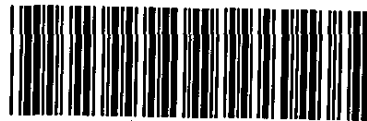


Electricity North West Limited

Registered number 2366949

**Annual Report and
Consolidated Financial Statements**
for the year ended 31 March 2012

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Electricity North West plays a vital role in the North West region. We own, operate and maintain the electricity network, delivering energy to our 2.4 million customer premises and we have a strong track record in safety and reliability.

In the five year period to March 2015 we are planning to invest over £1.4 billion in the network, supporting the North West's economic growth, providing jobs and apprenticeships to the region's young people and supporting the move to a low carbon economy.

We are pleased to present our Annual Report to shareholders for the year ended 31 March 2012. Further information on our Company can also be found by visiting our website www.enwl.co.uk.

Notice regarding limitations on Director Liability under English Law

The information supplied in the 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.

Business Review

The Directors in preparing the Business Review have complied with s417 of the Companies Act 2006. The Business Review has been prepared for the Electricity North West Group as a whole and therefore gives greater emphasis to those matters which are significant to the Group when viewed as a whole.

Cautionary statement regarding forward-looking statements

The Chairman's Statement, Chief Executive Officer's Statement and Business Review section of the Annual Report and Consolidated Financial Statements ('the Annual Report') has been prepared solely to provide additional information to the shareholders to assess the Company and the Group's 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 Company 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 of 2011/12 year end

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 2012 are not due for submission to Ofgem until July 2012, 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 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

Dear Shareholders

The electricity industry continues to be both a challenging and exciting industry in which to operate. I mentioned in last year's report how the sector is dominated by a number of challenges – responding to a low carbon future, delivering security of supply, society's increasing reliance on electricity and delivering efficiently for our customers. These are still very real challenges and challenges that as a company we are addressing.

As part of our next price review for 2015 to 2023 (RIIO-ED1), Ofgem is expecting us to develop a business plan that takes into account the views and opinions of all our customers and stakeholders. Only by talking about the challenges we all face, explaining the difficulties and advising on potential solutions will we as a society be able to meet the challenges of the future. I am extremely proud of the role that our company is playing in these discussions and already we are able to make more informed decisions on how and where we invest money in the future.

Electricity North West continues to make sound financial progress, building a strong and adaptable company ready to meet the challenges of the future. Much work has been carried out over the past year in preparation for the RIIO-ED1 price review and good progress is being made.

We continue to scrutinise the performance, operation and efficiency of all that we do in order that customers get the best and most efficient service available. It is important that we are able to demonstrate the highest levels of performance in delivering against these areas, particularly customer service and a safe and efficient operation. Whilst good progress has been made in some areas, there is still an opportunity to build on recent successes. The company vision, to be the leading energy delivery business is deliberately stretching, and there is still much work to do to achieve this.

The past year has also been characterised by investment in reinforcing infrastructure to meet the changing demands of the network, and investment in building a strong, skilled and professional workforce. Electricity North West is still on course for £1.4 billion to be invested in our network between 2010 and 2015.

We recognise the important role our valued workforce contribute in building a strong and successful company and the need to plan ahead to ensure we can continue to provide great customer service well in to the future. With this in mind, our graduate and apprentice program continues to go from strength to strength. Over the past year a specific A-level training scheme has also been added to our training programmes with a plan to recruit and up-skill a significant number of apprentices, graduates and trainees between 2010 and 2015 as part of our overall workforce renewal initiative.

I'd like to take this opportunity to thank Steve Johnson and his team for their hard work and commitment over the past year. There has been much work to do over the past 12 months in delivering for our customers and we are in a strong position to be able to meet our target of becoming the "leading energy delivery business".

Phil White
Chairman
1 June 2012

Chief Executive Officer's Statement

Electricity North West is a dynamic and innovative company, constantly looking ahead and planning for the future. We know from ongoing engagement with our customers and other stakeholders that their key priority is for us to provide a safe, reliable and constant source of electricity – and this is exactly what we aim to do.

Engaging with our key stakeholders – understanding their views and concerns, listening to their ideas and opinions and truly getting to know what's important to them – is incredibly important to Electricity North West. Equally important is our ability to react to this feedback and directly integrate stakeholder views in the way we run our business and how and where we invest their money. Fundamentally we want to deliver great value for our customers and give them what they want.

2011/12 has been a successful and challenging year for the Company. This report looks back at the year, and although this is only the second year of the current price review, we're already planning and looking ahead to the next price review period up to 2023. Whilst we are aware that we've made strong progress in key areas, for example around continuous improvement of our availability and reliability of the network (CIs and CMLs) there is still much work to be done. In order to deliver for our customers in RIIO-ED1, there is a need to focus on our performance efficiency and business costs. We are keen to also demonstrate our commitment to giving the best customer service to achieve our aim of being the leading energy delivery business.

We have a clear strategy in place to meet these stretching targets and continue to build on the progress to date. We want our stakeholders to play an integral role in the decisions we make and how and where we invest in the future. It is essential that we educate and inform our diverse stakeholder groups so they understand the many challenges that we will face in the future, not least the move to a low carbon future and the growing reliance on electricity.

To demonstrate this commitment, the theme of this year's report is stakeholder engagement. Throughout the front end of the report we have included examples and case studies from across the business which demonstrate how we engage with stakeholders and the way in which we respond to this feedback.

Highlights of the Year

- ▶ We are aware that as a relatively new name there is much work to do in order to raise our profile amongst key stakeholders in the North West and beyond. Our short-listing as a finalist of the 2011 MEN (Manchester Evening News) Business of the Year awards was great recognition of our recent successes and achievements and also a useful opportunity to raise our profile with a wide range of key stakeholders across the North West.
- ▶ We often describe ourselves as an innovative and forward thinking company – and this is no hollow claim. Our recent Low Carbon Network Fund bid success could change the face of how electricity networks are run in the UK. My chairmanship of the Energy Network Association (ENA) and our participation in the Smartgrids and Future Forums are further proof of the key role we play in the future of our industry.
- ▶ We understand that the main priority for our customers is to 'keep the lights on'. Our track record in this area is measured by CIs (Customer Interruptions) and CMLs (Customer Minutes Lost). We continue to make good progress here. Last year, Customer Interruptions per 100 customers was 49.2 interruptions. In 2011/12 this has improved further to 45.9 interruptions. We continue to invest in network availability and reliability to improve these figures still further.
- ▶ Safety remains our number one priority. Our aim is that no-one is ever harmed by our operation and we have clear strategies in place to educate employees, contractors and members of the public in how to be safe around our infrastructure. During the year we introduced a Behavioural Safety Programme to further promote a zero harm safety culture amongst employees and contractors.

Chief Executive Officer's Statement
(continued)

- Environmental performance is a key focus for the Company as we aim to minimise any adverse impact our operation may have on the environment. During the past year our environmental management system was recommended for certification to the ISO 14001 standard following significant investment of time and resources in this area.
- I am pleased to report that Electricity North West has led the way in extending competition in the new connections market, indeed we are the first company to pass specific elements of the Competition Test introduced by Ofgem to stimulate competition in connections.

These highlights from the past year demonstrate the clear progress being made across a broad range of key areas. We are clear on the challenges facing the Company in the months and years ahead and I am confident that with our continued hard work, commitment and professionalism we will build on our successes in order to be the leading energy delivery business.

Steve Johnson
Chief Executive Officer
1 June 2012

Business Review

	2012	2011	2010	2009	2008
Non-Financial (Group)					
Safety: RIDDOR ⁽¹⁾	7	5	6	9	7
Customer minutes lost ('CML') ⁽²⁾	47.6	47.4	49.9	50.9	48.2
Customer interruptions per 100 customers ('CI') ⁽³⁾	45.9	49.2	50.6	48.4	50.7
	Not available				
Overall customer satisfaction ⁽⁴⁾	Not available	89%	87%	82%	76%
Revised overall customer satisfaction 2012-onwards ⁽⁵⁾	77%	Not available	Not available	Not available	Not available
Quality of Response (mean score out of 5) ⁽⁶⁾	4.5	4.6	4.6	4.5	4.3
Financial (Group)					
Revenue	£405m	£394m	£324m	£342m	£326m
Operating profit	£189m	£210m	£156m	£181m	£184m
Profit before tax	£55m	£139m	£17m	£142m	£189m
Operating cash flow	£232m	£246m	£218m	£217m	£229m
RAV Gearing ⁽⁷⁾	61%	56%	57%	46%	42%
Interest cover ⁽⁸⁾	5.3 times	5.7 times	4.2 times	4 times	4.9 times
Capital expenditure on tangible and intangible assets (cash flow)	£223m	£177m	£174m	£179m	£214m

- ✔ Continued strong safety performance characterised by low number of reported injuries in the year.
- ✔ Good performance in customer service and network reliability has been maintained in the year as we continue to out-perform regulatory targets.
- ✔ Revenue has increased to £405m as a result of the timing and recovery of DPC5 allowed revenues. An over-recovery of revenue in the prior year which arose due to a combination of price mix and volume changes has been passed back to customers through reduced pricing in the year end 31 March 2012, partially offsetting the increase in allowed revenue. This year closed with an under recovery of £12.7m and pricing will be adjusted to recover this over the next two years. Another contributing factor to the increase in revenue in the year is a £5.7m increase in non trading rechargeable (NTR) revenue.
- ✔ Operating profit has decreased to £189m (2011 £210m) as a result of an increase in
 - the planned level of network maintenance activities,
 - the increasing frequency of metal theft,
 - certain costs, which under regulatory rules are allowed to be passed through to customers. Approximately half of this increase was factored into prices for the year ended March 2012 whilst the remainder is to be recovered in 2012/13, and
 - depreciation charges have increased in the year due to the commissioning of the IT refresh programme in addition to increased network spend

