We employ their testing methodologies in our recruitment process. They also facilitate benchmarking visits which allow us to see best practice in action and we meet with them quarterly to review and develop our customer service plan. We aim to achieve both ICS Training Mark and Service Mark certification by March 2015.

This winter has seen sustained storm force winds coupled with flooding across our

region. Our previous investments in remote control and network automation technologies have delivered huge benefits for our customers during these events. These investments have enabled us to consistently restore 90% of affected customers within 12 hours and, coupled with our customer contact centre improvements, have further allowed us to deliver consistently excellent service to our customers.

Throughout the storms our priority has been to restore our customers' supplies. While all our customers are heavily reliant on the services we provide, this is particularly true for our more vulnerable customers. At a number of locations on our network there are high concentrations of vulnerable customers, including hospitals, nursing homes and sheltered housing. As these locations are likely to continue to accommodate significant populations of vulnerable customers over a long period of time, we have decided to invest to make the network in these areas more reliable. Our analysis has shown that 56 hospitals are connected to our high voltage network and we will take steps to provide additional resilience to those parts of the network by fitting remote control and network automation. We will complete half of these projects by the end of 2014/15 and the remainder by the end of 2016/17. Similarly, we have identified 87 distribution substations in areas where there is a concentration of highly vulnerable customers (more than 50 per substation) and where customers have seen two or more interruptions over the last five years as a result of higher voltage faults. We plan to fit remote control and network automation to all of these substations by 2017, completing half of these in 2014/15.

We are also conscious of the impact of high energy prices on customers and the effect of high prices on energy theft. We have expanded our revenue protection team, as we believe there is significantly more theft taking place than is currently detected. We see this as a self-funding activity and use the legal mechanisms available to recover our costs.

Strategic Report *(continued)*

Customer *(continued)*

In 2014/15 we will be looking to continue to improve the services we offer to customers in working towards the challenging targets we have set ourselves for the RIIO-ED1 period. We are investing in our people, systems and processes to deliver a first class telephone service by answering all calls quickly and making it easy for our customers to speak to one of our Customer Service Agents if they want to.

Our RIIO-ED1 targets include:

- resolving at least 90% of customer enquiries at first contact;
- resolving all complaints first time;
- delivering additional assistance to our vulnerable customers; and
- making it easier, cheaper and quicker to make a connection application and to carry out the work.

In summary, during 2013/14 we have significantly improved the services we provide to our customers, setting us on course for delivering the high performance levels to which we are committed in the RIIO-ED1 period.

People

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

Our People value is focussed around two key areas: improving the climate of our Group or how we feel about coming to work; and secondly around engagement in order that employees clearly and accurately understand business issues, and are able to speak out and share ideas and views.

We measure success through the following measures:

- to deliver a Year on Year improvement in Climate Survey Results; and
- to deliver a Year on Year improvement in Engagement Survey Results.

With over 1,600 employees, Electricity North West is a major employer in the North West of England. We know that we play a key part in providing secure, long term employment and career development opportunities in our region. We can only deliver exceptional results for our customers by developing the right mix of skills and resources to meet present and future needs. Ensuring our people have access to structured development programmes means we can develop and maintain a workforce of high-performing and capable individuals, and competitively attract new people to the organisation.

Our workforce is divided into two areas: 'delivery' which focuses on ensuring we provide an efficient and reliable service for our customers; and 'business services', which provides support in areas such as HR, finance and legal. Around 80% of our people work within the Customer, Operations and Network Strategy teams, focusing on delivery. The remaining 20% of our people work within the business services area.

We will continue to invest in training our people to promote compliance, competence and awareness in all areas of health and safety, including leadership and behavioral safety programmes. Our employee recognition scheme, "Leading Lights" has been created to recognise and reward people for doing a fantastic job, and really living our Group's values.

Work Force Renewal

Our Work Force Renewal (WFR) recruitment and training strategy is a key element of our resource capability and is based on a strategic view of our workforce requirements for the next 15 years. During this period, the demographic profile of our workforce will change dramatically, presenting challenges in replacing an ageing workforce, developing our delivery capacity and developing a new range of skills.

Strategic Report *(continued)*

People *(continued)*

We are meeting the challenges by recruiting apprentices, A level, HNC and graduate trainees. This will be supplemented by an up-skilling programme for existing employees. Between 2010 and 2015 we will invest £28m in our workforce renewal programmes. This has financed initiatives such as over 45,000 days of technical training to up-skill our existing workforce, along with recruitment and training of 76 trainee engineers and 68 apprentices.

Our new state-of-the-art training academy was completed during 2013 and officially opened by His Grace The Duke of Westminster in October 2013. This £3m facility will provide the infrastructure to cater for the increase in recruitment and training. Our A level, HNC and graduate programmes have recently received Institution of Engineering and Technology (IET) accreditation and improvements to our craft apprentice programme were introduced in September 2012.

We all want to create a climate at Electricity North West where employees can thrive and be recognised and rewarded for the excellent work we do. We have carried out a significant research study across the business to understand our employees' views of our organisational climate. This has enabled us to create a roadmap of activities to improve our climate and in turn our business performance.

Another key area on which we are working is leadership behaviour. We believe the ideal leadership behaviour in an organisation is based around a directional, proactive approach with concern for others. Such behaviour tends to be results-focused but collaborative and open to considering the opinions and views of others in setting direction. Communication is two-way and honest, encourages support and motivates through being responsive to individuals. We have already started to work with leaders in our organisation towards this leadership style. This is the model behaviour in our

business that all our leaders and employees should emulate.

The many challenges of RIIO-ED1 mean that the strategic and operational objectives for the next nine years are clear. For this reason the structure of the Group, and each of its directorates, is being comprehensively reviewed to ensure that the business is organised in the most optimal way. As a first step, with effect from 1 April 2014, the operational functions have been reorganised into separate distinct areas. This new structure will reduce hierarchy and bring management closer to customer delivery, with many centralised services eventually moving out to the regions.

Performance

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

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

We track our performance using the metrics linked to:

- Delivery of the Capital Programme outputs to targeted unit costs
- Delivery to the Guaranteed Standards of Performance
- Delivery of efficient Network Operating Costs (Faults, Inspection, Maintenance and Trees)
- Network reliability measures including Customer Interruptions and Customer Minutes Lost

In 2013/14, the average number of interruptions per 100 customers (CIs) was 44.9 beating the year's target of 52.4 set by Ofgem and the 2012/13 result of 46.6.

Strategic Report *(continued)*

Performance *(continued)*

Similarly, during 2013/14 the average number of minutes which customers were without supply (CMLs) was 43.1 (2012/13: 49.3), which beat the year's target of 55.6 set by Ofgem.

We experienced a number of incidents this year, including three severe weather events all deemed 'exceptional' by Ofgem (and therefore excluded from the statistics above), and a one off exceptional event involving a faulty grid transformer, which has also been adjusted for. The adjusted figures demonstrate an underlying performance improvement which is driven by our targeted investment programme and improved operational readiness.

A total of £14.9m (2012/13: £5.5m) was invested in installing additional remote control and automation to the network to minimise the effects of any faults occurring, bringing our total investment in this area in DPC5 to date to £30m. This is part of our declared target to improve both CIs and CMLs by 20%, compared to the 2012 baseline, by 2019, the mid-point of RIIO-ED1.

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

In 2013 we identified 1,136 customers who met the industry definition of 'worst-served'¹ and we invested £0.2m (2013: £0.2m) in 2013/14 to implement schemes affecting 1,169 of our worst served customers. We already have the lowest percentage of worst served customers of any DNO outside of London and aim to reduce this to zero by the end of the RIIO-ED1 period.

¹ Defined as those who experience at least 15 higher voltage interruptions over a three-year period with a minimum of three in each qualifying year.

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

In 2013/14, we delivered a total investment programme of £117.4m (2012/13: £108.3m). The figure represents the highest annual delivery in DPC5 to date.

Our current network has been installed over many decades and a significant proportion of the programme relates to replacing existing equipment at or approaching the end of its life with modern equivalents. By way of illustration of the scale of the task, in 2013/14 amongst other investments we installed;

- 2,564 LV and HV woodpoles (2012/13: 2,103)
- 39.7km of 33kV cable (2012/13: 10.0km)
- 11 new grid & primary transformers (2012/13: 7)

We recognise the potential impact of significant external factors such as storms and floods, and have invested over recent years to improve our network resilience in the face of such threats. In 2013/14, we completed the programme of flood defences (identified as part of our DPC5 submission) a year earlier than originally planned. This has seen enhanced protection installed at 31 major substations, serving 584,000 customers.

We also invest to ensure the continued compliance of our network with all applicable legislation and regulatory licence requirements. In 2013/14, we made continued progress towards our goal of achieving complete ESQCR compliance with regard to overhead line clearances. We have resolved 29,582 compliance issues at a cost of £22.0m and currently forecast completion of this programme in 2016. 2013/14 also saw significant progress with our two largest investment projects of the DPC5 period. The Orrell reinforcement

Strategic Report *(continued)*

Performance *(continued)*

scheme, installing a new Grid connection and 13.6km of 132kV circuit, is now 80% complete and due for completion in December 2014. A major project to install our own fibre communication network was substantially completed in the year, having migrated 149 of 193 circuits at year-end. This project provides a long term and sustainable communications solution to the problem caused by the withdrawal of the BT private wire circuits.

Innovation

'To constantly challenge and improve how we do things.'

We focus on using innovative solutions that challenge and improve the way we do things for our customers and will continue to focus on developing our network capabilities through innovative solutions to expand and meet anticipated demand increases over the RIIO-ED1 Period.

We continue to lead many industry innovation activities, chairing several industry technology working groups and playing a major role in shaping Great Britain's future energy landscape.

We successfully delivered our innovation programme and have included over £130m of innovation benefits into our RIIO-ED1 business plan. In that plan we also set out our innovation strategy for the next ten years, including the roll-out of smart grids and smart metering for customers.

Tier 2 LCNF Project update

Since our award of funding from Ofgem's Low Carbon Network Fund (LCNF) for both our "Capacity to Customers (C₂C)" project, and latterly, our "CLASS" project, our Future Networks team has successfully achieved all its key milestones. These two projects will trial innovative commercial contracts and the use of new technologies to increase the amount of energy that can

be transmitted through our network to help meet the UK's tough low carbon targets.

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

During 2013 we installed much of the field equipment required for delivery of our CLASS project. Work is now nearing completion and the live phase of the trial will begin in 2014.

Direct customer mailing, detailed customer surveys, a dedicated website and suite of videos have been used to engage with stakeholders and potential customers. We have held a number of major industry events to inform and engage with new and existing customers about C₂C and CLASS. We regularly survey our stakeholders to obtain feedback on their view of our future network trials, and results showed that 86% of customers would recommend that their organization seeks involvement with our trials.

Smart Street

The Future Networks Team is also working on the "Smart Street" project, following Ofgem's announcement of funding for the £10m project in November 2013. Smart Street runs from January 2014 until September 2017. Like C₂C and CLASS it will trial a cutting edge technique to maximise the use of the existing network and reduce customers' energy bills with the first ever use of Conservation Voltage Reduction in the UK. This approach looks to use voltage control techniques to minimise the impact of low carbon technologies whilst maintaining voltage within statutory limits.

Employee Led Innovation

Employee led innovation encourages our people to question how we do things, developing and sharing solutions to

Strategic Report *(continued)*

Innovation *(continued)*

improve things and then effectively implementing them to make things safer, better, simpler, cheaper and quicker. We have introduced mechanisms to capture employees' ideas and suggestions, some of which have already been put in place.

Corporate Social Responsibility

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

As a result of this engagement, we have agreed four CSR focus areas; Community, Workplace, Marketplace and Environment.

Over the past year we have developed our CSR strategy and have used the Business in The Community (BITC) Corporate Responsibility index as an external measure to report on our processes. Our first submission scored 54% and we worked with BITC to put in place strategies to improve our corporate responsibility score. As a result our score has increased to 73% and we have a 3 year target to reach 90%. Under our CSR focus areas we have implemented a number of actions, including:

Community

Education programmes to inspire the next generation of science students were set up, including Bright Sparks, aimed at Key Stage 2 students and covering the electricity element of the physics syllabus. Our secondary school scheme was developed in conjunction with Tomorrow's Engineers in order to help signpost students to careers in engineering. We were also major sponsors of the Manchester Science Festival, helping to bring science to the general public.

Workplace

We introduced a number of schemes this year to help our employees, including the "leading lights" employee recognition scheme and a 'bright ideas' scheme which helps improve employee working conditions by providing a mechanism for them to raise issues and suggestions to improve working conditions.

Marketplace

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

Environment

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

Our CSR responsibilities

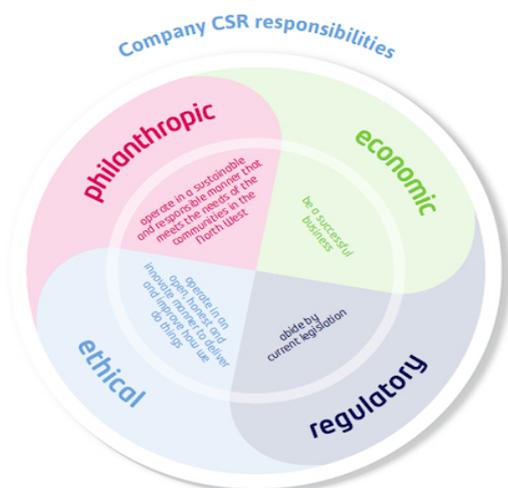
To further embed our CSR strategy into business as usual behaviour, we have agreed to completing 100 CSR commitments. These commitments will be structured around our four focus areas and are being released in phases in our annual Sustainability report (published every July).

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

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

Strategic Report (continued)

Corporate Social Responsibility (continued)



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

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

Stakeholder Engagement

Stakeholder engagement is a fundamental part of our decision-making process at Electricity North West. The past year shows the development of our robust processes in line with internationally-recognised best practice guidelines, the AA1000 AccountAbility Principles Standard (AA1000APS).

Having first formally followed the AA1000APS principles of inclusivity, materiality and responsiveness in 2012/13, the past year has seen us move forward significantly as we develop our understanding of the principles in our practical engagement activity.

Our quarterly Internal and biannual External Stakeholder Panels have gone from strength to strength, making tangible differences to what we are doing and how we are doing it. This was exemplified by the

Panels' contributions to the resubmission of our business plan to Ofgem in March 2014. Our External Stakeholder Panel challenges us and holds us accountable. Our Internal Stakeholder Panel, made up of senior leaders in the business, is responsible for collating stakeholder feedback, making decisions based on that information and reporting back to stakeholders. Both panels are chaired by our CEO.

To support adherence to these initiatives, for the second year, we have engaged Deloitte LLP to provide independent assurance on our stakeholder engagement reporting and commitment to AA1000APS.

Human Rights

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

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

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

Strategic Report *(continued)*

Corporate Social Responsibility *(continued)*

Gender & Diversity

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

	2014 Males	2014 Females	2013 Males	2013 Females
Total Employees	1,317	337	1,292	334
Senior Managers	20	7	21	6
Executive leadership team	8	2	5	3
Directors	7	0	7	0

Turnover

2013/2014 – 98 leavers (2012/2013 – 95 leavers)

Training courses delivered – Non operational

2013/14 - 50 (2012/2013 – 45)

Training course attendees – Non-operational employees

2013/2014 - 446 (2012/2013 – 728)

Environmental Impacts

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

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

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

In 2013/14 we recycled 1079.9 tonnes, the equivalent of 93% of our waste, compared to 699.5 tonnes, the equivalent of 77% in 2012/13.