Notes to KPIs:

- (1) Accidents involving employees or contractors of Electricity North West, reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulation ('RIDDOR'), we target zero accidents per year.
- (2) Customer minutes lost is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents and dividing by the number of connected customers as at 30 September each year. This outperforms the Ofgem target for 2012 of 55.6. The 2012 figure is yet to be audited by Ofgem.
- (3) Customer interruptions per 100 customers is calculated as (total customers affected/total customers connected to the network) x 100. This outperforms the Ofgem target for 2012 of 52.7. The 2012 figure is yet to be audited by Ofgem.
- (4) 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.
- (5) At 31 March 2011, Ofgem discontinued the above customer satisfaction measure, instead a new broader measure is being piloted. The new broader measure still involves a series of sample interviews with customers conducted monthly. However up until the year ended 31 March 2011 the survey was only of individuals who had lost supply and spoken to an agent. The new measure is expanded and includes customers with different service types, including interruptions, connections and general enquiries. The internal target for the measure was 76% (there is at present no Ofgem target for this measure as it is still in the pilot stage).
- (6) Quality of response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. We target a minimum of 4.4 (the level above which Ofgem consider good practice and incentivise).
- (7) RAV Gearing is measured as borrowings, including accretion, at nominal value net of cash and short-term deposits divided by the allowed Regulatory Asset Value ('RAV') of £1,519m (2011 £1,403m) based on March closing prices. Distribution restrictions are enforced by lenders once 65% is surpassed, default level is 70%.
- (8) Interest cover is the number of times the adjusted net interest expense is covered by adjusted operating profit from continuing operations, both being calculated in accordance with the defined terms of the financing agreement. Target is to have higher interest cover than 1.1 (level before distribution restrictions are enforced by lenders). Default level is 1.0.

Business Review

Business Overview

Electricity North West Limited ('Electricity North West' or 'ENWL' or 'the Company') is a private limited company registered in England and Wales. The Company is owned by a consortium of funds controlled by the Commonwealth Bank of Australia and IIF International Holding GP Limited which is a constituent of JP Morgan Infrastructure Investments Fund.

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

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

Industry Structure

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

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

- ▮ **Electricity suppliers**, who buy the electricity produced by the generators, sell that electricity to their customers and pay the network operators for the transportation of that electricity across their networks.

The electricity market is regulated by the Gas and Electricity Markets Authority which governs and acts through the Office of Gas and Electricity Markets (Ofgem). Distribution operators are directly regulated by Ofgem and their charges for use of their networks are subject to a price control mechanism.

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



Business Review (continued)

Our assets and key facts

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

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

Through this network we deliver over 25 terawatt hours¹ of electricity each year to more than 2.4 million customer premises across an area of 12,500 square kilometres. Our network covers a diverse range of terrain and customer range from isolated farms in rural areas, to areas of heavy industry, urban populations and city centres

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

Our network comprises the following key assets

- 12,923 km of overhead lines
- 44,193 km of underground cables
- 84,313 items of switchgear
- 34,488 transformers

Economic Regulation

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

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

DPC5. The cost of capital has been set at 4.0% post-tax for DPC5.

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

Future economic regulation - RIIO

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

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

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

As we prepare for our new price review, (RIIO-ED1) we continue to work closely with Ofgem to develop the RIIO framework and to monitor the transmission (RIIO-T1) and gas distribution (RIIO-GD1) price controls – the first price controls to use the new RIIO methodology.

Engaging with Ofgem on our initial thoughts for RIIO-ED1 and how we move from DPC5 has been a key feature of the last year. Significant achievements include

- Ensuring delivery of DPC5 contract including outputs and customer service,
- Capacity 2 Customers. Secured funding from Ofgem under the Low Carbon Network Fund for an ambitious £10m trial which could double the capacity of power networks without the need to install new cables or overhead lines,

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

Business Review (continued)

Future economic regulation – RIIO (continued)

- ☐ Submitted a competition notice to Ofgem and secured unregulated margins in three of our connection markets. This demonstrates that customers in the North West are benefiting from effective competition in these markets,
- ☐ Preparation for 2015 and RIIO – investment analysis, understanding customer priorities, understanding the long term implications of RIIO principles, and
- ☐ Responded to the Ofgem RIIO-ED1 scoping document – working with Ofgem to ensure the RIIO-ED1 policy paper is fit for purpose

Where our income comes from and what we use it for

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

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

Using these revenues we raise the finance to operate and maintain the network, to replace existing assets and to build new.

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

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

We also have a responsibility to look after our network in the long term. Since 2010, we have reported on the condition of our network (using

Health Indices - HI) and the network loading (using Load Indices - LI). Through the monitoring of these indices we ensure that the overall condition of our network is being maintained in such a state that we can continue to provide a high quality service to our customers.

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

Strategy and objectives

Our Company vision is 'to be the leading energy delivery business', measured against the following strategic objectives:

- ☐ Understanding and influencing the market,
- ☐ Understanding and delivering for our customers and stakeholders,
- ☐ Developing a high performance organisation, and
- ☐ Delivering sustainable growth with robust financial performance.

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

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

Operational Performance

Health and Safety

The Group is committed to achieving the highest standards of health and safety for all our customers, employees and contractors. Electricity North West has continued to drive a health and safety zero harm culture to meet our performance targets, whilst developing our safety culture and improving our processes and systems.

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

Electricity North West continues to support both the Health and Safety Executive's UK five year strategy and the ENA's 'Powering Improvement' health and safety strategy. As a clear demonstration of the Group's commitment to health and safety, a Board committee for health and safety exists with the remit of setting our health and safety strategy, objectives and targets, reviewing and monitoring performance, and reporting to the main Board.

In the year, Electricity North West embarked on a major programme to support employees in protecting themselves, their colleagues and members of the public when working. The programme is built on robust training that provides employees with the knowledge to analyse why accidents occur and identify drivers of behaviours and the skills to positively influence safety on site.

Environment

The Group is committed to achieving excellence in environmental performance, minimising any adverse impacts our operations might have and fulfilling our obligation to improve the environment we operate in. Underpinning the business' drive to achieving excellence is our environmental management system.

Following a final stage external audit in the year, the system was recommended for certification to the ISO 14001 standard. This has been achieved through significant investment of resources into environmental management. It has been achieved after the completion of a number of stringent audits across all Group operations and implementation of recommendations made.

Customer satisfaction

A key focus throughout the year has been to continually improve customer satisfaction across all areas of the business in line with our Customer Strategy. This has enabled us to focus on the key areas that are important to our customers on an everyday basis and has led to the development of our Customer Commitments. These commitments are underpinned by our corporate values and our dedication to exceeding customer expectations in everything that we do.

Satisfaction amongst customers who receive a supply interruption is high at 84% for planned interruption and 82% for unplanned interruption. 47% of interrupted customers gave us a 10/10 score for the service that we provided. We recognise that we have more to do if we are to be upper quartile for customer satisfaction and we are continuing to focus on improvement plans to improve service.

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

We have developed our company website to make it customer focused and we continue to develop this in line with feedback from our customers about the things that they would expect to be able to find on our website.

Operational Performance (continued)

Customer satisfaction (continued)

We have also improved the services that we provide to vulnerable customers during the year, by entering into a trial partnership with the Women's Royal Voluntary Service, to offer extra care to those customers who need assistance during power outages. This partnership has been very well received by our customers and we will be taking the learning from this trial into a longer term partnership with an additional supplier.

Customer complaints

We have focused on a number of areas of improvement in dealing with customer complaints. The first of these has been to focus on the causes of complaints and reduce the number that we receive. We have received 461 written complaints during the year, which is a significant improvement from the 829 we recorded last year. Secondly, we have focused on better management of complaints when we receive them, attempting to resolve as many as possible within 24 hours, handle all but the most complex cases within 31 days and wherever possible avoid repeat complaints or referrals to the Ombudsman. 54% of all of the complaints that we receive (written or verbal) are handled to a conclusion within 24 hours, with 5% taking longer than 31 days to resolve. We have had 11 Ombudsman cases found against us this year and we have set ourselves a target of zero going forward. We have had seven (0.19%) repeat complaints.

Case Study: Stakeholder Engagement

Switched on: North West

As we plan for the future, and decide where to invest money, it is vital that we incorporate all our stakeholders' views and ideas.

Should we spend more money on fixing power cuts more quickly? Or invest money to protect our network against flooding or thieves?

"It's your network and your view that counts."

The "Switched On North West" campaign is all about allowing our stakeholders to have their say in future plans for the network. We want all our stakeholders to get involved, and have developed detailed strategies to target all our key stakeholders ranging from our domestic and business customers, through to MPs, councillors and regional action groups.

Our dedicated 'switched on' website encourages all stakeholders to be informed about the challenges of the future, and share their views and opinions via our online stakeholder surveys. A selection of short videos aims to educate stakeholders on the key issues we face. Social media sites, such as Twitter, Facebook and YouTube are being used to stimulate debate, as channels to raise our profile and to direct stakeholders to our website and online survey.

We recognise that children and young people are an important stakeholder group and as the bill payers of the future need to understand and play a key role in this debate. Our school roadshows, workshops and introduction of our new company mascot are aimed at engaging children in a fun way but at the same time educating them in the challenges of the future. We have a range of roadshows scheduled to visit schools, shopping centres and business parks right across our region to proactively talk to as many customers as possible and collate their views and feedback to prepare and plan for the future.

Operational Performance (continued)

Network reliability and availability

Quality of Service

On average, our network performs such that a customer experiences a power cut every two years and is without electricity for less than two hours every two years (99.99% reliability). Electricity North West continues to invest in repairing and upgrading its network and we continue the installation of automated technology that reduces the number of customers affected by faults and restores the supply more quickly by fixing problems remotely.

Under the regulatory Interruptions Incentive Scheme, Electricity North West has been set network performance targets for the number and duration of customer supply interruptions. The average number of interruptions per 100 customers per annum was 45.9* (2011: 49.2), out-performing the regulatory target for the year of 52.7 (2011: 52.9).

The average number of minutes for which customers were without supply was 47.6 minutes* (2011: 47.4), beating the regulatory target for the year of 55.6 minutes (2011: 55.6).

* 2012 figures are draft subject to Ofgem audit and are stated after allowed exclusions, including severe weather events, as per 2011.

Worst served customers

Quality of Service incentives have been very effective in improving the average performance of the network, but an anomaly arises where the network which supplies the worst served customers may be deemed to be uneconomic to improve.

'Worst Served' customers are defined as those who experience at least 15 higher voltage interruptions over a three-year period and a minimum of three in each year. 1,015 of our customers meet the qualifying criteria to be classed as among the 'Worst Served' in the country in the year (2011: 884). 85 of these were affected in both years.

We worked closely with Ofgem and other industry members throughout the recent price review to develop a new incentive mechanism which encourages investment to improve the service afforded to the community of these 'Worst Served' Customers. This mechanism has facilitated additional work programmes which would previously have been considered inefficient.

This year we have developed, designed and approved an innovative approach to improve the performance for these customers, which is now being implemented on the circuits serving all 1,015.

Connections

In October 2010 Ofgem introduced new Guaranteed Standards of Performance for connections. These standards apply to all types of new connection (including generation) and cover the timescales for the provision of budget estimates, quotations for low voltage, high voltage and extra high voltage connections, and timescales for commencement and completion of works. This is supported by a new licence condition that requires DNOs to meet the standards in at least 90 per cent of cases. Electricity North West has met these new standards in at least 98% of cases since they were introduced.

As part of DPC5, Ofgem introduced the opportunity for distribution companies to earn a margin on contestable connection activities. Two levels of margin are possible: a regulated margin and an unregulated margin. Successful application for a regulated margin is subject to having systems in place for the delivery of new standards of service in connections. Successful application for an unregulated margin is subject to passing a competition test to demonstrate that competition has developed in that DNO's service area.

During 2011 we were the first DNO to pass elements of the Competition Test, which has been introduced by Ofgem to stimulate competition in connections in all DNO areas.

Operational Performance (continued)

Connections (continued)

We demonstrated that, as a result of our enablement, there is effective competition, which benefits customers in three market segments

- Demand connections at extra high voltage,
- Distributed Generation connections at high voltage and extra high voltage, and
- Unmetered connections for PFIs

For these market segments, Ofgem has agreed that we can charge an unregulated margin which will be influenced by competitive market force. For the remaining market segments we will continue to charge the regulated margin set by Ofgem.

Going forward, we will be building on the success of our trials as we aim to become the first company to make it business as usual and pass the Competition Tests in other areas of connections activities.

New Connections

New buildings require new electricity connections and, where appropriate, enhancements to our network. Customer connections is a competitive market with a number of different organisations providing alternative quotations for new connections to our network. It is therefore essential to develop close relationships with customers in order to maintain a competitive advantage and directly respond to customers' needs.

During 2011/12 Customer Satisfaction survey information and analysis has played a key role in driving our strategy and ensuring an absolute focus on consumers. The information from the survey, combined with ongoing customer engagement has helped our connections business to understand customer requirements.

The two case studies on page 14 with TfGM (Transport for Greater Manchester) and on Distributed Generation illustrate how building relationships with customers drives our strategy and grows our business.

Competition In Connections

Electricity North West has led the way in extending competition in the new connections market by working in partnership with Independent Connection Providers (ICPs) on a number of initiatives.

We were the first company in the country to begin live jointing to our existing low voltage network by an ICP. The first trials started with E On Energy Services on their Private Finance Initiative (PFI) contract with Blackpool Borough Council for the replacement of all their street furniture in March 2011. The trials have now been extended to cover 13 local authorities in our region with seven ICPs being authorised to complete the connections themselves.

The benefit of opening this work up has been that local authorities have been able to choose a more tailored and cost effective service from their appointed contractors.

Similar progress has been made in the metered connections market where five ICPs are successfully completing both low voltage and high voltage connections to our network.

The success of the trials has been summed up in the following statements from the participating ICPs:

"ENWL have proved to be the most responsive so far and have ensured that the barriers to entering into the trials have been kept as low as possible whilst maintaining high standards of workmanship and safety."
GTC

"We have dealt with a number of other DNOs but ENWL has been the most proactive and forward thinking of them all. Some of the others are now becoming more approachable and receptive to progressing trials in the same vein as Electricity North West were 12 months ago."

E On Energy Services

**Connections Case Study 1
Metrolink & NTR Diversions**

Transport for Greater Manchester (TfGM) has been a key stakeholder for Electricity North West over the past few years and this relationship will continue throughout 2012. The extension of the Manchester Metrolink Tram Network to Ashton, Oldham, Rochdale, East Didsbury and Manchester Airport has required diversion and relocation of a significant number of our assets

2011 saw the completion of diversions for one phase of Metrolink activity with work continuing on a subsequent phase. Consisting of over 100 individual diversion sites, these works have resulted in approximately £30m of cable diversion works for Electricity North West

An excellent working relationship with TfGM and their Principal Contractor MPT (MPact Thales) has developed over the duration of the works and regular liaison meetings are taking place at Senior Management and Director level to discuss current issues and future developments

On the horizon for 2012/13 and beyond, Electricity North West is in discussions with TfGM with regard to further extensions to Metrolink and a Second City Crossing of Manchester City Centre

Further projects involving partnerships with TfGM and other bodies such as Manchester City Council, Stockport MBC and other AGMA (Association of Greater Manchester Authorities) Partners are now being developed, with Electricity North West involved at a very early stage to help maintain best value for these stakeholders and to ensure that all parties have a full understanding of each other's requirements. Projects including SEMMS (Ringway Road Highway Improvements Scheme), Airport City, The Corn Exchange and Exchange Square redevelopment are all part of this ongoing close working relationship

**Connections Case Study 2
Distributed Generation**

In 2011/12 the Government introduced FITs (feed in tariffs) as a financial incentive to encourage customers wishing to generate their own electricity and connect it into our network. This has had a significant effect on the amount of enquiries we have dealt with for this type of connection and now equates to over 50% of our overall enquiries. These enquiries range from wind farm developers to local authorities, housing trusts and local businesses installing solar panels to roofs of domestic and commercial properties

The impact on our network can be quite significant by way of voltage fluctuations and Electricity North West has worked hard to develop a set of policies that easily facilitate the connection of such generation. We have seen the installation of small scale generation connections rise from around 100 connections in April 2011 to over 1,600 in the month of December 2011

In order to further support the low carbon agenda, we have arranged forums and worked closely with local authorities, housing associations and installers by organising educational meetings to help our customers understand more of the complexities around connecting generation to our network

It is our intention to work more closely with customers in this area to facilitate the need to connect further green technology such as combined heat and power installations, electric vehicles and ground source heat pumps, which all have differing impacts on our network. Our aim is to ensure that we are not a barrier to connecting

Operational Performance (continued)

Network Investment

Major projects

A number of large projects have been initiated on our network during the year

Major Projects Case Study 1: Carrington to Barton 132kV overhead line

Over £5m was invested in replacing the 20 steel lattice towers on this line, and placing some of the route underground. The line was originally installed in the 1930s and goes through urban areas. The new route will provide a less obtrusive, higher capacity network and is planned for completion in 2013.

Ongoing engagement with the local community has been a key feature of the project. It has been essential to maintain a constant dialogue with key customers regarding timescales of activity and potential disruption. The project continues to time and budget with the valued support of the local residents.

Major Projects Case Study 2:

West Didsbury 132kV reinforcement

Nearly £4m was invested in this project to improve the capacity of the network in South Manchester, following increases in demand over recent years through installing new, larger transformers. The scheme will also improve the inter-connection of, and allow for, the addition of new load. This scheme is also planned for completion in 2013.

In addition, the proposed £19m reinforcement scheme at Orrell (our largest network investment scheme in the DPC5 period) has received approval and construction is planned to start next year.

Programmes

We have continued to make progress on delivering a number of enhancement programmes in 2011/12, as part of our five-year investment programme.

Over £6m of investment was completed in our ongoing programme to install remote control and automation technology on the network to minimise the effect of faults when they occur.

Case Study:

Over £1m was invested in undergrounding 15km of overhead lines to improve visual amenity in designated areas within our operating area. These sites are prioritised by representatives of the areas, co-ordinated through a regional steering group. This kind of stakeholder engagement illustrates how we work with community groups to deliver and prioritise views and opinions.

Case Study:

The programme of enhanced flood defence installation at our strategic substations is approaching completion, with a further 15 sites serving over 250,000 customers protected during 2011/12.

Major improvements to substation security were delivered in the year as a response to the increasing incidence of metal theft in our area. Over 50 major substations received enhanced security arrangements during the year.

We're planning to invest £1.4 billion of your money over the next few years to keep the North West powered. This is set out in our strategic direction statement available on our website. To find out more and to let us know what you think, visit:

Website
www.enwl.co.uk/switchedon

Corporate Social Responsibility at Electricity North West

Electricity North West is committed to Corporate Social Responsibility (CSR). During the year we produced and published a CSR statement, reporting against GRI (Global Reporting Initiative) guidelines, and also became members of Business in the Community. Whilst we understand the importance of reporting against national and international frameworks, we also want to focus on setting ourselves stretching and meaningful targets in areas where we believe we can make the most difference. We have therefore developed our own set of targets under the banner, "10 Years – 100 Commitments". We have worked with a wide range of stakeholders in identifying 100 commitments we want to achieve by 2023. Building on our strong CSR legacy, these commitments will focus on four key areas:

- ✔ Engaging our **People**;
- ✔ Protecting our **Environment**;
- ✔ Serious about **Safety**; and
- ✔ Supporting our **Communities**

People

We focus on the people who work at Electricity North West – both current and future employees. We want to inspire and excite the next generation of engineers as our future workforce and have a strategy in place to engage school children and attract A Level students and graduates. We want to recruit and retain the best possible people and are committed to ongoing development and training of our people. The launch of a new company mascot, Edison, will be used in campaigns to engage children in a variety of ways, including sparking an interest in science and educating them in electricity and safety messages.