Our operational carbon footprint, including electricity loss comprises:

	2013/14 ² tonne CO2 Eq	2012/13 tonne CO2 Eq
Scope 1		
Operational transport	9,426	9,894
Business transport - road	1,312	1,236
Fugitive emissions	1,374	1,199
Fuel combustion	<u>2,590</u>	<u>2,774</u>
	14,702	15,103
Scope 2		
Buildings energy usage	8,985	9,918
Scope 3		
Business transport - rail	24	30
Business transport - air	<u>51</u>	<u>37</u>
	75	67
Business Carbon Footprint (excl losses)	23,762	25,088
Losses ³	627,681	652,308
Business Carbon Footprint (incl. Losses)	651,443	677,396

² 2013/14 figures are provisional at the date of the annual report and will be finalised in July 2014

³ The reported losses figure is a snapshot of received data as of the date of this report and will change as further settlement reconciliation runs are carried out (up to 28 months after each relevant settlement date).

Strategic Report *(continued)*

Corporate Social Responsibility *(continued)*

Our business carbon footprint (excluding losses) has reduced by 5% from 2012/13. The main reduction in the year was associated with our buildings energy usage which fell by 933 tCO_{2e}, or 10%, due to a combination of factors including the inclusion of energy efficiency measures in the refurbishment of our buildings.

Other decreases in carbon emissions were gained in operational transport due to the implementation of fleet fuel efficiency measures including the extension of rev limiters in our vehicles.

The classification of carbon sources in the calculations follows the requirements of Ofgem. The figures are calculated using the 2013 UK Government conversion factors for Company Reporting. Emissions are calculated across scopes 1, 2 and 3 in accordance with the associated guidance, with the most appropriate scope being used based on the emissions data available.

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

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

The business transport figure includes calculated emission data for road, rail and air travel of our employees. Usage is converted into emission data using conversion factors from the 2013 *Guidelines to Defra/DECC's GHG*

Conversion Factors for Company Reporting.

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

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

Some of the electricity we distribute is lost in the process of delivery to customers as it flows through our network. Losses occur in all electricity networks, and for UK distribution companies this typically represents 5-10% of energy distributed to end consumers. Losses are measured as the difference between energy entering the network (generation) and energy exiting the network (demand). Whilst we can't eliminate these losses we do take steps to minimise them. This is done through installing more efficient assets in our network, particularly low loss transformers and cables and through our revenue protection unit, addressing the issue of theft.

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

For more detailed information regarding our carbon footprint and recycling data, please see our Business carbon footprint report 2012/13, available on our website:

<http://www.enwl.co.uk/docs/default-source/sustainability/business-carbon-footprint-report-2012-13.pdf>

Strategic Report *(continued)*

Key Performance Indicators (KPIs)

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

Year ended 31 March	2014	2013	2012	2011	2010
Non-Financial					
Safety: RIDDOR ⁽¹⁾	5	5	7	5	9
Customer minutes lost ('CML') ⁽²⁾	43.1	49.3	47.6	47.4	49.9
Customer interruptions per 100 customers ('CI') ⁽³⁾	44.9	46.6	45.9	49.2	50.6
Overall customer satisfaction 2012 onwards ⁽⁴⁾	81%	76%	77%	n/a	n/a
Overall customer satisfaction ⁽⁴⁾	n/a	n/a	n/a	89%	87%
Financial					
Revenue	£508m	£468m	£405m	£394m	£324m
Operating profit	£280m	£224m*	£189m	£210m	£156m
Profit before tax	£202m	£171m*	£55m	£139m	£17m
Profit before tax and fair value movements	£182m	£169m*	£136m	£169m	£95m
Taxation charge/(credit)	£15m	£27m*	£15m	(£18m)	(£18m)
Operating cash flow	£351m	£290m	£232m	£246m	£218m
Cash inflow/(out flow) before financing activities ⁽⁵⁾	£30m	£61m	(£23m)	£25m	(£2m)
Dividends Paid	£83m	£66m	£62m	£62m	£218m
Net Debt	£1,088m	£1,044m	£1,003m	£877m	£827m
RAV Gearing ⁽⁶⁾	60%	58%	61%	56%	57%
Interest cover ⁽⁷⁾	4.5 times	6.0 times	4.5 times	5.9 times	4.2 times
Capital expenditure (cash flow)	£228m	£217m	£223m	£177m	£174m

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

Notes to KPIs:

- (1) Accidents involving employees or contractors of Electricity North West, reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation ('RIDDOR'); we target zero accidents per year.
- (2) Customer minutes lost is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents, excluding exceptional regulatory events and dividing by the number of connected customers as at 30 September each year. This outperforms the Ofgem target for 2014 of 55.6. The 2013/14 figure is yet to be audited by Ofgem and is subject to Ofgem's acceptance of the severe weather event exemptions from December and February and the Blackburn incident in April 2013.
- (3) Customer interruptions per 100 customers is calculated as: (total customers affected/total customers connected to the network) multiplied by 100, adjusted for exceptional regulatory events. This outperforms the Ofgem target for 2013/14 of 52.5. The 2013/14 figure is yet to be audited by Ofgem and is subject to Ofgem's acceptance of the severe weather event exemptions from December and February and the Blackburn incident in April 2013.
- (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) Cashflow before financing activities is the net cash flow available to fund financing activities including dividends and is calculated as net cash generated from operations less interest paid, tax paid and net cash used in investing activities.
- (6) Regulatory Asset Value ('RAV') Gearing is measured as borrowings at nominal value, plus accretion where applicable, net of cash and short-term deposits divided by the estimated allowed RAV of £1,700m (2013: £1,631m) as at March. We aim to keep our gearing below 65%, with a target of 63%.
- (7) Interest cover is the number of times the net interest expense is covered by operating profit from continuing operations adjusted for intercompany, amortisation, indexation and capitalisation costs.

Strategic Report *(continued)*

Financial Performance

Revenue

Our revenue is largely fixed across a price review period at a level that meets our efficient operating costs and expenses, as well as funding efficient investment, interest on necessary loan funding, and taxes and allowing for a return to shareholders set at a level that limits the return but encourages future investment. This can most closely be reflected in the cash flow before financing activities figure above.

Revenue has risen to £508m (31 March 2013: £468m) during the year, as a result of an increase in allowed DUoS (Distribution Use of System) revenue, rising RPI and the recognition of £5m of C2C income and £5m of LCNF income. C2C and LCNF project income is matched with equal operating costs.

Under recovery of DUoS revenue at 31 March 2014 was £19.3m (31 March 2013: £17.1m under-recovery). This under recovery will be recovered through adjustments in pricing over the next two years.

Operating Profit

Operating profit has increased to £280m (2012/2013: £224m) as a result of:

- Increased DUoS Revenue of £40m;
- Decreased costs compared to the prior year which included a £21m provision charge in respect of retail properties; offset by
- Increased employee costs of £3.3m. Employee costs in the year are stated net of amounts capitalised (see note 4); and
- Increased depreciation costs of £4.0m due to the increase in capital programme activity.

Profit before tax

Profit before tax has increased to £202m (2012/13: £171m), reflecting the increase in operating profit offset by fair value

movements. Within interest expense, significant increases in interest payable resulting from payments on derivatives held for trading have been offset by fair value movements on these instruments.

Taxation

The main UK corporation tax rate of 23% at 31 March 2013, reduced to 21% from 1 April 2014 and will further reduce to 20% from 1 April 2015. The overall tax charge for the year has fallen from £27m to £15m. This reflects an increase in current tax charges from £33m in 2012/13 to £46m in 2013/14 offset by deferred tax adjustments resulting from the announcement in the reductions of UK corporation tax rate.

Dividends and dividend policy

In the year ended 31 March 2014, the Company paid dividends of £83m (31 March 2013: £66m). This figure represents interim payments of £15m paid in June 2013 and £68m paid in December 2013 (31 March 2013: This figure represented interim payments of £23m paid in June 2012 and £43m paid in December 2012).

On 21 May 2014, the Board of Directors approved an interim dividend for the financial year ending 31 March 2015, of £37m, (7.76 pence per share) payable in June 2014.

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.

Strategic Report *(continued)*

Financial Performance *(continued)*

Property, plant and equipment

The Group's business is asset-intensive and highly regulated. 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 original cost of the Group's property, plant and equipment at 31 March 2014 was £3,955m (31 March 2013: £3,741m), with a net book value of £2,693m (31 March 2013: £2,560m). In the year ended 31 March 2014, the Group invested £228m (31 March 2013: £217m) in capital expenditure. This is mainly related to a large number of projects for the renewal and improvement of the network. New investment is financed through a combination of operating cash flows and increased borrowing capacity against a growing Regulated Asset Value "RAV".

Pension obligations

The valuation of the Group's Pension Scheme under IAS 19 results in a net pension deficit at 31 March 2014 of £37m (31 March 2013: £106m). The deficit as at March 2014 is lower than the prior year end mainly due to the rise in the discount rate from 4.1% to 4.4% reflecting the market movements, which reduces the value being placed on the liabilities, and good asset performance over the year.

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. A cash payment of £1.32m was made in the year. The 31 March 2013 actuarial valuation is expected to be finalised before 30 June 2014. As part of this valuation a new recovery plan will be agreed and put in place.

Cash flow before financing activities

Cash flow before financing activities has decreased by £31m to £30m in the year (2012/13 £61m). The increase in cash from operations of £61m has been more than offset by increases in interest paid, tax payments and the increased investments in fixed assets. Net cash outflow from financing activities was £33m in the year (31 March 2013: £51m). Dividend payments increased by £17m to £83m and proceeds of new borrowings generated £50m.

Net Debt

Net Debt	31 March	2014 £m	2013 £m
Cash and deposits		65	69
Borrowing		(1,153)	(1,113)
Net debt		(1,088)	(1,044)

Included within the total borrowings figure are £67m of loans from the parent company North West Electricity Networks Limited, originally due to mature in March 2015 but extended to June 2015 subsequent to the year end. It is the intention of North West Electricity Networks Limited to renew this loan which now matures at the same time as a £300m bond issued by ENW Capital Finance. North West Electricity Networks Limited is well advanced with plans to refinance this bond on its maturity and has received credit approved offers from four banks rated A or above for standby facilities to increase its flexibility as to the timing of any replacement bond issuance.

All other borrowings are repayable after one year and include bonds with long term maturities of £690m (31 March 2013: £704m). 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. In the year the Group arranged a £100m nominal value index linked loan, payable in 2032.

Strategic Report *(continued)*

Financial Performance *(continued)*

Also included in long-term borrowings is an inter-company loan at 31 March 2014 of £196m (31 March 2013: £263m).

Liquidity

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

The Group 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 a stable and predictable source of funds. Forecasts have been prepared for the next regulatory period to 2023 and are used to monitor liquidity.

Short-term liquidity

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

As at 31 March 2014, the unutilised committed facilities of £100m (31 March 2013: £50m), together with £65m (31 March 2013: £69m) of cash and short-term deposits provide substantial short-term liquidity for the Group and Company.

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

Long-term liquidity

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

The Group issues debt in the public bond markets and maintains credit ratings with one or more of the leading credit rating agencies. During the period the credit ratings have been formally reviewed and have been affirmed on a stable outlook basis. Our long-term debt ratings have

remained stable. Currently the Group is rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and A- with stable outlook by Fitch Ratings. Our short-term debt ratings are A-2 and F2 with Standard and Poor's and Fitch Ratings respectively. Further details are available to credit investors on the Companies' website www.enwl.co.uk

Treasury Policy

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Board. The treasury function does not 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 on key financial ratios. Long-term borrowings are mainly at fixed rates to provide certainty or are indexed to inflation to match the Group's inflation-linked ('RPI') cash flows.

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

Going concern

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

- The Company's electricity distribution licence includes the obligation in standard licence condition 40 to maintain an investment grade issuer credit rating.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its

Strategic Report (continued)

Going concern (continued)

functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.

- Management has prepared, and the Directors have reviewed, updated Group forecasts for the remainder of the DPC5 period and at 31 March 2014 which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that sufficient resources are available within the forecast period.
- The latest forecasts used to assess going concern form part of the 2015-23 regulatory price review (RIIO-ED1) process and therefore extend beyond the normal 12 month forecasting period. During the year ENWL submitted a business plan proposal to Ofgem covering the period 2015 - 2023. Feedback on this submission is expected in July 2014. This inevitably leaves a level of uncertainty around future revenues. The forecasts demonstrate sufficient liquidity and headroom against the key covenant ratios, including when sensitised for variations in operational performance.
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, £100m of committed undrawn bank facilities are available from lenders which have a maturity of more than one year. Whilst the utilisation of these

facilities is subject to gearing covenant restrictions, projections to 31 May 2015 indicate there is significant headroom on these covenants.

- The next debt maturity is the £67m loan from North West Electricity Networks Limited which matures in March 2015, but has been extended to June 2015 subsequent to the year end. It is the intention of North West Electricity Networks Limited to renew this intercompany loan. North West Electricity Networks Limited is well advanced with plans to refinance the related external bond prior to its maturity and has received credit approved offers from four banks rated A or above for standby facilities to increase its flexibility as to the timing of any replacement bond issuance.

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

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

Conclusion

The Board has reviewed the 31 March 2015 Budget, the Group's updated DPC5 business plan and RIIO-ED1 forecasts and the requirements of the Group's licence Condition 30 ('availability of resources') and considers that the Group has sufficient liquidity to meet its anticipated financial and operating commitments for at least the next 12 months.

Strategic Report *(continued)*

Risk Management

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

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

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

This risk management system is designed to manage rather than eliminate the risk of failure to achieve our objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.



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

- Clear risk management strategy in place, approved by the Board, to support continual improvement.
- Commitment demonstrated through the risk management policy statement and endorsed by the Executive Leadership Team (ELT).

- 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 owned by a member of the ELT who has the overall responsibility for managing that risk, supported by members of the Senior Leadership Team and Operational Management.
- All open risks, associated controls and mitigating actions are reviewed on a monthly basis as part of a well embedded risk monitoring process.
- A network of risk co-ordinators 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 Board.