Environment

Protecting our environment is another key focus for Electricity North West. Ensuring we go about our activities with the minimum adverse effect on our environment possible and understanding and reducing our impact on climate change is very important.

Safety

Safety lies at the heart of everything we do. We have responsibilities to ensure the safety and well-being of both our employees and contractors, as well as educating the public to stay safe around our network.

Community

We want to be recognised within our community as the leading energy delivery business, transforming the areas where we work by providing support financially and through volunteering.

Case Study: Employee Volunteering Scheme

Electricity North West regularly supports a diverse range of charities across our region through financial donations and matched funding initiatives. But as well as financial support, we also recognise how important it is to simply give our time.

In September 2011, volunteers from our Carlisle Depot took time out of their busy schedules to transform an ugly, old cabin in the grounds of Eden Valley Hospice in Carlisle. The amazing transformation was only possible thanks to the time the volunteers were able to give. A brightly coloured mural – designed by one of the young patients at the hospice – was painted on the cabin by the volunteers over (a very wet!) two day period. Electricity North West encourages all employees to take up to two days paid leave each year to work with local charities. It is our target to achieve at least 365 volunteer days in each future year.

Employees

We recognise that one of our most important assets is our committed and professional workforce. A primary driver for the organisation is to ensure the future sustainability of the business by developing the right mix of skills and resources to meet the present and future demands of the business. Ensuring our staff have access to structured development programmes allows us to develop our existing workforce into the leaders of tomorrow, and allows us to be competitive in attracting new people to the organisation.

Workforce renewal, learning and development

During 2011/12 we have developed structured training programmes to enable us to train individuals to fulfil engineering and craft roles across the organisation. We have been successful in appointing seven Electrical Engineering Graduates and 14 Apprentices who have undertaken development of their technical skills as well as on job placements, which have enabled them to consolidate what they have learned in a training environment, supported in part by mentors allocated to facilitate their growth and development.

We have also extended our suite of development programmes to cover individuals with other levels of qualifications and we are working towards the recruitment in 2012/13 of trainee engineers with HNC and A level/ONC qualifications.

We will also be seeking opportunities to support those participating in the programmes to achieve further education qualifications, as well as seeking accreditation of our programmes with the Institution of Engineering and Technology (IET).

We are exploring opportunities to introduce structured development programmes across other areas of the organisation, with the aim that programmes will be in place during 2012/13.

We have also focused on supporting our existing workforce to develop their skills to fulfil their current and future aspirations. This has involved individuals undertaking development of their technical skills supported by on job training and development from existing skilled and experienced workers. In addition, a formal up skilling programme has been developed for launch during 2012/13.

Equality and diversity

Electricity North West sets policies and encourages a working culture that recognises, respects, values and harnesses diversity for the benefit of the Company and the individual, and we are committed to integrating equality and diversity into all that we do.

Employees with disability

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

Internal employee engagement

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

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

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

It is also important that mechanisms are in place for our employees to be able to express their views and opinions and to ask questions and queries. Our annual Employee Opinion Survey (EOS), conducted on our behalf by Ipsos MORI, provides the opportunity for our people to express their opinions.

Employees (continued)

Internal stakeholder engagement (continued)

An EOS forum has representatives from across the business who discuss and implement action plans to address feedback from the surveys. We hold quarterly roadshows where our Executive Leadership Team visits all sites across the region and present key messages. This is another opportunity for employees to direct questions to the Executive team and senior managers and creates a two-way dialogue.

Using technology is also important. Text messaging is used to send key messages to those employees who work remotely. We are also trialling video messages in order to present key messages in a dynamic way.

Case Study:

Leadership and Development

A key element of building a sustainable organisation is developing the capability of our leaders and people. This year we have invested significantly in our top 70 managers, each attending a three day transformational leadership programme designed to develop our leaders' ability to manage change and coach for success. Feedback from 100% of participants is that this investment has been worthwhile and has had a positive impact on their development.

A Management Development Programme is currently in development for existing and aspiring managers across the organisation. This will ensure our managers are equipped with the skills and tools they need to carry out their roles.

We are also developing a competency framework which will define how we expect our leaders, managers and employees to behave in Electricity North West. This recognises that it is not only what people achieve that is important, but also how they achieve it.

Financial Performance

Group	2012	2011
Revenue	£405m	£394m
Operating profit	£189m	£210m
Profit before tax and non cash fair value movements	£136m	£169m
Profit before tax	£55m	£139m
Operating cash flow	£232m	£246m
RAV Gearing	61%	56%
Interest cover	5.3 times	5.7 times
Capital expenditure on tangible and intangible assets (cash flow)	£223m	£177m

Revenue

Revenue has increased to £405m as a result of the timing and recovery of DPC5 allowed revenues. An over-recovery of revenue in the prior year of £13.5m, which arose due to a combination of price mix and volume changes, has been passed back to customers through reduced pricing, partially offsetting the increase in allowed revenue in the year ended 31 March 2012. Another contributing factor to the increase in revenue in the year is a £5.7m increase in non trading rechargeable (NTR) revenue.

In July 2011, Ofgem agreed to the restatement of our losses position for 2009/10. This resulted from the use of a revised methodology in assessing settlement data used to determine losses. The methodology adopted had already been approved by Ofgem in late 2010. The revised calculations have resulted in an improved losses incentive position, uplifting the incentive revenue by £21m for the 2009/10 year which will be recovered through additional revenue in the year ending 31 March 2013. Under recovery at 31 March 2012 was £12.7m (2011: £13.5m over-recovery). This under recovery will be recovered through increased pricing in the next two years.

Operating profit

Operating profit has decreased to £189m (2011: £210m) as a result of

- ▮ Planned level of network maintenance activities,
- ▮ Increasing frequency of metal theft,
- ▮ Certain costs, which under regulatory rules are allowed to be passed through to customers, have increased. Approximately half of this increase was factored into prices for the year ended March 2012 whilst the remainder is included within the under recovery position noted above, and
- ▮ Depreciation charges have increased in the year due to the commissioning of the IT refresh programme in addition to increased network spend.

Profit before tax and fair value movements

Profit before tax and fair value movements has fallen as a result of reduced operating profit and increased finance expense. The increase in finance expense principally arises from increased RPI, and therefore increased charges on the index linked facilities, and contracted reduced receipts on interest rate swaps.

Profit before tax

The 2012 position reflects net fair value losses of £79m being recognised in the income statement for this year (2011: £30m). Of this, £81m has no cash flow impact and £2m is a cash receipt due to close out of a swap.

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Financial Performance (continued)

Taxation

The Government announced on 21 March 2012 that the UK corporation tax rate will reduce from 26% to 24%, effective from 1 April 2012. The reduction in corporation tax rate resulted in a deferred tax credit to the Group's income statement of £21m.

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

Dividends and dividend policy

In the year ended 31 March 2012, the Company paid dividends of £62m (2011 £62m). This figure represents an interim payment of £25m paid in June 2011 and a further interim payment of £37m paid in December 2011 (2011 This figure represented an interim payment of £15m paid in June 2010 and £47m paid in December 2010). The Directors do not propose a final dividend for the year ended 31 March 2012 (2011 £nil).

Electricity North West's dividend policy is that the Company shall distribute the maximum amount of available cash in each financial year at semi-annual intervals, after taking due account of forecast business needs and the Group's treasury policy on liquidity. Distributions are limited by the maximum amount permitted by applicable law in any financial year and are subject to the Company's licence obligations and financing restrictions.

Financial Position

Property, plant and equipment

The Company's business is asset-intensive and highly regulated both operationally (e.g. Electricity Safety & Quality Continuity (Amendment) Regulations, 'ESQCR', legislation) and economically. The Group allocates significant financial resources to the renewal of its network to maintain services, improve network reliability and customer service and to invest to meet the changing demands of the UK energy sector. The total cost of the Group's property, plant and equipment at 31 March 2012 was £3,531m (2011 £3,337m), with a net book value of £2,431m (2011 £2,310m). In the year ended 31 March 2012, the Group invested £224m

(2011 £188m) in capital expenditure. This is mainly related to a large number of projects for the renewal and improvement of the network as described above. New investment is financed through a combination of operating cash flows and increased borrowing capacity against a growing RAV.

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

ENWL holds inventories of £6.8m (2011 £5.6m).

Trade and other receivables have decreased to £54m (2011 £78m) primarily as a result of timing in the collection of billings. A greater number of billings were collected before the year end this year than last year.

Trade and other payables stayed relatively constant from prior year at £151.2m (2011 £151.5m).

Net Debt

	2012 £m	2011 £m
Cash and deposits	84	167
Borrowings repayable		
- After one year	(1,087)	(1,044)
Net debt	(1,003)	(877)

Net debt has increased by £126m due to capital investment, accelerated pensions payments and dividends paid exceeding the net operating cash flows generated by the Group.

Borrowings repayable after one year include bonds with long term maturities of £683m (2011 £647m). These bonds have nominal value of £450m at 8.875% maturing in 2026 and £100m of 1.4746% index-linked bonds maturing in 2046. The £135m long term loan from the European Investment Bank ('EIB') is also repayable after one year. This 1.5911% index-linked loan matures in 2024. Also included in long-term borrowings are inter-company loans at 31 March 2012 of £263m (2011 £263m).