Principal Risks and Uncertainties

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

Strategic Report (continued)

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Health & Safety	<p>Health & Safety Our people work in a potentially hazardous environment which requires continuous management of health and safety risks. Unsafe working practices due to complacency or inappropriate behavioural attitude or inadequate training may lead to accidents causing injury to employees, contractors or members of the public.</p>	<p>A Health, Safety and Environment Committee is in place to oversee this area. Delivery of behavioural safety training programme to provide employees with skills to positively influence safety on site and to encourage challenge among colleagues. Robust authorisation process in place that controls who can work on our network and the activities they can perform. Annual programme of Health & Safety audits. Established policy and procedures including OHSAS 18001 certification.</p>	
Customer	<p>Customer Interruptions/ Customer Minutes Lost (Quality of Supply Investment Programme) The quality of supply investment programme may not be completed on plan leading to an adverse impact on customer interruptions and customer minutes lost performance.</p>	<p>A quality of supply steering group has been established to ensure identified investments are delivered. Fault response times and team performance are closely monitored. Outage planning delivery is coordinated to reduce the effects of planned supply interruptions. Network automation is in place to minimise the effect of faults when they occur. Significant spend is incurred on routine maintenance, such as tree cutting, to reduce the causes of network interruption.</p>	

Strategic Report *(continued)*

Principal Risks and Uncertainties *(continued)*

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Customer	<p>Major Event Events outside our control, such as malicious attacks (including cyber security attacks) or widespread disruption typically as a result of a climatic event such as a storm or flooding, could cause a major network failure or compromise the security of our physical assets, processes, systems and data.</p>	<p>The Group has comprehensive contingency plans for all network emergencies including key contract resources such as mobile generators and overhead line teams. Our plans also include reciprocal arrangements with other DNOs should we need them.</p> <p>The Group has robust cyber security policies, processes and technologies in place, drawing on external validation and assessment of these security measures as required.</p>	
Customer	<p>Customer Satisfaction The Group may not meet the required level of performance against Ofgem's customer satisfaction measure despite the significant improvement in performance seen in 2013/14. This could result in Ofgem penalising the Group for its performance on customer satisfaction, complaints and stakeholder engagement.</p>	<p>A programme of improvement activities described in more detail on pages 10-12 is being co-ordinated by the Executive Leadership Team to optimise Electricity North West's position against all elements of the customer satisfaction measure.</p>	
People	<p>Climate There is a risk that the planned improvements in organisational climate measures are not achieved because leaders fail to take the necessary steps to address factors which negatively impact employee perception of climate. This could lead to negative impacts in (or sub-optimal) business performance.</p>	<p>Close monitoring by the Business Services directorate of employee climate scores so that remedial actions can be put into place before there is a significant impact on business performance.</p>	

Strategic Report *(continued)*

Principal Risks and Uncertainties *(continued)*

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
Performance	<p>Government/Regulator Policy An adverse change to government policy or the regulatory framework such as RIIO may adversely affect the cash-flow, financeability and/or valuation of the Group. A political, unsustainable decision may be made which could put a large amount of pressure on Ofgem to act against the interests of the Group.</p>	<p>Group participation in various industry groups and bodies.</p> <p>Established mechanisms for lobbying key stakeholders.</p> <p>Ofgem's obligation to ensure financeability of the Company.</p>	
Performance	<p>Statutory, Regulatory and Legal Compliance A compliance failure could lead to an adverse affect on the business including financial penalties and, in the extreme, loss of license.</p>	<p>Overall governance and control framework is in place including established compliance routines. Specialist teams in place to ensure compliance and assurance are carried out. Internal audit programme that focuses on that focuses on the Group's key risk areas including regulatory compliance. Table of accountabilities owned by the Regulation Director in place to ensure compliance with license conditions.</p>	
Performance	<p>Delivering Performance Efficiency The Group has a long term outlook and needs to deliver performance and costs against the commitments in the RIIO Well Justified Business plan for an 8 year period, which requires us to deliver challenging cost reductions and efficiencies during the final year of DCPR5. This performance is incentivised positively and negatively. The objective to be a leading company is made harder due to the Company being a sole</p>	<p>Robust plans in place to achieve or beat capital delivery targets. Benchmarking of unit costs to where upper quartile is forecast to be. Controls in place regarding the ongoing reporting of performance against targets. Change projects in progress to reduce substantially business support and indirect costs.</p>	

Strategic Report *(continued)*

Principal Risks and Uncertainties *(continued)*

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
	<p>Delivering Performance Efficiency <i>(continued)</i> DNO licensee in contrast to all other DNOs. There is a risk we are perceived as inefficient when compared to the rest of the sector because of high direct unit costs, business support and indirect costs.</p>		
Performance	<p>Treasury The Group is exposed to credit risk, liquidity risk and market risk, see note 16. Failure to identify and effectively manage treasury and tax exposures and to meet the Group's funding requirements and obligations could pose a significant threat to the business and could result in a financial loss.</p>	Established controls are in place including segregation of duties and restricted access to systems. The Group has a formal treasury policy in place to manage exposure to counterparty, liquidity and market risk. Oversight of the treasury policy is provided by the Audit Committee of the Board.	↔
Performance	<p>Pension Obligations The Group sponsors Pension Schemes with both defined benefit (closed to new members since 2006) and defined contribution sections. The bulk of the liabilities sit in the defined benefit scheme. There is a risk that under performance of the scheme investments and/or an increase in the scheme liabilities will give rise to a higher scheme deficit requiring increased Group contributions.</p>	Active monitoring of the scheme's investments is carried out formally on a quarterly basis by the pension Trustee and the Company. The Trustee engages professional legal, actuarial, and investment advice for all decisions taken and regularly consults with the Company.	↔
Performance	<p>Impact of Macro-Economic Factors Macro economic factors such as Retail Price Index ('RPI') and the wider economic climate such as counterparty risk may impact negatively on the business. For example, fluctuations in RPI impact the Group in a number of ways, most notably in allowed revenues and Ofgem's</p>	The Group monitors the potential exposure to fluctuating RPI through sourcing forecasts from a selection of financial institutions. A reforecasting exercise is undertaken quarterly and reported to Executive Leadership Team and Board. The Group uses approved counterparties with financial limits of investment	↓

Strategic Report *(continued)*

Principal Risks and Uncertainties *(continued)*

Corporate Value	Risk Description	Mitigation	Change in Risk Exposure in Year
	Impact of Macro-Economic Factors <i>(continued)</i> assessment of our Regulatory Asset Value.	based on credit rating and overall spread of the total available invested cash.	

The Strategic Report, outlined on pages 7 to 30, has been approved by the Board of Directors and signed on behalf of the Board.

S Johnson

Corporate Governance

Introduction

As Acting Chairman for 11 months of this financial year, I am pleased to present the Governance Report for 2013/14 on behalf of the Board. The Board fully supports the principles of good corporate governance and is committed to the improvement and development of appropriate structures, processes and procedures in support of these principles.

As a Board, we work with management to ensure the business is well governed, that any risks identified are mitigated, that the Group is financially strong, and that an appropriate balance between promoting long-term sustainability and delivering short-term objectives is achieved. We recognise that good governance is fundamental to achieving our vision to be the leading energy delivery business and achieving both our strategic objectives and the challenging targets set in our Well Justified Business Plan for the RIIO-ED1 regulatory price review period.

The economic, commercial and regulatory environments continue to change and our governance practices have evolved to keep pace. As mentioned in the Chairman's statement, we have kept our governance under review during the year to ensure we meet these requirements and ensure they support the delivery of our Well Justified Business Plan, whilst managing our business and delivering excellent customer service.

The Board is pleased to confirm compliance with the UK Corporate Governance Code in all material aspects, with limited exceptions, all of which are as a result of the Company being privately owned. The Board considers these exceptions appropriate and can demonstrate the existence of measures that ensure good corporate governance in this context.

I am delighted to welcome John Roberts to the Board as Chairman with effect from 1 March 2014, and I would like to thank my Board colleagues for their support during my tenure as acting Chairman. I look forward to working with the Board and executive colleagues on delivery of our Well Justified Business Plan.

Mike Nagle
Director

Our Board

Board Members at 31 March 2014

John Roberts

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

Appointed on 1 March 2014.

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

Mike Nagle

Non-Executive director, Acting Chairman to 1 March 2014 and member of the Audit, Remuneration and Health, Safety and Environment Committees.

Appointed on 28 January 2011.

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

Chris Dowling

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

Appointed on 1 May 2014

Corporate Governance *(continued)*

Our Board *(continued)*

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

Steve Johnson

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

Appointed on 8 September 2008.

Steve joined the Company in 2008 from Morrison plc where he was Managing Director, having previously been with United Utilities Group plc as Managing Director of its Industrial and Commercial Business. Prior to this, Steve worked for Norweb and Yorkshire Electricity. Steve is currently Chair of the Energy Networks Association; 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. He is a member of the Institute of Engineering and Technology.

John Gittins

Independent Non-executive Director, Chairman of the Audit Committee and member of the Remuneration Committee.

Appointed on 16 July 2009.

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

Niall Mills

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

Appointed on 12 June 2009.

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

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

Mark Rogers

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

Appointed on 17 September 2012.

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

Mark Walters

Non-executive Director and member of the Audit and Remuneration Committees.

Appointed on 7 March 2014.

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

Corporate Governance *(continued)*

Board membership

The UK Corporate Governance Code (the Code) provides that independent non-executive directors should comprise at least half of the Board and this is a provision the Board have taken the decision not to comply with. The Board has also not elected a Senior Independent Director as required by the Code. Non-compliance with the Code in these areas has been carefully considered and is primarily due to the Company's privately owned status. The Board do not feel that compliance would enhance the Group's governance given the representation of the Company's shareholders on the Board through non-executive directors and Ofgem's revised requirements for Board membership, detailed below.

In August 2013 Ofgem made changes to our network operator licence conditions introducing the requirement for all network operators to have two Sufficiently Independent Directors (SIDs) on their boards from 1 April 2014. The role of the SID has been introduced as part of a range of enhancements made to the ring-fence conditions to protect consumers should a network company experience financial distress. Except in certain defined circumstances, a SID cannot be a member of the board of any other company within the group structure of the licence holder. The introduction of the role is designed to mitigate the risk that directors with other group roles, however well intentioned, could become conflicted at times of crisis within the group.

The Board has been actively seeking to recruit an independent non-executive Chairman during the year and John Roberts was appointed with effect from 1 March 2014. He fulfils the role of SID for the Company and with the appointment of Chris Dowling will continue to build on the Board's existing skills and experience to drive the Company into the RIIO-ED1 price review period. The Board is committed to maximising the potential of the SID roles

and to maintaining two independent non-executive directors on the Board.

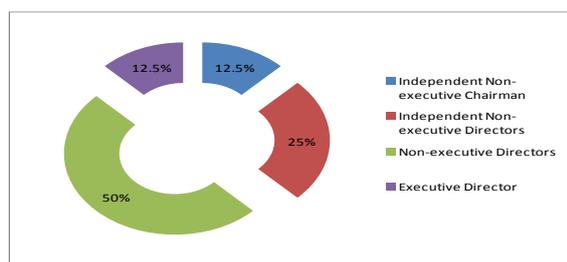
Throughout the year, John Gittins continued to fulfil the role of an independent non-executive director although he did not fulfil the defined role of a SID due to his appointment to the Boards of the financing companies within the Group structure. John is appointed to these companies to ensure good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

During the year, Niall Mills, Surinder Toor, Mark Walters, Mike Nagle and Mark Rogers were all independent of management and not actively involved in the Group's operations. This area of the Board was refreshed by our investors in March 2014 when Surinder Toor was replaced as a Director by Mark Walters.

Steve Johnson was the only executive Director on the Board following Michael McCallion's departure from the Board in May 2013. The Board has been actively recruiting to fill the role of Chief Financial Officer since his departure and would like to thank Rob O'Malley, Head of Treasury and Investor Relations and David Brocksom, Interim CFO since October 2013, for their leadership of the finance function and commitment to continuing to support the Board's financial strategy and RIIO business plan submission during the period.

Corporate Governance *(continued)*

Board membership as at 21 May 2014:



Board Diversity

The Board adopted a Diversity Policy during the year after detailed consideration of the Lord Davies' Women on Boards report, published in February 2011 and the subsequent annual reports published in 2012, 2013 and 2014. We fully support the principle that diversity can serve to strengthen a company, and agree that we will continue to incorporate diversity - in all of its aspects, including gender - as an objective criterion for the selection of future Board members.

Following lengthy discussion we have decided that, at present, setting a short term target for gender diversity on the Board is not in the best interests of good corporate governance given the Company's private ownership and shareholder representation on the Board. We will continue to keep this position under review.

Board evaluation, training and development

The Board did not undertake a formal performance evaluation during the year. The Board's intention has been to allow the incoming independent non-executive Chairman to lead the process following his appointment and in doing so provide the opportunity for the Chairman to get to know the Board.

In place of an evaluation, the Board set itself formal targets for the year to ensure focus remained on key areas. It also reviewed the effectiveness, membership and terms of reference of each of its Committees in January 2013.

The specific Board objectives set in December 2012 for the 2013/14 period and subsequently achieved during the year included:

- Devoting adequate Board time to approving the strategy and detail of the RIIO Well Justified Business Plan prior to the July 2013 submission;
- Reviewing progress against the DPC5 Business Plan and provide guidance to management on key priorities;
- Ensuring customer service continued to be a high priority for the business and that genuine underlying performance in this area was understood;
- Approving the strategy and reviewing options and progress against financing of the Group's junior debt and capex facility;
- Working with the business to ensure a culture of health and safety continues to be a priority and to improve health and safety through development of behavioural safety initiatives; and
- Ensuring the appointment of a new independent non-executive Chairman.

The main training and development activities of the Board during the year were:

- Regular updates provided by the Company Secretary on the legal and regulatory landscape;
- The attendance of the Group's external auditors, Deloitte LLP, at the Audit Committee and consideration of their reports;
- A tour of the Group's training centre and meeting with apprentices; and
- A tour of the Whitebirk depot in Blackburn.

We also have a comprehensive induction process for all new Board members which has been undertaken for incoming Chairman John Roberts and Chris Dowling. As part of this process new Directors will meet with individuals from across the business, receive reports and presentations and meet with investor representatives.

Corporate Governance *(continued)*

Duties and commitment

Board members commit an appropriate amount of time to their roles and are readily available at short notice. They take time to meet with management as required and visit operations where there is a particular area of interest. In addition, Committee chairmen spend a significant amount of time on their respective areas of responsibility.

The minimum expected time commitment required from non-executive Directors is six to ten days and is detailed in their letter of appointment.

The Chairman and CEO

The roles of the Chairman and the CEO are separate and their respective responsibilities are set out in writing.

The Chairman, who fulfils the independence criteria detailed in the UK Corporate Governance Code on appointment, has primary responsibility for running the Board. The CEO is responsible for the operations of the Group and for the development of strategic plans and incentives for consideration by the Board.

How the Board operates

Matters reserved for the Board's decision are detailed in the Group's internal control manual which is fully accessible across the organisation to all employees.

Matters reserved for the Board include:

- Financial reporting and controls;
- Internal controls;
- Contracts;
- Board membership and other appointments;
- Structure and capital; and
- Corporate governance.

The Board delegates its authority to the CEO who is responsible for delivering the

Group's strategic objectives. The CEO is assisted by the Executive Leadership Team, members of which meet with the CEO to set strategy and key objectives for their areas of responsibility. The CEO reports on operational progress and corporate actions to the Board. Where appropriate, the CEO is assisted by internal and external advisers in presenting operational progress and key strategic decisions to the Board.

Meetings

The Company Secretary supports the Chairman and the CEO in setting the Board agenda, ensuring appropriate reports from executive management and advisors are delivered in a timely manner and that the Board has the information it requires to make fully informed decisions.

Chantal Forrest was Company Secretary throughout the period, leaving the Group on 31 March 2014. Karen O'Donnell, the Group's Assistant Company Secretary, was appointed to the role from 1 April 2014.

During the year, the Board received presentations and considered the following matters:

- Operational strategy and performance, including health and safety;
- Financial strategy and performance;
- Customer service and satisfaction strategy and performance;
- Regulatory updates and progress against submission of the Well Justified Business Plan;
- Corporate Governance Updates;
- Corporate Social Responsibility and stakeholder engagement;
- Human resources and succession planning;
- Pension scheme; and
- Major capital projects.

Corporate Governance *(continued)*

Attendance

All Board members have access to the advice and services of the Company Secretary who is responsible for ensuring good information flow to the Board and its Committees, and that sound Board procedures are followed.

During the year under review, the Board held eight scheduled meetings, plus a strategy day at the Group's purpose built training centre in Blackburn, and an additional conference call.

The Company Secretary attended all Board meetings, as did the Interim Chief Financial Officer once in post from October 2013. At the discretion of the Board, senior management were invited to attend meetings when appropriate to specific items subject to discussion.

The table below shows attendance at Board meetings. To the extent members were unable to attend, their alternate Director attended in their stead. Surinder Toor's alternate was Mark Walters until 17 December 2013 when he was replaced by Paul Ryan and Niall Mills' alternate was Marcus Ayre.

Surinder ceased to be a Board member on 7 March 2014 when he was replaced by Mark Walters. Paul Ryan remained Mark's alternate.

	05/04/ 2013	24/05/ 2013	29/07/ 2013	02/10/ 2013 Strategy day	03/10/ 2013	27/11/ 2013	08/01/ 2014 Call	06/02/ 2014	31/03/ 2014
Mike Nagle	✓	✓	✓	✓	✓	✓	✓	✓	✓
Steve Johnson	✓	✓	✓	✓	✓	✓	✓	✓	✓
John Gittins	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mark Rogers	✓	✓	✓	✓	✓	✓	✓	✓	✓
Niall Mills	✓	✓	✓	✓	✓	✓	✓	✓	✓
Surinder Toor*	✓	✓	✓	✓	✓	✓	x	x	-
Michael McCallion +	x	x	-	-	-	-	-	-	-
John Roberts \$	-	-	-	-	-	-	-	-	✓
Mark Walters#	-	-	-	-	-	-	-	-	✓

+ Resigned 24 May 2013

* Ceased to be a Board member 7 March 2014

Appointed 7 March 2014

\$ Appointed 1 March 2014

Corporate Governance *(continued)*

External Commitments

Board members' external commitments are detailed in their profiles on pages 31 and 32.

Conflicts of interest are avoided as far as possible. Nonetheless actual or potential conflicts can arise occasionally and there are provisions in place under the Company's Articles of Association to deal with these in line with the Companies Act 2006. The Articles of Association allow that where a director has a conflict of interest, it can only be authorised by the Directors of the Company if instructed to do so by the Company's ultimate parent, North West Electricity Networks (Jersey) Limited. A register of Conflicts of Interest declared by Board members is held by the Company Secretary.

Annual General Meeting (AGM)

We do not hold an AGM so do not comply with the various requirements of the Code related to reporting to an annual meeting. As with the Company's other areas of non-compliance with the Code, this is a consequence of the Company being privately owned. Each of the Company's shareholders is represented on the Board and would not benefit from the communications opportunities offered by an AGM that are more relevant to a wider spread of shareholders. In addition, by virtue of their Board membership, shareholders are already actively involved in making the decisions traditionally reserved for annual meetings.

Board members are not subject to a rotational election process. However, refreshment of the Board is an area that the Board do consider to ensure that the membership retains its high level of skills, knowledge, experience and independence. The Board feels that the level of refreshment in the past two years has been appropriate and has ensured a good balance of membership, with the addition of Mark Rogers in September 2012, Mark Walters in March 2014, John Roberts in

March 2014 and Chris Dowling in May 2014.

Dialogue with stakeholders

The Board is committed to communicating with the Company's stakeholders in a clear and open manner.

The Company's shareholders are represented on the Board and in addition to formal Board meetings there are four investor workshops covering more detailed areas such as treasury or pensions issues.

We have strong and open relationships with our stakeholders, from our regulator, Ofgem, to local government and schools, emergency services, MPs and national government; we have a number of key relationships and a vast range of public sector stakeholders. Our industry engagement includes that with electricity suppliers, employees and contractors and other utilities. We have a stakeholder engagement strategy discussed in more detail on page 17.

In addition to the work detailed on page 16, our liaison with stakeholders has included work with local government, schools, emergency services, MPs and national government. Specifically:

- Regional workshops;
- Emergency planning meetings;
- Two MP events, survey and 1-1 engagement;
- Ongoing engagement through the CEO's chairmanship of Energy Networks Association (ENA); and
- School liaison through BrightSparks educational programme.

Our industry engagement includes that with electricity suppliers, employees and contractors and other utilities. This has included:

- Supplier meetings through ENA and our own one to ones;
- Contractor forums;
- National Joint Utilities Group; and
- Industry working groups.

Corporate Governance *(continued)*

We interact with a number of non-governmental organisations, including environmental and other lobby groups. We have a local and national perspective to our responsibilities. Stakeholders include National Parks, National Energy Action, British Red Cross, Consumer Futures. Work has included:

- Undergrounding for visual amenity quarterly group;
- External stakeholder panel;
- Regional workshops; and
- Participating in stakeholders' meetings/workshops.

Our financial stakeholders, including our investors, banks and credit rating agencies, clearly have a big impact on our organisation. For more information see: www.enwl.co.uk/about-us/investor-relations. We hold regular meetings with banks and credit rating agencies to keep them informed.

Insurance

The Group maintains an appropriate level of Directors' and Officers' Insurance. This offers indemnities in relation to losses and liabilities which Directors may incur to third parties in the course of the performance of their duties.

Introduction to the Committees

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

<i>Standing Committees, meeting on a regular pre-planned cycle:</i>
Audit Committee
Remuneration Committee
Health, Safety and Environment Committee
Use of Systems Pricing Committee
Financing Committee

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

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

Each Committee has terms of reference which were reviewed in January 2013, as was membership of the Committees to ensure effective operation. Membership is scheduled to be reviewed in November 2014 to ensure effective deployment of the Sufficiently Independent Directors (SIDs) throughout the Committee structure.

The Code requires that a board have a formal Nominations Committee and although the Board has not established this committee, it has delegated the responsibilities of a Nominations Committee to the Remuneration Committee.

Corporate Governance *(continued)*

Introduction from the Audit Committee Chairman

Set out on the following pages is an overview of the operation and scope of the Audit Committee and its work over the 2013/14 reporting period.

The Board considers the accuracy and integrity of the Group's financial reporting systems and statements, and the effectiveness of its risk management and internal control systems, are crucial to the business and to its ability to measure and therefore to sustain or improve our performance in line with the strategic objectives.

The Audit Committee supports the Board in its oversight and monitoring of financial reporting, risk management and internal controls and corporate governance arrangements, testing and challenging these areas with management and the internal and external auditor as appropriate.

The Committee advises the Board on the appointment, re-appointment and removal of the external auditor as well as the effectiveness of the audit process. The Committee also reviews the Group's whistleblowing arrangements.

Membership of the Committee is detailed on page 40 and its terms of reference include all matters delegated to it by the Board. They are approved and reviewed by the Board on an annual basis and are available on the Company website at www.enwl.co.uk.

John Gittins
Chairman of the Audit Committee

Report of the Audit Committee

During the year to 31 March 2014, the Committee comprised the Chairman, independent non-executive Director John Gittins and four further non-executive directors, comprising Niall Mills, Mike Nagle, Mark Rogers and Surinder Toor. Surinder ceased to be a Director on 7 March and Mark Walters and John Roberts were appointed to the Committee on 31 March 2014.

The Directors' relevant experience is detailed in the biographies on pages 31 and 32.

The Committee met three times during the year, in line with the financial reporting timetable and also held one conference call. Those additional individuals invited to attend the meetings, in whole or in part as appropriate, throughout the year included the Chief Executive Officer, the Interim Chief Finance Officer, the Head of Treasury and Investor Relations, the Head of Risk, Control and Assurance and the external auditor. As in previous years, the Committee met for part of the meeting with the external auditor without management present.

Attendance at meetings was as follows:

	01/5/ 2013	24/5/ 2013	03/10/ 2013	06/2/ 2013
John Gittins	✓	✓	✓	✓
Niall Mills	✓	✓	✓	✓
Mike Nagle	✓	✓	✓	✓
Mark Rogers	✓	✓	✓	✓
Surinder Toor*	x	✓	✓	x

Corporate Governance *(continued)*

Report of the Audit Committee *(continued)*

* Attendance by alternate directors Mark Walters on 1 May 2013 and by Paul Ryan on 6 February 2014. Paul Ryan was appointed as Surinder Toor's alternate on 17 December 2013, succeeding Mark Walters.

The Chairman of the Audit Committee also meets regularly with the Head of Risk, Control and Assurance and the notes of these meetings are circulated to the Committee and reviewed at Committee meetings. Actions are also captured on the Committee's action log and reviewed accordingly.

External Audit

At the meeting in February 2014 the Committee recommended the reappointment of Deloitte LLP for the 2013/14 reporting period. We believe that Deloitte continue to retain their independence, displayed through their continued challenge, their processes, appropriate reporting and discussions with both management and the Committee.

In line with the requirements of the Revised Ethical Standards for auditors issued by the Audit Practices Board, the senior audit partner is rotated every five years. The current senior audit partner was appointed at the beginning of the 2012/13 financial reporting period.

We acknowledge the Competition and Markets Authority's intention to issue an Order that it will be mandatory for FTSE 350 companies to put their audit out to tender at least once every 10 years. This is in place of the recommended tender requirement inserted into the Code in September 2012. Although we are not a listed company, we intend to keep in line with both good practice and with the spirit of the Code, and will keep this requirement under review as appropriate.

This year's annual audit is the eleventh conducted by Deloitte LLP and should the Group elect to comply with the revised audit tender requirements, the transitional arrangements allow that the audit must go out to tender within two years of the end of the current engagement partner's five year period. We would therefore be required to tender the audit before 31 March 2019.

To ensure continued auditor independence, the Committee reviewed compliance with its policy on non audit services to ensure this policy was not breached during the year. The auditor's statement on ensuring audit independence, in compliance with the Audit Practices Board, was also subject to review.

To assess the effectiveness of the external audit, the Committee undertook an extensive review of the 2012/13 audit, taking into account feedback from all members of the Board and Audit Committee and from a number of employees with significant audit contact, including the internal audit function. No significant concerns were noted and the feedback received was discussed with Deloitte as part of the 2013/14 audit briefing and, where appropriate, was incorporated into the planning for the 2013/14 audit.

Policy on non audit work and any undertaken

The Group has a policy to ensure that the provision of non audit work by the auditor does not impair their independence or objectivity. There are processes in place to ensure audit independence, for example ensuring separate teams are utilised to undertake audit and non audit work. When considering non audit work, the Committee at all times give consideration to the provisions of the FRC Guidance on Audit Committees regarding the preservation of independence.

There were two pieces of non audit work carried out by Deloitte during the year; these were in respect of tax advice regarding index linked swaps in May 2013

Corporate Governance *(continued)*

Policy on non audit work and any undertaken *(continued)*

and tax advice relating to the Group's outstanding retail property leases in November 2013. The fees for both of these were significantly below the materiality threshold set by the Board.

Internal Audit

The Board retains overall responsibility for establishing the systems of internal control and monitoring its ongoing effectiveness. The Committee agrees the annual Internal Audit Plan and monitors ongoing progress through reporting and discussion at every Committee meeting. Detailed reports from the Head of Risk, Control and Assurance are received which include the results of internal audits and any action plans to address identified weaknesses.

Risk Management

The Committee oversees the Group's risk management framework and works with the Board to conduct an annual review of the Group's strategic risks. The Group has a clear risk management strategy in place and the Group's internal audit function works with management to prepare an annual assessment of the risks facing the Group. These risks are identified both as a result of the assurance work in the Group's operational and non-operational control environment, through discussion with senior management and regular liaison with the Group's risk co-ordinators throughout the year. Details of the principal risks facing the Group and actions taken to mitigate and control them are detailed on pages 25 to 30.

Work of the Committee

The main activities of the Committee during the year and in the subsequent period were:

- The approval and ongoing monitoring of the 2013/14 Internal Audit programme;
- Treasury Operations reporting in line with the requirements of the Group's Treasury Policy;
- The Senior Accounting Officer Update to summarise the results of the Group's internal certification to confirm to HM Revenue and Customs that there are no areas where the Group's accounting arrangements are not considered appropriate for tax reporting purposes;
- Review and agreement of the Group's risk management strategy and strategic aims for the year;
- Investigation of an allegation made during the year in accordance with the Group's Disclosure (Whistleblowing) Policy. The Committee were satisfied that a very thorough internal investigation had been undertaken and no further action was necessary;
- Review and updating of the Group's Disclosure (Whistleblowing) Policy and establishing a whistleblowing hotline through an external provider as an additional method for employees to report concerns;
- Review of the Committee's Terms of Reference and its alignment with the Institute of Chartered Secretaries and Administrators model Terms of Reference for Audit Committees; and
- Review of the effectiveness of the Group's risk management and internal controls on behalf of the board.

Specifically related to the annual external audit, the following activities took place:

- Review of the Agreed Upon Procedures to be undertaken by the external auditors as part of the half year review at 30 September 2013;
- Reappointment of external auditor and consideration and approval of fees for both statutory audit procedures and other audit related services;
- Consideration of the external auditor's Planning and Final Reports for the 2013/14 Annual Report and Financial Statements; and

Corporate Governance *(continued)*

Work of the Committee *(continued)*

- Formal Annual meeting with the external auditors without Management present.

The significant issues considered regarding the 2013/14 Financial Statements were:

- Accounting for financial instruments held by the Group, including index linked swaps. This is a complex area and due to the complexity, there is a risk that these instruments are incorrectly valued, accounted for or disclosed in the financial statements. Management take specialist advice in this area and the calculations are subject to review;
- Pension deficit calculations, which involve actuarial assumptions that are judgemental, where small changes in assumptions can have a significant impact on the valuation. The Committee have considered Management's assessment of current market conditions, advice from external actuaries, and benchmarking against other utilities, including consideration of the extended disclosure requirements under IAS19 (revised 2011);
- Capitalisation of costs and the potential for inappropriate capitalisation of items which are expenditure in nature. Consideration has been given to the internal controls in place to manage this risk, including the rules and guidance in place for Project Managers in determining capital expenditure and the annual review by Management of overhead capitalisation rates being applied;
- Compliance with the key corporate governance disclosures resulting from changes made by UK regulatory authorities relevant to the reporting period, along with wider legal, regulatory and environmental compliance issues;

- Appropriateness of the Group's judgements with regard to its retail property provision;
- Management's assessment of the Group's ability to continue as a going concern, the appropriate treatment of fixed asset spend and asset impairment;
- Taxation assumptions; and
- Revenue recognition policy and unbilled income accruals.

Fair balanced & understandable

The Audit Committee terms of reference, revised in 2013 to reflect the requirements of the September 2012 UK Corporate Governance Code, now require that the Committee review the financial statements, at the Board's request, to ensure they are fair, balanced and understandable.

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

- Detailed review and appropriate challenge from key internal Group functions, such as Group Risk, Assurance and Internal Audit;
- Formal sign-offs from the business area senior managers, the finance managers and Interim CFO;
- Group Audit Committee oversight, involving a review of key financial reporting judgements, review and appropriate challenge on matters such as any changes to significant accounting policies and practices during the year, significant adjustments and the going concern assumption;
- The involvement of qualified, professional employees with an appropriate level of expertise and experience throughout the business; and

Corporate Governance *(continued)*

Fair balanced & understandable *(continued)*

- Engagement of a professional and experienced firm of external auditors, a framework for full transparent disclosure of information during the audit process and post audit evaluation.

As a result of these processes together with the information and assurance provided by the day to day internal control processes, the information provided by the Executive Leadership Team and the in-depth reporting required by Ofgem, both the Audit Committee and the Board are satisfied that the Annual Report and Financial Statements taken as a whole, provide a fair, balanced and understandable assessment of the Group's position at 31 March 2014.

Introduction from the Remuneration Committee Chairman

I am pleased to present the report of the Remuneration Committee, outlining our activities during the year.

As a Remuneration Committee, we set the remuneration for the executive Directors and review the remuneration of the other members of our executive management and employees generally. We do so in the context of the Group's overall strategy. We aim to align financial interests of the executive Directors and other management and employees with achievements of the Group's objectives.

The structure and levels of remuneration of the Group's executive Directors and other members of the Executive Leadership Team are key elements in the Company successfully achieving its strategic objectives.

During the year we recruited John Roberts as independent non-executive Chairman of the Board, who also fulfils the role of a SID as required by our regulator. John is

working with the Remuneration Committee to recruit a further independent non-executive Director.

Recruitment has also been ongoing for a Chief Financial Officer following Michael McCallion's departure from the Board in May 2013. Pending conclusion of this process an Interim Chief Financial Officer was appointed in October 2013.

Niall Mills

Chairman of the Remuneration Committee

Corporate Governance *(continued)*

Report of the Remuneration Committee

As a privately owned company we are not required to provide a remuneration report in line with the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. However, we are required to report to our regulator on Director's remuneration against Section 42(C) of the Electricity Act 1989 (as amended by Section 61 of the Utilities Act 2000). This statement reports upon the percentage of a Director's remuneration under arrangements that link pay to performance of service standards in connection with activities subject to price regulation. This statement is available on our website.