Financial Performance (continued)

Pension obligations

The valuation of the Company's pension scheme under IAS 19 results in a net pension deficit at 31 March 2012 of £14m (31 March 2011 £41m). An additional company contribution of £23m was made to the pension scheme in March 2012 representing an acceleration of deficit repair payments scheduled for the years ending March 2014 and March 2015.

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. The repair schedule has been updated to take into consideration the accelerated deficit repair payment of £23m paid on 30 March 2012.

Commitments

Details of commitments and contractual obligations are provided in notes 9, 10 and 25 of the financial statements.

Cash flow

The Group's net cash generated from operating activities after taxation paid was £170m, a decrease of £8m from 2011, reflecting the adverse profit position. The Group net cash outflow from investing activities was £193m, an increase of £40m due to the increases in property, plant and equipment purchases in the year. Net cash outflow from financing activities was £45m (2011 inflow of £30m) arising from equity dividends paid offset by transfers from money market deposits in the year.

Liquidity

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

Short-term liquidity

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

In total at 31 March 2012, unutilised committed facilities of £55m (31 March 2011 £80m), together with £84m (31 March 2011 £167m) of cash and short-term deposits provide substantial short-term liquidity for the Group and Company.

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

Long-term liquidity

The Group's term debt was £1,087m at 31 March 2012, compared with £1,044m at 31 March 2011. Amounts repayable after more than five years comprise bonds and bank and other loans.

The Group's long-term borrowings mature at dates between 2015 and 2046. Our long-term debt ratings have remained stable. Currently ENWL is rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and A- with stable outlook by Fitch Ratings. Our short-term debt ratings are A-2 and F2 with Standard and Poor's and Fitch Ratings respectively.

Conclusion

The Board has reviewed the 31 March 2013 Budget, the Company's updated DPC5 business plan and the requirements of the Company's licence Condition 30 ('availability of resources') and considers that the Company has sufficient liquidity to meet its anticipated financial and operating commitments for at least the next 12 months.

Treasury Policy

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

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

Financial Performance (continued)

Treasury operations

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

Credit (counterparty) risk management

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

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

Market risk management

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

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

The Group's use of derivative instruments relates directly to underlying indebtedness. No speculative or trading transactions are undertaken. The proportion of borrowings at effective fixed rates of interest for a period greater than one year is set in conjunction with the level of floating rate borrowings and projected regulatory revenues that are exposed to inflationary adjustments (index-linked).

Given that the regulated revenue which the Company earns is linked to inflation, the Company has sought to match a proportion of the cost of funding the business using a combination of an inflation-linked bond and inflation-linked bank loan and fixed rate debt with overlaying index-linked swaps.

By seeking to match the cost of funding to revenue streams, the risk of movements in inflation levels is mitigated. Nonetheless, there will inevitably not be a perfect match between the cash inflows and outflows. The Company therefore retains some exposure to movements in inflation rates.

IAS 39 'Financial Instruments: Recognition and Measurement' limits the use of hedge accounting, increasing the potential volatility of the income statement in relation to fair value movements.

During the year, this volatility has been experienced, in particular from the fair value movement arising on the bond held at fair value, the index-linked swaps, back-to-back swaps and embedded derivative.

This has led to net fair value losses of £79m being recognised in the income statement for this year (2011: £30m). Of this £81m has no cash flow impact and £2m is a cash receipt due to close out of a swap.

Other than sundry purchases including some plant and machinery denominated in foreign currencies, the Company's cash flows are in sterling and the Group has no material exposure to foreign currency exchange rate movements. The Group has no exposure to equity price risks.

To further manage market risk going forward three index-linked swaps were restructured on 2 May 2012. Further details relating to this are in the Directors' Report, under 'Events after the balance sheet date'.

Financial Instruments entered in the year

During the year the Company entered a £50m revolving credit facility ('RCF') maturing August 2016, replacing the £75m RCF that was due to mature in June 2012. At 31 March 2012 this facility remained undrawn. Drawings under this facility will be accounted for at amortised cost.

Principal risks and uncertainties

The Group considers the following risks to be the principal ones that may affect Electricity North West's performance and results but cautions that the risks listed in this section do not address all the factors that could cause results to differ materially. There may be additional risks that the Group does not currently know of, or that are deemed immaterial based on either information currently available or the Group's current assessment of the risk. Nevertheless, in its ongoing review of risk, the Group is confident that its assessment of the principal risk categories is correct and that its analysis of individual risks is soundly-based.

Retail Price Index ('RPI') fluctuations result in volatility in key metrics

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

The changing Regulatory Framework may adversely affect the Company

There is a risk that Ofgem's revised ('RIIO') framework for future price controls may adversely affect the cash flow, financeability and/or valuation of the Company, if implemented in an unfavourable manner. Ofgem's RIIO objectives set out the principles that the regulator will employ in agreeing future price controls with distribution companies. These include a number of significant changes from the principles employed in previous price controls. In the main they represent an opportunity to grow the Company by demonstrating the key role that networks have to undertake in the transition to a low carbon economy. Electricity North West is actively engaged in the consultations on the gas and transmission price controls to influence Ofgem's implementation of its new principles in a manner that would be beneficial to our customers and the Company if these principles were replicated in our next price control ('RIIO ED1').

Financing our investment needs

The Group and the Company are financed to a large extent by long term external funding. There is no guarantee that new external funding requirements will be financed by external debt providers. Forecast operating cash flows, the present cash position and committed undrawn facilities provide sufficient liquidity to meet the Company's anticipated financial and operating commitments for at least the next 12 months. The Company has in place a financing strategy to meet future financing needs, including a regular dialogue with the main institutional debt investors.

As a result of the dependence on debt for long term finance, interest is a significant cost to the Group and Company. The approach to managing and mitigating the potential interest rate risks are discussed in note 16.

Counterparty insolvency leading to a financial loss for the Company

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

This is controlled through the use of a list of approved counterparties with financial limits of investment by the Group established based on credit rating and overall spread of the total available invested cash.

Principal risks and uncertainties *(continued)*

The losses incentive mechanism may result in revenue reduction

There is a risk that revenues will be adjusted downwards in the remaining years of DPC5 as a result of the Losses Rolling Retention Mechanism ('LRRM'). This mechanism (part of the previous price control, DPC4) allows for losses benefits to be retained for a period of five years, providing the benefits are sustained, i.e. losses were lower at the end of DPC4 than they were at the start.

The final year of DPC4, which is key to the calculation of the LRRM, saw major fluctuations in settlement data due to corrections being applied by electricity suppliers. This has been recognised at an industry level and Ofgem has stated that they will take steps to ensure there are no windfall gains or losses arising from settlement data corrections.

An issue has been identified relating to the interaction between the LRRM mechanism and the incentive mechanism for DPC5. Ofgem is currently consulting on options for resolving this issue. Electricity North West is fully engaged in the consultation process and has established internal working groups to co-ordinate all actions associated with losses in order to monitor and influence the outcome.

Delivery of network investment plans and outputs

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

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

A major event causing significant service interruptions adversely affects profitability

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

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

Pension scheme obligations

The Company participates in both defined benefit (closed to new members since 2006) and defined contribution pension schemes. The principal scheme is a defined benefit scheme and the assets of the scheme are held in Trust, independent of Company finances.

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

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

Principal risks and uncertainties *(continued)*

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

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

Direct unit costs

Management are tracking costs of the capital programme against Ofgem regulatory allowances Outputs are being tracked with measures on the corporate scorecard for the effectiveness of capital programming and efficiency of capital delivery Management are using these new measures to enhance forecasting of unit costs for RIIO

Business support and indirect costs

We have benchmarked costs to where upper quartile is forecast to be We are reviewing business support/indirect costs to identify further efficiencies Outputs have been incorporated into the Company's business planning process and monitored via quarterly forecast updates

Our Board

Phil White FCA, CBE, Independent Non-Executive Chairman

Phil joined the Board as Independent Non-Executive Chairman in May 2010. Phil was Chief Executive of National Express Group plc from 1997 to 2006, leading the business through a period of considerable growth both in the UK and overseas. Phil is also Non-Executive Chairman of Kier Group plc, Lookers plc and The Unite Group plc and a Non-Executive Director of Stagecoach Group plc.

EXECUTIVE DIRECTORS

Stephen Johnson, Chief Executive

Steve joined Electricity North West in 2008 from Morrison plc where he was Managing Director, having previously been with United Utilities Group PLC as Managing Director of its Industrial and Commercial Business. Steve previously worked for Norweb and Yorkshire Electricity and is a member of the Institute of Engineering and Technology.

Michael McCallion FCA, Chief Financial Officer

Michael joined Electricity North West in 2007 as Commercial Director to manage the outsourcing contract with United Utilities. He was appointed Chief Financial Officer in September 2010. Michael was previously Head of Capital Programme Finance for United Utilities' regulated businesses and prior to that he was a Marketing Finance Director with AstraZeneca plc. He is a Fellow of the Institute of Chartered Accountants, having qualified with PricewaterhouseCoopers.

NON-EXECUTIVE DIRECTORS

John Gittins (Independent)

John is an Independent Non-Executive Director. He is Finance Director at Fairpoint Group PLC. Prior to that he has been Group Finance Director of NCC Group plc, Begbies Traynor Group plc, Vertex Data Science and of Spring Group plc. John is a graduate of the London School of Economics and qualified as a Chartered Accountant with Arthur Andersen.

Niall Mills

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

Niall has Bachelor of Engineering (Hons) in Civil Engineering, a Masters of Business Administration from the London Business School and is a Fellow of the Institution of Civil Engineers. He has a Diploma in Company Directorship from the Institute of Directors.