Membership of the Committee

The Code provides that all members of the Remuneration Committee should be independent non-executive Directors.

During the period the Group did not comply with this requirement, although membership did comprise John Gittins, independent non-executive Director, and non-executive Directors Mike Nagle, Surinder Toor, Mark Rogers and Committee chairman Niall Mills. There were no executive members of the Committee during the period and none of the Directors are responsible for setting their own remuneration.

The Committee is supported by the Business Services director. The CEO does attend Committee meetings except when his remuneration is being discussed.

Attendance at meetings

There were six committee meetings during the year and attendance was as follows:

	03/04/13	24/05/13	29/07/13	27/11/13	06/02/14	31/03/14
Niall Mills	✓	✓	✓	✓	✓	✓
John Gittins	✓	✓	✓	✓	✓	✓
Mike Nagle	✓	✓	✓	✓	✓	✓
Mark Rogers	✓	✓	✓	✓	✓	✓
John Roberts +	-	-	-	-	-	✓
Mark Walters+	-	-	-	-	-	✓
Surinder Toor*	✓	✓	✓	✓	x	-

+ Appointed 31 March 2014

* Ceased to be a Board member 7 March 2014

Corporate Governance *(continued)*

Attendance at meetings *(continued)*

The Remuneration Committee terms of reference sets out clearly the Committees authority and duties and were reviewed by the Board in January 2013. These are available to shareholders on request.

The Board does not have a Nomination Committee and therefore does not comply with the Nomination Committee requirements detailed in the code. However, the Board has delegated the responsibility for the leadership needs of the Group to the Remuneration Committee and this is clearly stated in that Committee's terms of reference.

The Remuneration Committee received independent advice on executive compensation from PricewaterhouseCoopers LLP, which supports the Committee in the delivery and development of our reward and human resources strategy.

The Committee worked with independent executive search consultancy Heidrick and Struggles to develop a detailed specification for the role of non-executive Chairman and an additional independent non-executive Director and to lead the recruitment process. The role specifications were developed after an evaluation of the balance of skills, experience, independence and knowledge required for each appointment.

The CEO and Business Services Director are working with a firm of independent executive consultants to appoint a CFO. The role profile has been agreed by all stakeholders.

The Committee has oversight of the main compensation structures of the Group and is satisfied that the incentive structures in place encourage long term sustainability and are consistent with the risk profile and objectives of the Group. We believe that salaries are fair and competitive, sufficient

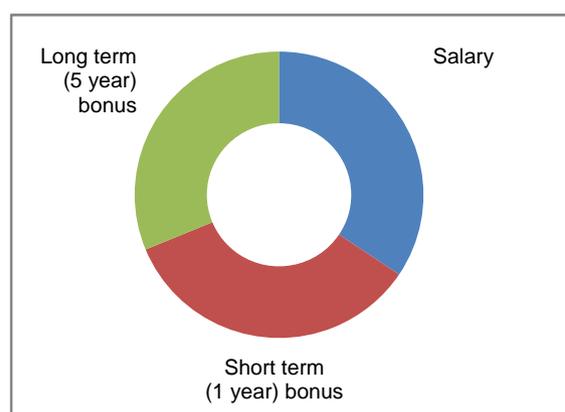
to attract and retain individuals of the highest calibre, ensuring they are appropriately remunerated in the context of the Group's strategic objectives and the utilities industry. Also, we believe that the long and short term bonus structure in place provides the executive Directors with the potential to be compensated appropriately when Group performance is in line with long term strategy and safeguards against rewarding poor performance.

Share options are not offered as an incentive to executive or non-executive Directors as the Company is privately owned.

The service contracts and terms and conditions of appointment of the non-executive Directors are available to our shareholders on request.

Executive Directors

The allocation of total reward to base salary and, (maximum) performance-based, short-term and long-term incentive plans for the CEO is broadly 46% basic salary, 23% short term on plan and 31% long term on plan.



Corporate Governance *(continued)*

Executive Directors *(continued)*

Element	Purpose and link to strategy	Framework
Basic Salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked but also reflect the Director's experience and time at Director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, Directors are provided with a car allowance and medical insurance.
Bonus – short term	Annual bonus is used to incentivise short term performance and delivery of our business plan targets. Reward levels recognise achievement against both financial performance and key operational metrics.	Short term corporate objectives are based on a balanced scorecard approach. Following Health & Safety best practice is considered to be an essential part of any role and Directors therefore receive no Health & Safety related incentives.
Long Term Incentive Plan (LTIP)	Long term incentive payments are structured to incentivise strategic and innovative behaviours over the longer term.	The long term bonus is based on financial performance during DPC5. Key metrics are Ofgem assessments and shareholder objectives. Performance results will be independently audited before any final settlements are made. The bulk of any payments are deferred until after the end of DPC5.
Pension	Employees who joined the business before 2006 are members of a historic defined benefit scheme. Anyone joining the Group after that date is offered membership of a competitive defined contribution scheme. Life assurance cover is also provided.	Directors are offered the same level of defined contribution benefits as all other employees. No directors are members of the defined benefit scheme which is now closed to new members.

Corporate Governance *(continued)*

Executive Directors *(continued)*

Remuneration for new roles and appointments is set after seeking advice from independent remuneration experts and using benchmarked data. As with existing Directors, this is designed to be competitive but not excessive and reflects the experience of the new appointees.

Non-executive Directors

Fees for non-executive Directors are set to attract and retain high calibre individuals. The fee levels are reviewed on a periodic basis, taking into account factors such as the time commitment of the role, and are benchmarked against other utility companies.

Corporate Governance *(continued)*

Introduction from the Health, Safety & Environment Committee Chairman

The continued improvements and success achieved by the Group in relation to health, safety and environment management were overshadowed by the tragic death of an employee in a workplace accident in November 2013. This accident serves as a stark reminder of the significant risks that can be associated with the operation and maintenance of the electricity distribution system and why continued investment and focus on health and safety issues remains a priority for the Group.

During the reporting period, the Committee oversaw significant developments in areas such as performance management, near miss reporting, occupational road risk, drug and alcohol testing, contractor management, and occupational health as well as the achievement of preventive maintenance and asset health targets. The Committee were especially pleased to see the completion of the Group's purpose built training centre in Blackburn, touring the facility and meeting apprentices as part of a Board strategy day in October 2013.

The Committee will continue to ensure that health, safety and environmental issues remain at the heart of the business now and into the RIIO price review period.

Niall Mills

Chairman of the Health, Safety & Environment Committee

Report of the Health, Safety & Environment Committee

The Committee comprised the Chairman, non-executive Director Niall Mills, non-executive Director Mike Nagle, Chief Executive Officer Steve Johnson and three members of the Executive Leadership Team, Operations Director Greg Fernie, Business Services Director Helen Sweeney and Network Strategy and Technical Support Director Mike Kay.

Meetings have also been attended by other members of the Board on a regular basis and minutes are circulated as soon as possible to the whole Board as this is a key priority area.

The Committee met three times during the year and the Head of Health, Safety and Environment and the Company Secretary attend all of the meetings.

Attendance at these meetings was as follows:

	09/05/13	13/12/13	31/03/14
Niall Mills	✓	✓	✓
Mike Nagle	✓	✓	✓
Greg Fernie	✓	✓	✓
Helen Sweeney	✓	✓	✓
Steve Johnson	✓	✓	✓
Mike Kay	✓	✓	✓

Corporate Governance *(continued)*

Report of the Health, Safety & Environment Committee *(continued)*

Issues considered by the Committee during the year included:

- Launch of a new near miss reporting system in September 2013, resulting in an increase in near misses reported, providing valuable trend data and generating a significant amount of corrective action;
- The Group's successful recertification to OHSAS 18001 health and safety management standard and retention of the ISO 14001 environmental management standard certification;
- On road driver training for all high risk drivers in the Group and a series of Driver Performance and Human Factors Awareness Coaching sessions held for medium and low risk drivers;
- Installation of reversing cameras in fleet vehicles, an initiative that will continue throughout 2014; and
- Establishment of a new health surveillance programme.

The Committee set very clear objectives for health and safety improvements in May 2013, a number of which have been achieved prior to the year end, including development and implementation of the new near miss reporting system and the hosting of a contractor health and safety forum, held in October 2013. A full review of these objectives is scheduled for May 2014.

We have a number of investment programmes aimed at reducing specific safety risks on our network and these comprise the following areas for RIIO ED1:

- Site security – through initiatives such as improved fencing, CCTV installation, watermarking and asset tagging;
- Safe climbing – through installation of specialist fixing systems on our steel towers allowing our people to secure themselves when working at height. This work has already commenced with

1,900 towers completed and the remaining 1,600 towers will be completed by 2023; and

- Asbestos management – removing or making safe the asbestos at our indoor and outdoor substation sites.

These areas will be monitored carefully by the Health, Safety and Environment Committee over the RIIO-ED1 period.

Use of System Pricing Committee

The Use of System Pricing Committee (UoS) of the Board comprises the Chief Executive Officer, Steve Johnson, Regulation Director, Paul Bircham and Customer Director, Susan Stockwell. The Committee meets to approve all the prices contained in the Standard Licence Condition 14 Statement.

The Committee met once during the year, in December 2013, to approve prices from 1 April 2014.

Finance Committee

The Finance Committee was established in 2012 to oversee the financial risk management strategy, policy and treasury matters as delegated by the Board. The Committee comprises the Chief Executive Officer, Steve Johnson and the Chief Finance Officer. It met once during the year, in January 2014.

Ad Hoc Committees

As the need arises, non-standing Committees are established to deal with specific issues on an ad-hoc basis.

The Banking Committee was established to authorise issue of the Group's bank mandates. The Committee did not meet during the reporting period.

The Retail Property Lease Committee was established in February 2013 to review proposals for those sites where the Company was either leaseholder or

Corporate Governance *(continued)*

Ad Hoc Committees *(continued)*

guarantor under privity of contract rules for a third party company, who entered into administration in November 2012, and where the transaction relating to the disposal, surrender or assignment of any unit exceeded £1 million.

During the year the Committee comprised non-executive Director Niall Mills, investor representative Mark Walters, the Chief Executive Officer, Steve Johnson, Business Services Director Helen Sweeney and Company Secretary and General Counsel Chantal Forrest.

The Committee did not meet formally during the year; however they did review and approve, the disposal of five sites.

Directors' Report

The Directors present their Annual Report and the Consolidated Financial Statements of Electricity North West Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2014.

Dividends

In the year ended 31 March 2014 the Company paid dividends of £83m (31 March 2013: £66m). This figure represents interim payments of £15m paid in June 2013 and £68m paid in December 2013 (31 March 2013: This figure represented interim payments of £23m paid in June 2012 and £43m paid in December 2012). The Directors do not propose a final dividend for the year ended 31 March 2014 (31 March 2013: same).

On 21 May 2014, the Board of Directors approved an interim dividend for the financial year ending 31 March 2015, of £37m, (7.76p per share) payable in June 2014.

Directors

The Directors of the Company during the year ended 31 March 2014 are set out below. Directors were appointed for the whole year except where otherwise indicated.

Executive Directors

S Johnson

M G McCallion (resigned 24 May 2013)

Non-executive Directors

Dr J Roberts (appointed 1 March 2014)

J A Gittins

N P Mills

M A Nagle

M Rogers

S S Toor (resigned 7 March 2014)

M A Walters (appointed 7 March 2014)

Alternate Directors during the year were:

M L Ayre

M A Walters (resigned 17 December 2013)

P Ryan (appointed 17 December 2013)

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

Directors' and Officers' insurance

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

People

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

Corporate Social Responsibility

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

Research and development

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

Financial instruments

The risk management objectives and policies of the Group in relation to the use of financial instruments can be found in the Strategic Report and in note 16 to the financial statements.

Fixed assets

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

Capital structure

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

Directors' Report (continued)

Commitments

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

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 Group.

In accordance with section 487 of the Companies Act 2006, Deloitte LLP are deemed to be re-appointed as auditor of the Company.

Registered address

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

Registered number: 2366949

Approved by the Board on 23 May 2014
and signed on its behalf by:

S Johnson
Director

Directors' Responsibilities Statement

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

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

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

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

the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Opinion on financial statements of Electricity North West Limited

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income, 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 IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

We have reviewed the directors' statement on pages 23 and 24 that the group is a going concern. We confirm that:

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

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

Our assessment of risks of material misstatement

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

Risk

How the scope of our audit responded to the risk

Treasury accounting

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

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

We tested a sample of valuations in respect of the interest rate and index-linked swaps held by the group, including an assessment of the application of credit risk under IFRS 13. In addition we recalculated the carrying value of the bonds held at both amortised cost and at fair value through profit and loss in the group, along with the associated amortisation and interest charges as the bonds unwind to maturity. We have challenged management regarding the approach to classifying the derivatives as Level 2. In addition our review of the financial statements assessed whether the disclosures made in notes 15 and 16 are consistent with the requirements of IFRS 13 and IFRS 7.

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

Pensions accounting

Accounting for defined benefit pension schemes under IAS 19 Revised is complex and involves actuarial assumptions that are judgemental. Small changes in assumptions can have significant effects on the funding obligations and therefore on the financial statements.

We have tested the valuation of the pension assets as at 31 March 2014 in order to assess whether the balance is appropriately stated in the financial statements and reviewed the assumptions behind the pensions liabilities. In addition, our internal actuaries have supported the audit team in our assessment of the valuation at 31 March 2014 by reviewing the assumptions behind the actuarial report and comparing to the Deloitte illustrative benchmarks for comparator companies. We have also reviewed the disclosures made in the financial statements to determine whether they are in line with IAS 19 Revised.

Inappropriate capitalisation of costs

The effect of inappropriate capitalisation of costs is that items capital in nature are expensed, whilst items which are expenditure in nature are conversely capitalised. The risk is that this can lead to misstated profits and assets.

As part of our tangible fixed asset audit we tested a sample of additions to consider whether those items are capital in nature. We also tested a representative sample of re-charges and consider the level of overhead absorption on a departmental basis. In addition, a sample of capital projects are reviewed in detail, with discussions and supporting documentation obtained from the project managers in order to better understand those projects and determine the specific nature of the spend.

The Audit Committee's consideration of these risks is set out on page 42.

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

Our application of materiality

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

We determined planning materiality for the group to be £4.2 million using revenue as the determining base. This materiality is below 2% of pre-tax profit and below 1% of equity.

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

An overview of the scope of our audit

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

At the parent entity level we also tested the consolidation process.

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

- Opinion on other matters prescribed by the Companies Act 2006**
- In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

- Adequacy of explanations received and accounting records**
- Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
 - adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
 - the parent company financial statements are not in agreement with the accounting records and returns.
- We have nothing to report in respect of these matters.

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

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

- Our duty to read other information in the Annual Report**
- Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
 - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
 - otherwise misleading.

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

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

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

Jane Boardman BSc ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom
23 May 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2014

	Note	Group 2014 £m	*Restated Group 2013 £m
Revenue	2	508.0	468.0
Employee costs	3,4	(43.7)	(39.6)
Depreciation and amortisation expense (net)	3	(89.5)	(85.5)
Retail property provision credit/(charge)	3,18	1.5	(20.6)
Other operating costs		(95.9)	(98.1)
Total operating expenses		(227.6)	(243.8)
Operating profit	3	280.4	224.2
Investment income	5	0.4	0.7
Finance expense (net)	6	(78.7)	(54.3)
Profit before taxation		202.1	170.6
Taxation	7	(14.8)	(27.4)
Profit for the year attributable to equity shareholders	25	187.3	143.2

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

* Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Note	Group 2014 £m	*Restated Group 2013 £m
Profit for the financial year		187.3	143.2
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension schemes	20	74.1	(108.5)
Deferred tax on remeasurement of defined benefit pension schemes taken directly to equity	21	(14.8)	25.0
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	21	(5.7)	(0.8)
Other comprehensive income/(expenses) for the year		53.6	(84.3)
Total comprehensive income for the year attributable to equity holders		240.9	58.9

	Note	Company 2014 £m	*Restated Company 2013 £m
Profit for the financial year		187.3	141.1
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension schemes	20	74.1	(108.5)
Deferred tax on Remeasurement of defined benefit pension schemes taken directly to equity	21	(14.8)	25.0
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	21	(5.7)	(0.8)
Other comprehensive income/(expenses) for the year		53.6	(84.3)
Total comprehensive income for the year attributable to equity holders		240.9	56.6

*Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

	Note	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	9	22.0	22.0	29.2	29.2
Property, plant and equipment	10	2,693.4	2,693.4	2,559.6	2,559.6
Investments	11	-	15.4	-	15.4
		2,715.4	2,730.8	2,588.8	2,604.2
Current assets					
Inventories	12	7.3	7.3	5.2	5.2
Trade and other receivables	13	62.2	62.2	60.7	60.6
Cash and cash equivalents	14	65.3	65.3	68.5	68.5
		134.8	134.8	134.4	134.3
Total assets		2,850.2	2,865.6	2,723.2	2,738.5
LIABILITIES					
Current liabilities					
Derivative financial instruments	16	-	-	(31.7)	(31.7)
Trade and other payables	17	(143.1)	(158.8)	(139.3)	(154.9)
Provisions	18	(3.8)	(3.8)	(8.5)	(8.5)
Current income tax liabilities		(22.9)	(22.9)	(18.3)	(18.3)
Borrowings	15	(67.4)	(67.4)	-	-
		(237.2)	(252.9)	(197.8)	(213.4)
Net current liabilities		(102.4)	(118.1)	(63.4)	(79.1)
Non-current liabilities					
Borrowings	15	(1,085.3)	(1,085.3)	(1,112.8)	(1,112.8)
Derivative financial instruments	16	(95.5)	(95.5)	(65.3)	(65.3)
Provisions	18	(5.8)	(5.8)	(11.5)	(11.5)
Retirement benefit obligations	20	(37.1)	(37.1)	(105.8)	(105.8)
Deferred tax	21	(199.4)	(199.4)	(210.1)	(210.1)
Customer contributions	22	(499.1)	(499.1)	(486.5)	(486.5)
Refundable customer deposits	23	(2.6)	(2.6)	(3.1)	(3.1)
		(1,924.8)	(1,924.8)	(1,995.1)	(1,995.1)
Total liabilities		(2,162.0)	(2,177.7)	(2,192.9)	(2,208.5)
Total net assets		688.2	687.9	530.3	530.0
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	104.5	104.5	105.7	105.7
Capital redemption reserve	25	8.6	8.6	8.6	8.6
Retained earnings	25	332.3	332.0	173.2	172.9
Total equity		688.2	687.9	530.3	530.0

The financial statements of Electricity North West Limited (registered number 2366949) were authorised for issue and approved by the Board of Directors on 23 May 2014 and signed on its behalf by:

S Johnson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

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 (restated)	-	-	-	-	143.2	143.2
Transfer from revaluation reserve	-	-	(2.2)	-	2.2	-
Other Comprehensive income for the year (restated)	-	-	-	-	(84.3)	(84.3)
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
Profit for the year	-	-	-	-	187.3	187.3
Transfer from revaluation reserve	-	-	(1.2)	-	1.2	-
Other comprehensive income for the year	-	-	-	-	53.6	53.6
Total comprehensive (expense)/income for the year		-	(1.2)	-	242.1	240.9
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(83.0)	(83.0)
At 31 March 2014	238.4	4.4	104.5	8.6	332.3	688.2

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

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

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	-	-	-	-	140.9	140.9
Transfer from (restated) revaluation reserve	-	-	(2.2)	-	2.2	-
Other Comprehensive income for the year (restated)	-	-	-	-	(84.3)	(84.3)
Total comprehensive (expense)/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
Profit for the year	-	-	-	-	187.3	187.3
Transfer from revaluation reserve	-	-	(1.2)	-	1.2	-
Other comprehensive income for the year	-	-	-	-	53.6	53.6
Total comprehensive (expenses)/income for the year	-	-	(1.2)	-	242.1	240.9
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(83.0)	(83.0)
At 31 March 2014	238.4	4.4	104.5	8.6	332.0	687.9

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

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

		Group	Company	Group	Company
	Note	2014	2014	2013	2013
		£m	£m	£m	£m
Operating activities					
Cash generated from operations	28	350.8	350.8	289.4	289.4
Interest paid		(87.0)	(87.0)	(47.5)	(47.5)
Tax (paid)/received		(29.2)	(29.2)	2.1	2.1
Net cash generated from operating activities		234.6	234.6	244.0	244.0
Investing activities					
Interest received and similar income		0.3	0.3	0.7	0.7
Purchase of property, plant and equipment		(234.6)	(234.6)	(212.8)	(212.8)
Customer contributions received		28.9	28.9	28.4	28.4
Proceeds from sale of property, plant and equipment		0.6	0.6	0.5	0.5
Net cash used in investing activities		(204.8)	(204.8)	(183.2)	(183.2)
Net cashflow before financing activities		29.8	29.8	60.8	60.8
Financing activities					
Proceeds from borrowings		50.0	50.0	-	-
Transfer from money market deposits		-	-	25.0	25.0
Accretion payment		-	-	(10.3)	(10.3)
Dividends paid to equity shareholders of the Company		(83.0)	(83.0)	(66.0)	(66.0)
Net cash used in financing activities		(33.0)	(33.0)	(51.3)	(51.3)
Net (decrease)/increase in cash and cash equivalents		(3.2)	(3.2)	9.5	9.5
Cash and cash equivalents at the beginning of the year	14	68.5	68.5	59.0	59.0
Cash and cash equivalents at the end of the year	14	65.3	65.3	68.5	68.5

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:

- The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating.
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.
- Management has prepared, and the Directors have reviewed, updated Group forecasts for the remainder of the DPC5 period and at 31 March 2014 which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom on key covenants and that sufficient resources are available within the forecast period.
- The latest forecasts used to assess going concern form part of the 2015-23 regulatory price review (RIIO-ED1) process and therefore extend beyond the normal 12 month forecasting period. During the year ENWL submitted a business plan proposal to Ofgem covering the period 2015 - 2023. Feedback on this submission is expected in July 2014, this inevitably leaves a level of uncertainty around future revenues. The forecasts demonstrate sufficient liquidity and headroom against the key covenant ratios including when sensitised for variations in operational performance.
- Short-term liquidity requirements are forecast to be met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, £100m of committed undrawn bank facilities are available from lenders which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions, projections to 31 March 2015 indicate there is significant headroom on these covenants.
- The next debt maturity is the £67m loan from North West Electricity Networks Limited originally due to mature in March 2015 but has been extended to June 2015 subsequent to the year end. It is the intention of North West Electricity Networks Limited to renew this intercompany loan. North West Electricity Networks Limited is well advanced with plans to refinance the related external bond on its maturity and has received credit approved offers from four banks rated A or above for standby facilities to increase its flexibility as to the timing of any replacement bond issuance.

Notes *(continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation – going concern basis *(continued)*

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

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

Adoption of new and revised standards

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.

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

IAS 19 (revised 2011) and the related consequential amendments have impacted the accounting for the Group's defined benefit scheme, by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit.

For the year ended March 2014 the restated profit after tax is £9.2m lower, of which £2.3m relates to deferred tax, (2013: £3.7m lower of which £1.1m relates to deferred tax) and other comprehensive expense is £9.2m lower (of which £2.3m relates to deferred tax) (2013: £3.7m lower of which £1.1m relates to deferred tax) than previously reported. The Group has always recognised actuarial gains and losses immediately. There has been no effect on the defined benefit obligation.

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.

Notes *(continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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
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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.

Notes *(continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Notes *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 £0.9m (2013: £0.3m), using an average annual capitalisation rate of 5.9% (2013: 5.4%).

Notes *(continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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'. IFRS 13 provides clarity around the methodology for measuring fair value. The Group applies the definition of fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. This change has led to a change in the methodology the Group uses to value index-linked swaps.

The fair value methodology for derivative financial instruments under IFRS 13 has been 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.

Derivative financial instruments and hedge accounting

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

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

Hedge accounting

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

Notes *(continued)*

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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; agreed Actuarial valuations are carried out thereafter at intervals of not more than three years. The 31 March 2013 valuation is being completed and expected to be finalised in 2014. The pension cost under IAS 19 (Revised 2011) 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 20 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the scheme's assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants. Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the Statement of Financial Position.

IAS 19 (revised 2011) and the related consequential amendments have impacted the accounting for the Group's defined benefit scheme, by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit. The net interest expense is recognised within finance costs (see note 6)

Notes *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits - Retirement benefit obligations *(continued)*

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

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

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

Revenue recognition

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

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

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

Customer contributions

Contributions 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.

Notes *(continued)*

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 2014 was £2,693.4m (2013: £2,559.6m). Additions to PPE, totalled £227.9m (2013: £217.2m) and the depreciation charge was £93.7m (2013: £88.2m) in the year ended 31 March 2014. The estimated useful economic lives of PPE are based on management's judgement and experience. When management identify that the actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

In the financial year ended 31 March 2014, 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 RIIO-ED1 and beyond, no impairment exists. Furthermore, management have completed a review of tangible fixed assets for material obsolescence and/or physical damage and no indication of impairment was identified.

Revenue recognition

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

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

Notes *(continued)*

1. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

The Company held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to a third party in 1996. However, the third party went into administration during 2013 and the Company still has a potential liability for lease obligations under privity of contract rules for these retail properties. The retail properties have lease expiry dates ranging from 2014 to 2021. The Directors have recognised a provision based on the probable financial exposure, having consulted with both internal and external property advisors and property management agents. Further information on the judgements involved is provided in note 18 to the financial statements.

Retirement benefits

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

Fair values of derivative financial instruments

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

The Group is therefore subject to volatility in the Income Statement due to changes in the fair values of the derivative financial instruments. Further information on the judgements involved is provided in note 16 to the financial statements.

Notes (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of goodwill

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

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

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

Impairment of intangibles

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

Notes (continued)

2 REVENUE

Group	2014	2013
	£m	£m
Revenue	508.0	468.0

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is therefore regularly reviewed by the Chief Executive Officer and Executive Leadership Team. Included within the above are revenues of approximately £374.9m (2013: £345.9m) which arose from sales to the Group's five (2013: five) largest customers. Customer 1 represented £115.4m (2013: £108.4m), Customer 2 £102.5m (2013: £94.4m), Customer 3 £71.0m (2013: £65.3m), Customer 4 £43.8m (2013: £40.3m) and Customer 5 £42.2m (2013: £37.5m) 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	2014	*Restated 2013
	£m	£m
Employee costs		
Employee costs (see note 4)	43.7	39.6
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
Owned assets (see note 10)	93.7	88.2
Amortisation of intangible assets and customer contributions		
Software (see note 9)	7.2	8.3
Customer contributions ¹ (see note 22)	(11.4)	(11.0)
Depreciation and amortisation expense (net)	89.5	85.5
Other income		
Profit on disposal of property, plant and equipment	(0.2)	(0.6)
Retail property provision credit/(charge) (see note 18)	1.5	(20.6)
Other operating costs include:		
Research and development	2.1	2.0
Operating leases:		
- land and buildings	0.9	0.9
- hire of plant and machinery	0.1	0.1

¹ In the current year £2.8m (2013: £2.6m) of customer contributions amortisation has been amortised through revenue in line with IFRIC 18. *

*Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

Notes *(continued)*

3 OPERATING PROFIT *(continued)*

Analysis of the auditor's remuneration is as follows:

	Group 2014 £m	Group 2013 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	0.1	0.1
Total audit fees	0.1	0.1
Audit-related assurance services	0.1	0.1
Taxation advisory services	-	0.2
Total non-audit fees	0.1	0.3
Total fees	0.2	0.4

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

Notes (continued)

4 EMPLOYEE COSTS

	Group 2014 £m	*Restated Group 2013 £m
Wages and salaries	75.0	70.9
Social security costs	7.1	6.8
Pension costs (see note 20)	14.8	12.4
Employee costs (including Directors' remuneration)	96.9	90.1
Costs transferred directly to fixed assets	(53.2)	(50.5)
Charged to operating expenses	43.7	39.6

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

* Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

	Group 2014 Number	Group 2013 Number
Electricity distribution	1,688	1,622

5 INVESTMENT INCOME

	Group 2014 £m	Group 2013 £m
Interest receivable on short-term bank deposits held at amortised cost	0.4	0.7
Total investment income	0.4	0.7

Notes (continued)

6 FINANCE EXPENSE (NET)

Group	2014 £m	2013 £m
Interest payable		
Interest payable on Group borrowings	17.0	17.0
Interest payable on borrowings held at amortised cost	22.9	22.4
Interest payable on borrowings designated at fair value through profit or loss	22.2	22.2
Net payments/(receipts) on derivatives held for trading	25.6	(13.5)
Other finance charges related to index-linked bonds	7.9	8.2
Interest cost on pension plan obligations	4.1	-
Capitalisation of borrowing costs under IAS 23	(0.9)	(0.3)
Total interest expense	98.8	56.0
Movements on financial instruments		
Fair value movement on borrowings designated at fair value through profit or loss	(18.5)	17.1
Fair value movement on derivatives held for trading	(1.6)	(29.1)
Accretion payable on index-linked swaps	-	10.3
Total fair value movements	(20.1)	(1.7)
Total finance expense (net)	78.7	54.3

The fair value movement of the borrowings designated at fair value through profit or loss is derived from movements in the market ask price of the bond; this is a Level 1 input under IFRS 13. The fair value movements on the derivatives are derived using a discounted cash flow technique using both market expectations of future interest rates and future inflation levels, obtained from Bloomberg, and calibrations to observable market transactions evidencing fair value; these are Level 2 inputs under IFRS 13. Note 16 provides more detail on this.

There have been no accretion payments on the index-linked swaps in the year; these are scheduled five yearly and the next payment is due in July 2017.

Notes (continued)

7 TAXATION

	Group 2014 £m	*Restated Group 2013 £m
Current tax		
Current year	46.1	33.1
Prior year	(0.1)	(1.9)
Deferred tax (see note 21)		
Current year	0.7	9.3
Prior year	1.2	(2.3)
Impact of change in future tax rates	(33.1)	(10.8)
Tax charge for the year	14.8	27.4

Corporation tax is calculated at 23% (2013: 24%) of the estimated assessable profit for the year.

The rate will be reduced to 21% on 1 April 2014 and further to 20% on 1 April 2015. The tax disclosures reflect deferred tax measured at the 20% rate.

In addition to the amount charged to the Income Statement, £14.8m of deferred tax relating to remeasurement of defined benefit schemes has been charged to the Statement of Comprehensive Income (2013: £25.0m credited), as has £5.7m deferred tax due to changes in future tax rates of the brought forward deferred tax asset (2013: £0.8m charge).

*Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

Notes (continued)

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 2014 £m	*Restated Group 2013 £m
Profit before tax	202.1	170.6
Tax at the UK corporation tax rate of 23% (2013: 24%)	46.5	41.0
Prior year tax adjustments	1.1	(4.2)
Reduction in current year deferred tax due to rate change	(0.1)	(0.3)
Non taxable expense	0.4	1.7
Impact from change in future tax rates	(33.1)	(10.8)
Tax charge for the year	14.8	27.4

8 DIVIDENDS

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

Group and Company	2014 £m	2013 £m
Dividends paid during the year ended 31 March 2014 of 17.41 pence per share (31 March 2013: 13.84 pence per share)	83.0	66.0

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, no liabilities have been included in the financial statements at 31 March 2014 and 31 March 2013 respectively.