Mike Nagle

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

Christine O'Reilly

Christine was Global Co-Head of Infrastructure for Colonial First State Global Asset Management. Christine is also a director of Anglian Water Group, CSL Limited, Care Australia and Transurban Group. Prior to joining Colonial First State, Christine was Chief Executive Officer and Director of the Gasnet Australia Group, a top 200 ASX listed company. Christine has more than 20 years of infrastructure and financial experience including an early involvement in the establishment of the regulatory framework for the Australian gas industry, eight years with the investment bank, Centaurus Corporate Advisory Services, and audit experience with Price Waterhouse where she qualified as a Chartered Accountant. Christine is a Bachelor of Business.

Surinder Toor

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

Corporate Governance Statement

Chairman's statement

Electricity North West is committed to a high level of corporate governance commensurate with its status as a public interest entity

The Board believes effective corporate governance is the keystone to a successful and well run business that will benefit shareholders and wider stakeholders alike. With that in mind we commissioned Ffion Hague from Independent Board Evaluation to perform an evaluation of how the Board, Committees and individual directors are performing. The results were encouraging. It was acknowledged that the Company is performing well through a demanding few years. In order to continue this good start, an action plan was put in place to address the findings of the Evaluation.

In line with the key Governance theme in our ESG (Environmental and Social Governance)/CSR (Corporate Social Responsibility) strategy, 'ensuring Electricity North West applies best practice corporate governance', the Company provides a sustainability report each year using the Global Reporting Initiative ('GRI') sustainability reporting guidelines.

In November 2011 we published our first ever GRI (Global Reporting Initiative) compliant CSR Report. The full report can be found on our website http://www.enwl.co.uk/docs/about-us/enwl_csr_statement_complete.pdf

It is important to report against the GRI framework and indicators as this allows third parties to compare our performance and commitment with other national and international organisations. The GRI Report considers company performance in three key areas, namely Economic Performance, Environmental Performance and Social Performance. We will continue to report against the GRI framework in 2012/13.

The UK Corporate Governance Code

As a private Company, having listed bonds and not listed equity, the Company has not been bound to report on the UK Corporate Governance Code (the 'Code') at any time during the period under review. It is, however, required by Standard Condition 44.12 of its licence, to include a corporate governance statement in its regulatory financial statements that has the coverage and content of the corporate governance statement that a quoted company is required to prepare under the UK Corporate Governance Code issued under the Financial Services Authority's Listing Rules and interpretations on corporate governance. In the interests of transparency for our stakeholders, the Board has decided to include this same statement in our statutory financial statements, in addition to our regulatory financial statements.

The Board has fully reviewed its governance in the light of the new UK Corporate Governance code and where necessary taken steps to align its governance with the Code. John Gittins and Phil White are now both on the Audit and Remuneration Committees.

Compliance statement

The Listing Rules require UK quoted companies to describe their corporate governance from two points of view. The first explaining adherence to the Code's main principles, and the second explaining non-compliance with any of the Code's provisions.

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

Set out below and in the following pages, the Company outlines its compliance with the main principles of the Code or explains its non-compliance with the provisions of the Code.

Corporate Governance Statement
(continued)

Leadership and Effectiveness

The Role of the Board

An effective Board is in place, whose major role is to promote the long-term success of the Company by creating value for the Company's shareholders and providing an efficient, sustainable service to our customers and stakeholders. In order to achieve this, the Board meets regularly to provide leadership, set strategic direction and objectives and ensure that appropriate financial and other resources are made available to enable the Company to meet those objectives. One meeting is set aside each year to enable the Board to focus on the strategic direction and objectives of the Company in particular. The Board oversees the work of the Audit Committee in drawing up and maintaining a framework of controls that assess and manage risks to the business. This is discussed in more detail on pages 33 and 34.

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

The names of the current Directors, who served during the year, and their biographical details, are set out on page 26.

Since 1 April 2011, the Board has formally met nine times. Attendance by individual Directors at meetings of the Board during the year ended 31 March 2012 was as follows:

Board

	Meetings during appointment	Meetings attendance
P White (Chair)	9	8
J Gittins	9	9
S Johnson	9	9
M McCallion	9	9
N Mills	9	9
M Nagle	9	9
C O'Reilly	9	8
S Toor	9	7

Surinder Toor, through himself or Alternate (Mark Walters), attended all meetings and Committees.

Board Committees

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

All Committees report to the next meeting of the Board.

Audit Committee and Auditors

Since 1 April 2011, the Audit Committee has formally met three times. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2012 was as follows:

Audit Committee (Non-Executive)

	Committee meetings during appointment	Committee meetings attendance
J Gittins (Chair)	3	3
N Mills	3	3
M Nagle	3	3
C O'Reilly	3	3
S Toor	3	1
P White	2	2

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

Corporate Governance Statement (continued)

Remuneration Committee

Since 1 April 2011, the Remuneration Committee has formally met five times. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2012 was as follows:

Remuneration Committee (Non-Executive)

	Committee meetings during appointment	Committee meetings attendance
P White (Chair)	5	5
J Gittins	4	4
N Mills	5	5
M Nagle	5	5
C O'Reilly	5	4
S Toor	5	3

The activities of the Remuneration Committee are discussed in more detail on pages 31 and 32.

Health and Safety Committee

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

Since 1 April 2011, the Health and Safety Committee has formally met five times. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2012 was as follows:

Health and Safety Committee

	Committee meetings during appointment	Committee meetings attendance
P White (Chair)	5	5
S Johnson	5	5
N Mills	5	5
M Nagle	5	5

Greg Fernie, Operations Director, is a member of the Health and Safety Committee in addition to the Directors listed above.

Pensions Committee

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

Since 1 April 2011, the Pensions Committee has formally met twice. Attendance by individual Directors at meetings of the Committee during the year ended 31 March 2012 was as follows:

Pensions Committee

	Committee meetings	Committee meetings attendance
M McCallion (Chair)	2	2
N Mills	2	2
M Walters (Alternate)	2	2

The following employees: Fiona Brown, Head of Pensions, Rob O'Malley, Head of Treasury & Investor Relations, Paul Taylor, HR Director, and Sarah Walls, Head of Economic Regulation are members of the Pensions Committee in addition to the Directors listed above.

Use of System Pricing and Banking Committees

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

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

Non-Standing Committees

As the need arises, non-standing committees are established to deal with special issues. During the year three such committees were established: a training centre committee to approve the purchase and funding of a training facility, a financing committee to negotiate and finalise the restructuring of the Company's Bank facilities and a finance committee to negotiate and finalise the restructuring of the Company's index-linked swaps.

Corporate Governance Statement
(continued)

The Chairman and Division of Responsibilities

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

The Chairman, with the assistance of the Company Secretary, sets the agenda for the Board and ensures that directors receive timely, accurate and clear information

The Chairman has encouraged greater openness and debate between executive directors and non-executive directors by scheduling three board meetings in the year over two days to ensure adequate time for discussion of agenda items together with increased time to discuss issues that arise

Non-executive Directors

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

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

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

Composition of the Board

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

to further enhance the effective discharge of these respective responsibilities

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

Appointments to the Board and Commitment

The Board is satisfied that the process of appointing new Directors to the Board is rigorous and transparent. Succession planning is in place for the Executive Leadership Team and senior management to ensure the Company has the appropriate mix of skills and experience. All appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender

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

The Remuneration Committee has been delegated this function by the Board and an external recruitment company was used in the appointment of both Independent Non-Executive Directors

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

Corporate Governance Statement (continued)

Development, Information and Support

Directors receive an induction on joining the Board which is tailored to enable them to discharge their duties effectively. Shareholders were invited to meet prospective candidates in the recruitment of the current independent Non-Executive Directors.

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

The Company Secretary assists with professional development when required and advises on governance matters both on an individual basis and in the form of papers to the Board.

Evaluation

A Board evaluation was conducted by Ffion Hague of Independent Board Evaluation in May 2011. Independent Board Evaluation and Ffion Hague have no other business relationship with the Company. The evaluation consisted of Board and Committee working observance together with individual Director questionnaires. The results of the evaluation were communicated to the Board at its meeting in July 2011 and any issues that arose were addressed at the following meeting by the Chairman with actions put in place to address any improvements identified. The Chairman's performance was evaluated by John Gittins and discussed with the non-executive directors.

Re-election of Directors

As a private company, the Company is not required to hold AGMs unless requested by the shareholders. The Articles of the Company do not require that Directors retire by rotation. The Company has strong links, however, with its ultimate shareholders. Board membership

includes shareholder representatives and although the Company is not compliant with section B.7 of the code due to its private status, shareholders are involved in Director appointments to at least as great an extent as if re-election took place at an AGM.

Where the Company releases an executive director to serve as a non-executive director elsewhere, the Director does not currently retain, nor have they retained for the period under review, any remuneration attached to the role.

Remuneration level and components

Levels of remuneration are reviewed in order to attract, retain and motivate Executive Directors ('Executives') of sufficient quality to deliver the objectives of the Group.

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

The Remuneration Committee is careful to ensure that compensation arrangements in Executives' terms of appointments are appropriate and not designed to reward poor performance.

The Executives' service contracts are designed to reward good performance and the notice periods are set at one year or six months.

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

Remuneration procedure

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

Corporate Governance Statement
(continued)

Remuneration procedure *(continued)*

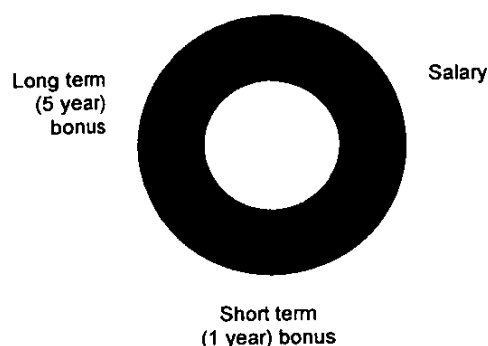
The Board has established a Remuneration Committee, the terms of reference of which are available to shareholders. Membership is solely made up of Non-Executive Directors including two Independent Non-Executive directors, Phil White, who chairs the Committee and the Board and John Gittins, Independent Director. The Company does not, therefore, comply with section D21 of the Code. The Board is confident, however, that Phil White provides independent and objective chairmanship of the Committee and that the Committee membership is effective and enables the successful discharge of the Committee's responsibilities.