On 21 May 2014, the Board of Directors approved an interim dividend for the financial year ending 31 March 2015, of £37m, (7.76 pence per share) payable in June 2014. This dividend has not been included as a liability in these financial statements.

Notes (continued)

9 INTANGIBLE ASSETS AND GOODWILL

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
Cost				
At 1 April 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
Disposals	-	(2.2)	-	(2.2)
At 31 March 2014	10.1	55.9	-	66.0
Amortisation				
At 1 April 2012	-	30.7	-	30.7
Charge for the year	-	8.3	-	8.3
At 31 March 2013	-	39.0	-	39.0
Charge for the year	-	7.2	-	7.2
Disposals	-	(2.2)	-	(2.2)
At 31 March 2014	-	44.0	-	44.0
Net book value				
At 31 March 2014	10.1	11.9	-	22.0
At 31 March 2013	10.1	19.1	-	29.2

Notes *(continued)*

9 INTANGIBLE ASSETS AND GOODWILL *(continued)*

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

At 31 March 2014, the Group and Company had no contractual commitments for the acquisition of intangible assets (2013: £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% (2013: 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.

Notes (continued)

10 PROPERTY, PLANT AND EQUIPMENT

Group

	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 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
Additions	59.7	3.1	2.4	162.7	227.9
Transfers	136.9	4.7	2.6	(144.2)	-
Disposals	(6.4)	(0.3)	(7.2)	-	(13.9)
At 31 March 2014	3,586.3	22.9	58.2	287.9	3,955.3
Accumulated depreciation and impairment					
At 1 April 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
Charge for the year	80.2	0.7	12.8	-	93.7
Disposals	(6.4)	-	(7.1)	-	(13.5)
At 31 March 2014	1,217.3	5.6	39.0	-	1,261.9
Net book value					
At 31 March 2014	2,369.0	17.3	19.2	287.9	2,693.4
At 31 March 2013	2,252.6	10.5	27.1	269.4	2,559.6

At 31 March 2014, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £87.7m (2013: £74.7m).

At 31 March 2014, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been £2,564.9m (2013: £2,424.4m). The revaluation surplus is disclosed in note 25, net of deferred tax. The revaluation surplus arose following North West Water's acquisition of Norweb.

Notes *(continued)***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 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
Additions	59.7	3.1	2.4	162.7	227.9
Transfers	136.9	4.7	2.6	(144.2)	-
Disposals	(6.4)	(0.3)	(7.2)	-	(13.9)
At 31 March 2014	3,586.3	22.9	58.2	287.9	3,955.3
Accumulated depreciation and impairment					
At 1 April 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
Charge for the year	80.2	0.7	12.8	-	93.7
Disposals	(6.4)	-	(7.1)	-	(13.5)
At 31 March 2014	1,217.3	5.6	39.0	-	1,261.9
Net book value					
At 31 March 2014	2,369.0	17.3	19.2	287.9	2,693.4
At 31 March 2013	2,252.6	10.5	27.1	269.4	2,559.6

Notes (continued)

11 INVESTMENTS

	Group £m	Company £m
Cost and carrying value		
At 31 March 2013 and 31 March 2014	-	15.4

Details of the principal investments as at 31 March 2014, all of which were incorporated in the UK, are as follows.

Company

	Description of holding	Proportion held	Nature of business
<i>Subsidiary undertakings</i>			
Electricity North West Services Limited	Ordinary shares of £1 each	100%	Dormant
NB Property and Estate Services No. 1 Limited	Ordinary shares of £1 each	100%	Dormant
NB Leasing Limited	Ordinary shares of £1 each	100%	Dormant
NB (Miles Platting Community Project) Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Non trading
<i>Associated undertaking</i>			
Nor.Web DPL Limited	Ordinary shares of £1 each	50%	Dormant
<i>Joint ventures</i>			
Selectusonline Limited	Ordinary shares of 66.67p each	16.67%	Planning and Procurement
<i>Other Investments</i>			
National Grid plc	Ordinary shares of 11.76p each	Negligible	Energy Distribution

Notes (continued)

12 INVENTORIES

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Raw materials and consumables	7.3	7.3	5.2	5.2

13 TRADE AND OTHER RECEIVABLES

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Trade receivables	6.5	6.5	6.1	6.1
Amounts owed by Group undertakings	4.5	4.5	4.3	4.3
Prepayments and accrued income	51.2	51.2	50.3	50.2
Balance at 31 March	62.2	62.2	60.7	60.6

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.4m (2013: £0.3m) 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 (2013: 14 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Of the Group trade receivables, 29% (2013: 31%) are past due but not impaired. The majority of balances are less than 45 days past due; a balance of £1.4m is greater than 45 days past due at 31 March 2014 (2013: £0.5m), against which an allowance for doubtful debt of £0.4m (2013: £0.3m) has been made.

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

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Balance at 1 April	0.3	0.3	0.4	0.4
Charged/(credited) to the Income Statement	0.1	0.1	(0.1)	(0.1)
Utilised	-	-	-	-
Balance at 31 March	0.4	0.4	0.3	0.3

Notes (continued)

13 TRADE AND OTHER RECEIVABLES (continued)

Trade receivables comprise 354 (2013: 356) 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 2014 £2.5m (2013: £2.7m) 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 £1,700m for the year ended 31 March 2014 based on March closing prices (2013: £1,631m).

At 31 March 2014 £93.1m (2013: £91.2m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £10.7m (2013: £10.7m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

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

14 CASH AND CASH EQUIVALENTS AND MONEY MARKET DEPOSITS

Group and Company	2014 £m	2013 £m
Short-term bank deposits including cash at bank and in hand	65.3	68.5
Cash and cash equivalents	65.3	68.5

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% (2013: 0.6%) and these deposits had an average maturity of 1 day (2013: 7 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	2014 £m	2013 £m
Current liabilities		
Amounts owed to parent undertaking	67.4	-
	67.4	-

Notes (continued)

15 BORROWINGS (continued)

	£m	£m
Group and Company		
Non-current liabilities		
Bonds	689.5	703.9
Bank and other term borrowings	199.5	145.6
Amounts owed to parent undertaking	-	67.4
Amounts owed to affiliated ¹ undertaking	196.3	195.9
	1,085.3	1,112.8

Carrying value by category

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

Group and Company	Year of maturity	2014 Carrying value £m	2013 Carrying value £m
Borrowings designated at fair value through profit or loss			
8.875% £250m bond	2026	364.0	382.5
Borrowings measured at amortised cost			
8.875% £200m bond	2026	195.9	195.7
1.4746%+RPI ² £100m index-linked bond	2046	129.6	125.7
1.5911%+RPI ² £135m index-linked loan	2024	149.8	145.9
Amortising costs re: long term loans at LIBOR plus 0.70%	2017	(0.2)	(0.3)
0.38%+RPI £100m index-linked loan ³	2032	49.9	-
Amounts due to parent undertaking	2015	67.4	67.4
Amounts due to affiliated ¹ undertaking	2021	196.3	195.9
Other financial liabilities held at amortised cost		788.7	730.3

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).

³At the 31 March 2014 £50m of the £100m index-linked loan had been drawn down.

All loans and borrowings are unsecured (2013: same). There was no formal bank overdraft facility in place between 1 April 2013 and 31 March 2014 (year ended 31 March 2013: same). All borrowings are in sterling (2013: same). 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 £0.2m (2013: £0.3m) relating to the undrawn Revolving Credit Facilities.

The loan from parent undertakings accrues interest at 6.5%.

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

Borrowing facilities

The Group and Company had £100m (2013: £50.0m) in unutilised committed bank facilities at 31 March 2014 of which £50.0m expires within one year (2013: £nil), £nil expires after one year but less than two years (2013: £nil) and £50.0m expires in more than two years (2013: £50.0m).

Notes (continued)

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 which are managed by the pension scheme investment managers.

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

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 a 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.

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

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 2014 was 354 (2013: 356), however there are only five (2013: 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 2014 there was £2.3m receivables past due (2013: £1.9m) against which an allowance for doubtful debts of £0.4m has been made (2013: £0.3m).

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 2014, none (2013: 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:

	2014	2014	2013	2013
Credit Rating for cash and cash equivalents, excluding unpresented cheques.	£m	%	£m	%
AAA	43.3	58.0	43.9	52.7
AA	-	-	-	-
AA-	-	-	-	-
A+	-	-	14.9	17.9
A	31.3	42.0	24.4	29.4
	74.6	100.0	83.2	100.0

The rating profile of counterparties has remained unchanged.

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

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

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 13 for further details).

Credit risk by category	2014 Group £m	2014 Company £m	2013 Group £m	2013 Company £m
Trade receivables	6.5	6.5	6.1	6.1
Amounts owed by Group undertakings	4.5	4.5	4.3	4.3
Cash and cash equivalents	65.3	65.3	68.5	68.5
	76.3	76.3	78.9	78.9

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

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet the obligations or commitments resulting from its business operations or associated with its financial instruments, as they fall due. The Group manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which project cash flows out 40 years ahead, and a medium-term view is provided by the Group business plan covering the current and following regulatory period, 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	2014 Group £m	2014 Company £m	2013 Group £m	2013 Company £m
Cash and cash equivalents	65.3	65.3	68.5	68.5
Committed undrawn bank facilities	100.0	100.0	50.0	50.0
	165.3	165.3	118.5	118.5

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

Cash and cash equivalents comprise cash at bank and in hand, net of any bank overdrafts which are payable on demand.

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

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 Group companies	-	(3.6)	-	-	-	-	(3.6)
Refundable customer deposits	-	-	(3.0)	-	-	(0.1)	(3.1)
Amounts owed to parent undertaking	-	(4.4)	(73.0)	-	-	-	(77.4)
Amounts owed to affiliated companies	-	(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)	(90.2)	(126.2)	(50.2)	(50.2)	(1,488.)	(1,823.1)

Notes *(continued)*

16 FINANCIAL INSTRUMENTS *(continued)*

Market risk

Market risk is the risk that future cash flows of a financial instrument, or the fair value of a financial instrument, will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation (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.

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis on interest

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

	2014			2013		
	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	(16.0)	15.2	29.6	(18.2)	17.2	33.4
Interest rate swaps	-	-	-	(0.1)	0.1	0.2
Inflation-linked swaps	(21.1)	18.6	59.2	(40.8)	35.5	66.4
Total fair value movement	(37.1)	33.8	88.8	(59.1)	52.8	100.0

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.

	2014			2013		
	Change in interest rates			Change in interest rates		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
	£m	£m	£m	£m	£m	£m
Floating rate debt	-	-	0.1	-	-	-
Total finance expense impact	-	-	0.1	-	-	-

Although the above measures provide an indication of the Group's exposure to market risk, such measures are limited 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.

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Inflation risk

The Group's revenues are linked to movements in inflation, as measured by the Retail Prices Index (RPI). To economically hedge exposure to RPI, 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 Group'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.

	2014			2013		
	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	25.6	(28.1)	(59.1)	45.9	(50.9)	(107.4)
Total fair value movement	25.6	(28.1)	(59.1)	45.9	(50.9)	(107.4)

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.

	2014			2013		
	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	1.7	(1.7)	(3.3)	1.4	1.4	(2.8)
Inflation-linked swaps	-	-	(0.1)	-	-	-
Total finance expense impact	1.7	(1.7)	(3.4)	1.4	(1.4)	(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 2014, the Group's derivatives are not designated in formal hedging relationships (2013: none), and instead are measured at fair value through the Income Statement.

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the statement of financial position date. Where available, market values have been used to determine fair values (see Level 1 in the fair value hierarchy overleaf). Where market values are not available, fair values have been calculated by discounting future cash flows at prevailing interest and RPI rates sourced from market data (see Level 2 in the fair value hierarchy overleaf). In accordance with IFRS 13, the rates used to discount these cash flows have been adjusted for the non-performance risk of either the Group 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 Group specific events subsequent to the transactions. The adjustment for non-performance risk of the Group as at 31 March 2014 is £72.4m (2013: £109.4m).

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

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

Fair values

Group and Company	2014		2013	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Non-current assets	-	-	-	-
Current assets				
Trade receivables	6.5	6.5	6.1	6.1
Cash and cash equivalents	65.3	65.3	68.5	68.5
	71.8	71.8	74.6	74.6

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Group and Company	2014		2013	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Non-current liabilities				
Borrowings designated at Fair Value Through Profit and Loss (FVTPL)	(364.0)	(364.0)	(382.5)	(382.5)
Borrowings measured at amortised cost	(525.0)	(620.3)	(467.0)	(577.3)
Amounts due to parent undertaking	(67.4)	(67.4)	(67.4)	(67.4)
Amounts due to affiliated companies	(196.3)	(234.5)	(195.9)	(244.2)
Derivative financial instruments	(95.5)	(95.5)	(65.3)	(65.3)
Current liabilities				
Trade and other payables	(25.6)	(25.6)	(18.3)	(18.3)
Derivative financial instruments	-	-	(31.7)	(31.7)
	(1,273.8)	(1,407.3)	(1,228.1)	(1,386.7)

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 2014 – Group and Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Derivative financial assets	-	-	-	-
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(95.5)	-	(95.5)
Financial liabilities designated at FVTPL	(364.0)	-	-	(364.0)
	(364.0)	(95.5)	-	(459.5)

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

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

There were no transfers between levels during the current year (2013: same).

17 TRADE AND OTHER PAYABLES

	Group 2014 £m	Company 2014 £m	Group 2013 £m	Company 2013 £m
Trade payables	25.6	25.6	18.3	18.3
Amounts owed to group	3.7	3.8	3.6	3.6
Amounts owed to subsidiary undertakings	-	15.4	-	15.4
Other taxation and social security	9.3	9.3	11.1	11.1
Customer contributions (see note 22)	30.5	30.5	28.2	28.2
Refundable customer deposits (see note 23)	0.3	0.3	-	-
Accruals and deferred income	73.7	73.9	78.1	78.3
	143.1	158.8	139.3	154.9

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 19 days from receipt of invoice (2013: 15 days).

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

Notes *(continued)*

18 PROVISIONS

	Group and Company Other £m
At 1 April 2013	20.0
Release to the Income Statement on re-estimate of liability	(1.5)
Utilisation of provision	(8.9)
At 31 March 2014	9.6

	Group and Company Other	Group and Company Other
	2014 £m	2013 £m
Current	3.8	8.5
Non current	5.8	11.5
At 31 March	9.6	20.0

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

The resulting carried forward provision at 1 April 2013 was £20m and related to 4 former High Street retail properties and 25 former out of town retail properties. As a result of assignments and surrenders during the year £1.5m of the provision has been released and £8.9m of the provision utilised.

The combined closing provision of £9.6m relates to 1 former High Street retail property and 15 former out of town retail properties and has been evaluated by management and is supported by relevant external legal and property specialists, and reflects the Company's best estimate as at the statement of financial position date of the amounts that could become payable by the Company, on a discounted basis.

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

In terms of the likely timing of cash outflows, exposure across the properties is forecast to peak at approximately £3.6m in 2014/15 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 £20.8m, profiled over a 7 year period from 2014 to 2021, the total undiscounted exposure is £26.5m.

Notes (continued)

19 DIRECTORS' REMUNERATION

	2014 £m	2013 £m
Salaries	0.7	0.6
Accrued bonus	0.7	0.7
Pension	0.0	0.1
	1.4	1.4

The aggregate emoluments of the Directors in 2014 amounted to £1,392,650 (2013: £1,375,046). Emoluments comprise salaries, fees, taxable benefits, compensation for loss of office 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 2014 in respect of services to the Group amounted to £1,007,203 (2013: £774,941). Included in the salaries shown above for the current year, are amounts payable for compensation for loss of office of £260,000 (2013: £nil) all paid in cash. Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 27.