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

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

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

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



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

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

Financial and Business Reporting

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

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

Details of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the objectives of the Company are given on pages 7 to 18 of the Business Review.

As discussed in the Directors' Report and accounting policies, after making diligent enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Company's financial statements.

Corporate Governance Statement (continued)

Internal Control framework

The Board of Directors is responsible for the group's system of internal control and its ongoing review. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This internal control framework has been in place for the year under review and up to the date of approval of the annual report and financial statements. It is reviewed regularly by the board and accords with the revised Turnbull guidance.

The internal control framework is designed to identify and manage the principle risks and uncertainties of the business outlined in the business review on pages 23 to 25, rather than to eliminate, the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

- ☐ The highest standards of behaviour are expected from our employees. At Electricity North West we are proud of our strong commitment to having high ethical standards in the way that we work. We have outlined what those principles are in our Employee Code of Conduct document, which summarises our approach to doing business. All our employees must act in accordance with those principles.
- ☐ Engagement and commitment are obtained from all levels of the organisation in order to promote a strong control environment with clearly defined accountabilities and organisation structures, operating within a framework of policies and procedures covering every aspect of the business.
- ☐ Comprehensive compliance regimes are in place to help ensure that the business meets its various financial, statutory and regulatory obligations.
- ☐ A well established 'Table of Accountabilities', which is updated (as a minimum) annually, is in place which details the obligations under the standard and special licence conditions that we must adhere to. It outlines who has specific responsibility for compliance with each of our licence conditions.
- ☐ Comprehensive business planning, risk assessment and financial reporting policies and procedures are in place. They include the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years.
- ☐ A Capital Programme Management Group and Project Approvals Group with defined policies and procedures, for planning, approving and monitoring major capital investment projects, provides effective governance in this area.
- ☐ Monthly reporting of financial and non-financial performance to the Board and Executive Leadership Team. Reviews are made of monthly performance against budgeted and targeted performance.
- ☐ An extensive Internal Control Manual is maintained, acting as the cornerstone of the internal control framework, which our employees are required to adhere to.
- ☐ A Risk, Control and Assurance team has responsibility for independently assessing the adequacy and effectiveness of the management of significant risk areas and internal control. This ongoing assessment helps to inform our annual risk-based audit strategy and plan.
- ☐ A designated audit team reporting to the Head of Health, Safety and Environment serves to monitor the effectiveness of our key Health and Safety controls and reporting processes, overseen by a committee of the Board.
- ☐ The Disclosure ("Whistleblowing") policy for Electricity North West, refreshed during this year, seeks to ensure that any employee may voice any concerns about particular incidents of wrongdoing, or other suspected malpractice, without fear of criticism or future discrimination, provided that any matters raised are in good faith.
- ☐ Formal briefings are provided to our employees on key areas of the internal control framework in order to promote understanding and commitment. For example, in response to the introduction of the Bribery Act in 2011, an extensive programme of Bribery Act briefings has taken place.

Corporate Governance Statement (continued)

Risk Management

The Company has a well embedded structure and process to help identify, assess and manage risks

The key features of the risk management framework are as follows

- ☐ All Enterprise operational and non-operational risks are managed on a single corporate risk register which is maintained by the Head of Risk, Control and Assurance
- ☐ This is underpinned by a number of 'local' risk registers in various areas of the business. Key risks on these 'local' registers are fed into the corporate risk register as they are identified
- ☐ Each risk on the corporate register is designated to a member of the Executive Leadership Team (ELT) who has the overall responsibility for managing that risk
- ☐ All open risks, associated controls and mitigating actions are reviewed on a monthly basis as part of a well embedded risk monitoring process
- ☐ Quarterly risk workshops are held with the ELT in order to review the key risks that appear on the corporate register
- ☐ An annual risk review is formally held with the Electricity North West Board

Audit Committee and Auditors

It is important that the board and all stakeholders have confidence in the Company's financial reporting

With this in mind, the Audit Committee performed a review of the effectiveness, independence and objectivity of the external Auditors and following its review was pleased to recommend the re-appointment of Deloitte LLP. Reviews of the Auditors are undertaken every year together with meetings held with the Auditors without management present to ensure there is a forum to express any concerns

As part of the work to ensure the independence and objectivity of the Auditors, a policy on the non-audit services that Deloitte LLP provide to the Company and those services which require Audit Committee approval is established and is managed by the Committee. Safeguarding the independence of the external auditors is paramount, the audit committee ensure controls are in place to maintain their continued independence

There are certain services where the threat to auditor independence is considered low and which are best provided by auditors, these make up the permitted non-audit services listed in the policy. The provision of these permitted services where the fee is below £250,000 do not require authorisation from the audit committee. For work with fees greater than £250,000 or not falling into the permitted category, the decision to appoint the auditors to do the work shall be made by the Audit Committee with reference to the separate Procurement Policy outlined in the Internal Control Manual

In deciding whether the Auditors may be contracted to perform these services, the Audit Committee considers

- ☐ Whether the skills and experience of the Auditors make it most suitable supplier of the non-audit service,
- ☐ Whether there are safeguards in place to eliminate or reduce, to an acceptable level, any threat to objectivity and independence of the auditors through the additional services, and
- ☐ Any criteria governing the compensation of the individuals performing the audit which might result in a threat to objectivity and independence in their conduct of the audit

Corporate Governance Statement (continued)

Audit Committee and Auditors (continued)

No non-audit service may be contracted to the Auditors where performing the service would entail taking on a management role or where in other ways the possibility of compromising their independence is deemed high

Permitted services contracted to the Auditors are to be reported annually to the Audit Committee together with an explanation of how their objectivity and independence is safeguarded

Instances where the auditors were not contracted to provide a non-audit service are to be noted together with the reasons for the decision to contract to another firm and are to be reported to the Audit Committee at least annually

The only significant non-audit services provided by Deloitte LLP in the year were services assisting in submitting a capital allowance claim with HMRC

Meetings are held with the Head of Risk, Control & Assurance, who manages the internal audit activities, without Executive Management present to provide an open and transparent forum

The ENWL Audit Committee membership consists of Non-Executive Directors who have recent and relevant financial experience. John Gittins is considered an Independent Non-Executive Director and therefore the Company complies, as required, with the conditions for audit committees detailed in the Disclosure and Transparency Rules 7.1.1 to have one independent non-executive director but not with the requirements of section C.3.1 of the Code which requires three. The composition of the Committee is considered by the Board, however, to be effective and objective

The main role and responsibilities of the Audit Committee are set out in its terms of reference and include those items detailed in section C.3.2 of the Code save that the Company does not hold an AGM and therefore the reappointment of Deloitte LLP was approved by the Board

The Committee's terms of reference are available to shareholders. The work of the Committee in discharging its responsibilities is described below

The Committee monitors the integrity of the Group's financial statements and the effectiveness of the external audit process. The Audit Committee provides recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor and assesses the external auditor's independence and the level of non-audit services provided to the Company

The Committee is also responsible for ensuring that the Company's policies and practices relating to the assurance of risks are prudent and compliant with the Company's banking facilities together with providing oversight of the impact of, and compliance with, externally imposed regulatory rules on the operations of the business. The Board has applied the principles of the Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces

The Company has in place guidance on the reporting of incidents of fraud which detail the procedure(s) to be followed by employees, together with the option to report anonymously. Employees who report incidents in good faith are protected by the Company's Disclosure ('Whistle-blowing') Policy

The Committee regularly reviews the effectiveness of the internal audit activities

Internal Audit

- ☐ All internal audit activity is conducted by a single team under the leadership of the Head of Risk, Control & Assurance. The role has a dual reporting line into the Audit Committee Chairman and the Chief Financial Officer
- ☐ The Risk, Control & Assurance team has responsibility to the Audit Committee for agreement of the annual risk-based audit strategy and plan, providing regular updates on findings and progress against the plan. The audit strategy is subject to robust review each year in order to ensure that the plan addresses key areas of focus for the business
- ☐ The Risk, Control and Assurance team comprises both financial and operational expertise and works closely with related areas of assurance and compliance activity within the business, including legal, health and safety and regulation

Corporate Governance Statement
(continued)

Internal Audit (continued)

- When issues or control deficiencies are identified during audit engagements, the Risk, Control & Assurance team works with business managers to develop corrective action plans to address the causes of non-compliance and gaps in internal controls. The team employs a rigorous monitoring process to track these plans to completion and report results on a monthly basis to the Executive, and at each Audit Committee meeting.
- To supplement the internal skills required to complete the audit programme, the Group uses external financial and operational professionals, where appropriate, to provide independent assurance of internal control processes in accordance with a pre-defined scope. Risk, Assurance & Control has been subject to external review of its key processes during the year in order to ensure that it operates in an efficient and effective manner.

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

Relationship with shareholders

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

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

Directors' Report

The Directors present their annual report and the audited financial statements of Electricity North West Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2012

Business review and principal activities

The Chief Executive Officer's statement on page 3 and the Business Review on pages 5 to 25 report on the Group's activities during the year and on likely future developments. In addition the Business Review has been compiled to inform the Company's shareholders and help them assess how the Directors have performed their duty to promote the success of the Company under the Companies Act 2006. A summary of key performance indicators can be found on pages 5 and 6. The Directors, in preparing the Business Review, have not sought to comply with the Accounting Standard Board's 2006 Reporting Statement on operating and financial reviews.