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 2014 were £nil (2013: £nil). The accrued pension at 31 March 2014 for the highest paid Director was £nil (2013: £nil).

As at 31 March 2014 the Directors have no interests in the ordinary shares of the Company (2013: same).

Notes (continued)

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

The defined benefit section is a UK funded final salary arrangement providing pensions and lump sums to members and dependants. The defined benefit section is a separate fund that is legally separated from the entity. The Trustee board of the Scheme is composed of representatives from both the employer and members of the Scheme. Under the Pensions Act 2004 at least one third of the Trustee Board must be member nominated and the Trustee Board has made the necessary arrangements to fulfil this obligation. The Trustee Board of the Pension Scheme is required by law to act in the interest of the Scheme and all relevant stakeholders of the Scheme, i.e. active employees, retirees and employers. The Trustee Board is responsible for the operation, funding and investment strategy of the Scheme. During the year the Group made contributions of £12.5m (2013: £28.5m) to the defined benefit section of the Scheme. The Group estimates that contributions for the year ending 31 March 2015 will amount to around £12.3m. The total defined benefit pension expense for the year was £17.9m (2013: £11.6m). Information about the pension arrangements for Executive Directors is contained in note 19.

As at 31 March 2014 contributions of £1.4m (2013: £2.4m) due in respect of the current reporting period had not been paid over to the defined benefit Scheme.

Funding the liabilities

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Scheme's risk exposure. The most recent valuation is being carried out as at 31 March 2013 and has not yet been finalised. The previous valuation as at 31 March 2010 identified a shortfall of £145.1 million against the Trustee Board's statutory funding objective. In the event of underfunding the Group must agree a deficit recovery plan with the Trustee Board. As part of the 2010 Actuarial valuation the Group agreed to remove the shortfall by paying annual contributions, starting at £1.32m each month with the last payment being made in April 2013, then £0.84m each month until March 2020 and then £0.64m each month up until March 2025. The 31 March 2013 actuarial valuation is expected to be finalised before 30 June 2014. As part of this valuation a new recovery plan will be agreed and put in place.

The preliminary results of the 2013 funding valuation have been projected forward by an independent actuary to take account of the requirements of revised IAS 19 (revised 2011) 'Employee Benefits' in order to assess the position as at 31 March 2014 for the purposes of these financial statements. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension deficit under IAS 19 (revised 2011) of £37.1m is included in the Statement of Financial Position at 31 March 2014 (2013 deficit of £105.8m).

The weighted average duration of the defined benefit obligation is approximately 17 years.

Investment strategy

The Defined Benefit Scheme assets are invested in a diversified range of assets, details of which are set out below. The Scheme has a de-risking strategy in place to move assets from growth to bond assets when certain funding triggers are met. The triggers are assessed against the Scheme's funding level on a 'low-risk' basis. The Trustees and the Group have also agreed a mechanism to hedge interest rate and inflation risks over time. The de-risking and hedging strategies have also been communicated to Ofgem. By 31 March 2014 3 de-risking triggers had been activated of the 5 de-risking triggers in place.

Notes (continued)

20 RETIREMENT BENEFIT SCHEMES (continued)

Other risks

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

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

Winding up

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

Defined Contribution arrangements

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

The total cost charged to the Income Statement in relation to the defined contribution section for the year ended 31 March 2014 was £1.8m (2013: £1.6m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme. As at 31 March 2014 contributions of £nil (2013: £0.1m) due in respect of the current reporting period had not been paid over to the defined contribution Scheme.

Defined benefits employee benefits

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

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

	2014 £m	*Restated 2013 £m
At 1 April	(105.8)	(14.2)
Expense recognised in the Income Statement	(17.9)	(11.6)
Contributions paid	12.5	28.5
Total remeasurement included in Other Comprehensive Income	74.1	(108.5)
At 31 March	(37.1)	(105.8)

* Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

Notes (continued)

20 RETIREMENT BENEFIT SCHEMES (continued)

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

	2014 £m	2013 £m (*restated)
At 1 April	(1,166.9)	(972.9)
Current service cost	(12.3)	(10.2)
Interest expense	(46.8)	(48.3)
Member contributions	(2.0)	(2.2)
Augmentation	(0.7)	(0.6)
Remeasurement:		
Effect of changes in demographic assumptions	(6.6)	-
Effect of changes in financial assumptions	69.8	(183.7)
Effect of experience adjustments	(18.1)	-
Benefits paid	53.1	53.1
Electricity North West Services Limited acquisition and other bulk transfers	-	(2.1)
At 31 March	(1,130.5)	(1,166.9)

The liability value as at 31 March 2014 is made up of the following approximate splits:

	£m
Liabilities owing to active members	323.2
Liabilities owing to deferred members	82.0
Liabilities owing to pensioner members	725.3
Total liability at 31 March 2014	1,130.5

Notes (continued)

20 RETIREMENT BENEFIT SCHEMES (continued)

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

	2014 £m	2013 £m
At 1 April	1061.1	958.7
Interest Income	42.7	48.3
Return on plan assets	29.0	75.2
Company contributions	12.5	28.5
Member contributions	2.0	2.2
Benefits paid	(53.1)	(53.1)
Administrative expenses	(0.8)	(0.8)
Bulk transfers	-	2.1
At 31 March	1,093.4	1,061.1

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

	2014 £m	2013 £m (*restated)
Current service cost	(12.3)	(10.2)
Past service cost ⁴	(0.7)	(0.6)
Interest (income) on plan assets	42.7	48.3
Interest (income) on Scheme obligations	(46.8)	(48.3)
Administration expenses and taxes	(0.8)	(0.8)
Net pension expense before taxation	(17.9)	(11.6)

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

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

	2014 %	2013 %
Discount rate	4.4	4.1
Pensionable salary increases	3.9	3.9
Pension increases	3.3	3.4
Price inflation	3.4	3.4

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 2013). A long term improvement rate of 1.25% p.a. is assumed (unchanged from 2013), although the underlying model has been updated from the CMI 2009 model to the CMI 2011 model. These factors have been taken into account in the calculation of the defined benefit obligations of the Scheme.

⁴ For the year ended 31 March 2013, the Past Service Cost includes [£0.6m] in respect of augmentations and for the year ending 31 March 2014, the Past Service Cost includes [£0.7m] in respect of augmentations.

Notes (continued)

20 RETIREMENT BENEFIT SCHEMES (continued)

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

	2014 Years	2013 Years
Male life expectancy at age 60		
Retired member	26.7	26.5
Non-retired member	28.2	28.0

In valuing the liabilities of the Scheme at 31 March 2014 mortality assumptions have been made as indicated above.

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

	2014 £m	2013 £m
Increase in Defined Benefit Obligation		
Discount rate decrease by 25 basis points	46	50
Price inflation increase by 25 basis points	44	48
Life expectancy increase longevity by 1 year	31	32

As at 31 March 2014, the fair value of the Scheme's assets and the liabilities recognised in the Statement of Financial Position were as follows:

	Scheme assets at 31 March 2014 %	Value at 31 March 2014 £m	Scheme assets at 31 March 2013 %	Value at 31 March 2013 £m
			(**restated)	(**restated)
Cash and Cash equivalents	1.1	12.1	0.4	3.8
Equity instruments	11.6	126.8	32.3	343.1
Debt instruments	65.7	718.7	44.1	468.4
Real Estate	10.4	113.6	7.4	78.6
Global Tactical Asset Allocation	-	-	4.4	46.3
Distressed Debt	1.8	19.3	1.6	16.7
Hedge Funds	9.4	102.9	9.8	104.2
Total fair value of assets	100	1,093.4	100	1,061.1
Present value of liabilities		(1,130.5)		(1,166.9)
Net retirement benefit obligation		(37.1)		(105.8)

**The breakdown of the assets into different classes is now more detailed as required by IAS 19 (revised 2011).

Notes (continued)

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 2012	266.4	(3.4)	(25.0)	238.0
(Credited)/charged to the Income Statement (*restated)	(13.1)	3.2	6.2	(3.7)
Deferred tax on remeasurement of defined benefit pension schemes (*restated)	-	(25.0)	-	(25.0)
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	0.8	-	0.8
At 1 April 2013	253.3	(24.4)	(18.8)	210.1
(Credited)/charged to the Income Statement	(37.0)	(3.6)	9.4	(31.2)
Deferred tax on remeasurement of defined benefit pension schemes	-	14.8	-	14.8
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	5.7	-	5.7
At 31 March 2014	216.3	(7.5)	(9.4)	199.4
Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2012	267.0	(3.4)	(24.9)	238.7
(Credited)/charged to the Income Statement (*restated)	(13.8)	3.2	6.2	(4.4)
Deferred tax on remeasurement of defined benefit pension schemes (*restated)	-	(25.0)	-	(25.0)
Adjustment due to change in future tax rates of brought forward	-	0.8	-	0.8
At 1 April 2013	253.2	(24.4)	(18.7)	210.1
(Credited)/charged to the Income Statement	(36.9)	(3.6)	9.3	(31.2)
Deferred tax on remeasurement of defined benefit pension schemes	-	14.8	-	14.8
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	5.7	-	5.7
At 31 March 2014	216.3	(7.5)	(9.4)	199.4

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.

*Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

Notes (continued)

22 CUSTOMER CONTRIBUTIONS

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

Group and Company	£m
At 1 April 2012	499.2
Additions during the year	29.1
Amortisation	(13.6)
At 1 April 2013	514.7
Additions during the year	29.1
Amortisation	(14.2)
At 31 March 2014	529.6

	2014 £m	2013 £m
Amounts due in less than one year (see note 17)	30.5	28.2
Amounts due after more than one year	499.1	486.5
	529.6	514.7

23 REFUNDABLE CUSTOMER DEPOSITS

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

Group and Company	2014 £m	2013 £m
Amounts due in less than one year (see note 17)	0.3	-
Amounts due after more than one year	2.6	3.1
	2.9	3.1

Notes (continued)

24 CALLED UP SHARE CAPITAL

	2014 £	2013 £
Authorised:		
569,999,996 (2013: 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

	2014 £	2013 £
Allotted, called up and fully paid:		
476,821,341 (2013: 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.

Notes *(continued)*

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 2013	238.4	4.4	105.7	8.6	173.2	530.3
Profit for the year	-	-	-	-	187.3	187.3
Transfer from revaluation reserve	-	-	(1.2)	-	1.2	-
Remeasurement of defined benefit schemes	-	-	-	-	74.1	74.1
Tax on components of comprehensive income	-	-	-	-	(20.5)	(20.5)
Total comprehensive (expense)/income for the year	-	-	(1.2)	-	242.1	240.9
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(83.0)	(83.0)
At 31 March 2014	238.4	4.4	104.5	8.6	332.3	688.2

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

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

Notes (continued)

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 2013	238.4	4.4	105.7	8.6	172.9	530.0
Profit for the year	-	-	-	-	187.3	187.3
Transfer from revaluation reserve	-	-	(1.2)	-	1.2	-
Remeasurement of defined benefit schemes	-	-	-	-	74.1	74.1
Tax on components of comprehensive income	-	-	-	-	(20.5)	(20.5)
Total comprehensive income for the year	-	-	(1.2)	-	242.1	240.9
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(83.0)	(83.0)
At 31 March 2014	238.4	4.4	104.5	8.6	332.0	687.9

The profit after tax for the parent Company for the year ended 31 March 2014 was £187.3m (2013: £144.7m) and the revenue for the year was £508.0m (2013: £468.0m). 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 2014 £m	Plant and machinery 2014 £m	Land and buildings 2013 £m	Plant and machinery 2013 £m
Within one year	-	-	-	-
In the second to fifth years inclusive	0.2	-	0.2	-
After five years	5.6	3.1	6.2	3.1
	5.8	3.1	6.4	3.1

Notes (continued)

27 RELATED PARTY TRANSACTIONS

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

	Group 2014	Company 2014	Group 2013	Company 2013
	£m	£m	£m	£m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Ltd	1.1	1.1	0.9	0.9
Recharges from Electricity North West (Construction and Maintenance) Ltd	0.4	0.4	0.5	0.5
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	12.6	12.4	12.4	12.4
Dividends paid to North West Electricity Networks Ltd	83.0	83.0	66.0	66.0

Amounts outstanding with related parties are as follows:

	Group 2014	Company 2014	Group 2013	Company 2013
	£m	£m	£m	£m
Amounts owed to related parties				
Group tax relief to North West Electricity Networks Ltd	11.3	11.3	10.4	10.4
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	1.2	1.2
Interest payable to ENW Finance plc	2.5	2.5	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	196.3	196.3	198.5	198.5
Amounts owed by related parties				
Amounts owed by North West Electricity Networks Ltd	3.7	3.7	3.6	3.6
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	0.5	0.5	0.5	0.5
Amounts owed by North West Electricity Networks (Holdings) Ltd	0.3	0.3	0.2	0.2

The loan from North West Electricity Networks Ltd accrues interest at 6.5% (2013: 6.5%) and is repayable in March 2015. The loan from ENW Finance plc accrues interest at 6.125% (2013: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2013: £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 (2013: £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.

For disclosure relating to executive directors remuneration see note 19.

Notes (continued)

28 CASH GENERATED FROM OPERATIONS

	Group 2014 £m	Company 2014 £m	*Restated Group 2013 £m	* Restated Company 2013 £m
Operating profit	280.4	280.4	224.2	221.2
Adjustments for:				
Depreciation of property, plant and equipment	93.7	93.7	88.2	88.2
Amortisation of intangible assets	7.2	7.2	8.3	8.3
Amortisation of customer contributions	(14.2)	(14.2)	(13.6)	(13.6)
Profit on disposal of property, plant and equipment	(0.2)	(0.2)	(0.6)	(0.6)
Cash contributions in excess of pension charge to operating profit	1.3	1.3	(16.9)	(16.9)
Operating cash flows before movements in working capital	368.2	368.2	289.6	286.6
Changes in working capital				
(Increase)/decrease in inventories	(2.0)	(2.0)	1.6	1.6
Increase in trade and other receivables	(1.4)	(1.4)	(7.0)	(7.0)
(Decrease)/increase in payables	(14.0)	(14.0)	5.2	8.2
Cash generated from operations	350.8	350.8	289.4	289.4

*Restated due to the Group applying IAS19 Employee Benefits (revised 2011) and the related consequential amendments for the first time in the year. IAS19 (revised 2011) changes the accounting for detailed benefit plans and termination benefits and introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures which are reflected within these financial statements. For further detail of the impact in the current and prior year following the adoption of IAS19 Employee Benefits (revised 2011) see note 1.

Notes *(continued)*

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 31 to 50.

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 address of the ultimate parent company is: Ogier House, The Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG.

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

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

Glossary

AA1000APS	AA1000 AccountAbility Principles Standard
BCF	Business carbon footprint
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
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
FTSE	Financial Times Stock Exchange
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Principles
HI	Health Indices
HNC	Higher National Certificates
HSE	Health and Safety Executive
ICS	Institute of Customer Service
IET	Institute of Engineering and Technology
IFI	Innovation Funding Incentive
IFRS	International Financial Reporting Standard
IPCC	Intergovernmental Panel on Climate change
KPI	Key Performance Indicators
kV	Kilo Volts
LCNF	Low Carbon Network Fund
LI	Load Indices
Ofgem	Office of Gas and Electricity Markets
OHSAS	Occupational Health and Safety Assessment Specification
PPE	Property, Plant and Equipment
RAV	Regulatory Asset Value
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation
RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RPI	Retail Price Index
SID	Sufficiently Independent Director
UUES	United Utilities Electricity Services Limited
WFR	Work Force Renewal