Principal risks and uncertainties

Principal risks and uncertainties are discussed on pages 23 to 25.

Dividends

In 2012 the Company paid dividends of £62m (2011 £62m). This figure represents an interim payment of £25m paid in June 2011 and a further interim payment of £37m paid in December 2011 (2011 This figure represented an interim payment of £15m paid in June 2010 and £47m paid in December 2010). The Directors do not propose a final dividend for the year ended 31 March 2012 (2011 £nil).

Directors

The Directors of the Company during the year ended 31 March 2012 are set out below. Directors were appointed for the whole year except where otherwise indicated.

P M White (Chair)

J A Gittins

S Johnson

M G McCallion

N P Mills

M A Nagle

C E O'Reilly

S S Toor

Alternate Directors during the year were

M L Ayre

M A Walters

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

Going concern

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

- ▮ Management has prepared, and the Directors have reviewed, updated Group forecasts for the DPC5 period which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty and our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue. This analysis demonstrates that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period.
- ▮ The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating.
- ▮ Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000.

Directors' Report (continued)

Going concern (continued)

- Short-term liquidity requirements are forecast to be met from the Company's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, £55m 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.

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

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

Directors' and Officers' insurance

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

Political and charitable donations

The Group made no political donations in the year (2011: £nil). Charitable donations by the Group in the year amounted to £4,700 (2011: £11,000) in support of causes in the local communities in which it operates.

People

The Company's policies on employee consultation and on equal opportunities for disabled employees are contained within the employees section of the Business Review.

Corporate Social Responsibility

Details of the Group's approach to corporate responsibility relating to our environment, social and governance policies can be found in the Business Review.

Essential contractual relationships

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

Policy on the payment of suppliers and creditors

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

As at 31 March 2012, the average credit period taken for trade purchases was 20 days from receipt of invoice (2011: 23 days).

Research and development

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

Financial instruments

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

Fixed assets

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

Capital Structure

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

Directors' Report (continued)

Events after the balance sheet date

At the balance sheet date, ENWL had index-linked swaps totalling £200m notional, with a single accretion payment on maturity in 2038. At that date the swaps had mandatory breaks as follows, £66m notional in July 2013, £66m notional in July 2016 and £68m notional in July 2019. On these break dates, ENWL could have been liable to pay the full mark-to-market value of the swaps to the swap counterparties.

On 2 May 2012, the £66m notional with a mandatory break in July 2013 was re-structured to remove the mandatory break clause and to convert to a 'pay-as-you-go' profile, with accretion pay downs scheduled every five years from July 2012 until maturity in 2038, rather than a single payment on maturity. The real-rate coupon payable was also amended on re-structure.

The index-linked swaps meet the IAS39 definition of a derivative and are, therefore, accounted for at fair value through profit or loss. At the balance sheet date, i.e. prior to re-structure, the £66m notional index-linked swaps were included in the Statement of Financial Position as a £35.3m liability, part of the derivative liabilities totalling £126.1m. On 2 May 2012, immediately prior to re-structure, these swaps were a £33.8m liability. The impact of the re-structure was to increase the £33.8m liability, by £45.9m, to £79.7m. The £45.9m impact is a non-cash fair value movement through the income statement post the balance sheet date.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS regulation and have also chosen to prepare the parent company financial statements under IFRs as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors

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

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

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

Electricity North West Limited
Annual Report and Consolidated Financial Statements for the year ended 31 March 2012

Directors' Report (continued)

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/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

Independent auditor

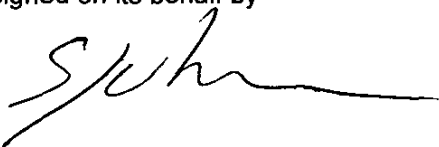
Deloitte LLP have expressed their willingness to continue in office as auditor of the company

In accordance with s487 of the Companies Act 2006, Deloitte LLP are deemed to be re-appointed as auditor of the Company

Registered address

Electricity North West Ltd
304 Bridgewater Place
Birchwood Park
Warrington
WA3 6XG
Registered number 2366949

Approved by the Board on 1 June 2012 and signed on its behalf by



S Johnson
Director

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

We have audited the financial statements of Electricity North West Limited for the year ended 31 March 2012 which comprise the Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income, Financial Position, Changes in Equity, Cash Flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the

reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- ▣ the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2012 and of the Group's profit for the year then ended,
- ▣ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- ▣ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- ▣ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Electricity North West Limited *(continued)*

Matters on which we are required to report by exception

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

- ☐ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- ☐ the parent company financial statements are not in agreement with the accounting records and returns, or
- ☐ certain disclosures of directors' remuneration specified by law are not made, or
- ☐ we have not received all the information and explanations we require for our audit



Alan Fendall (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

1 June 2012

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2012

	<i>Note</i>	Group 2012 £m	Group 2011 £m
Revenue	2	404.6	393.8
Employee costs	3,4	(35.3)	(33.9)
Depreciation and amortisation expense (net)	3	(81.2)	(68.3)
Other operating costs	3	(98.7)	(81.2)
Total operating expenses		(215.2)	(183.4)
Operating profit	3	189.4	210.4
Investment income	5	4.4	1.8
Finance expense	6	(138.8)	(73.1)
Profit before taxation		55.0	139.1
Taxation	7	14.7	(17.9)
Profit for the year attributable to equity shareholders	24	69.7	121.2

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

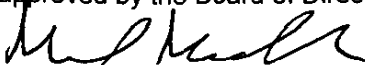
Electricity North West Limited**Annual Report and Consolidated Financial Statements for the year ended 31 March 2012****CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 March 2012**

	<i>Note</i>	Group and Company 2012 £m	Group and Company 2011 £m
Profit for the financial year		69.7	121.2
Other comprehensive (expenses)/income			
Actuarial (losses)/gains on defined benefit pension schemes	19	(18.6)	84.4
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes taken directly to equity	20	4.4	(22.0)
Adjustment due to change in future tax rates of brought forward deferred tax asset taken directly to equity	20	(1.2)	(2.9)
Other comprehensive (expense)/income for the year		(15.4)	59.5
Total comprehensive income for the year and attributable to equity holders		54.3	180.7

CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF FINANCIAL POSITION
at 31 March 2012

	Note	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
ASSETS					
Non-current assets					
Intangible assets and goodwill	9	37.5	37.5	29.8	29.8
Property, plant and equipment	10	2,430.7	2,433.7	2,309.5	2,312.5
Investments	11	-	15.4	-	15.4
		2,468.2	2,486.6	2,339.3	2,357.7
Current assets					
Inventories	12	6.8	6.8	5.6	5.6
Trade and other receivables	13	53.7	53.7	78.1	78.1
Money market deposits	14	25.0	25.0	40.0	40.0
Cash and cash equivalents	14	59.0	59.0	126.9	126.9
Derivative financial instruments	16	-	-	1.0	1.0
Current tax asset		14.9	14.9	-	-
		159.4	159.4	251.6	251.6
Total assets		2,627.6	2,646.0	2,590.9	2,609.3
LIABILITIES					
Current liabilities					
Trade and other payables	17	(151.2)	(166.9)	(151.5)	(166.9)
Current income tax liabilities		-	-	(24.1)	(24.1)
		(151.2)	(166.9)	(175.6)	(191.0)
Net current assets/(liabilities)		8.2	(7.5)	76.0	60.6
Non-current liabilities					
Borrowings	15	(1,087.0)	(1,087.0)	(1,043.9)	(1,043.9)
Derivative financial instruments	16	(126.1)	(126.1)	(76.3)	(76.3)
Deferred tax	20	(238.0)	(238.7)	(258.6)	(259.6)
Customer contributions	21	(470.3)	(470.3)	(448.5)	(448.5)
Refundable customer deposits	22	(3.4)	(3.4)	(1.6)	(1.6)
Retirement benefit obligations	19	(14.2)	(14.2)	(41.3)	(41.3)
		(1,939.0)	(1,939.7)	(1,870.2)	(1,871.2)
Total liabilities		(2,090.2)	(2,106.6)	(2,045.8)	(2,062.2)
Total net assets		537.4	539.4	545.1	547.1
EQUITY					
Called up share capital	23	238.4	238.4	238.4	238.4
Share premium account	24	4.4	4.4	4.4	4.4
Revaluation reserve	24	107.9	107.9	109.9	109.9
Capital redemption reserve	24	8.6	8.6	8.6	8.6
Retained earnings	24	178.1	180.1	183.8	185.8
Total equity		537.4	539.4	545.1	547.1

The financial statements of Electricity North West Limited (registered number 2366949) were approved by the Board of Directors on 1 June 2012 and signed on its behalf by


M McCaillon
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2012

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 2010	238.4	4.4	111.6	8.6	63.4	426.4
Profit for the year	-	-	-	-	121.2	121.2
Transfer from Revaluation reserve	-	-	(1.7)	-	1.7	-
Actuarial gains on defined benefit schemes	-	-	-	-	84.4	84.4
Tax on components of comprehensive income	-	-	-	-	(24.9)	(24.9)
Total comprehensive (expense)/income for the year	-	-	(1.7)	-	182.4	180.7
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
At 31 March 2011	238.4	4.4	109.9	8.6	183.8	545.1
Profit for the year	-	-	-	-	69.7	69.7
Transfer from Revaluation reserve	-	-	(2.0)	-	2.0	-
Actuarial losses on defined benefit schemes (note 19)	-	-	-	-	(18.6)	(18.6)
Tax on components of comprehensive income	-	-	-	-	3.2	3.2
Total comprehensive (expense)/income for the year	-	-	(2.0)	-	56.3	54.3
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
At 31 March 2012	238.4	4.4	107.9	8.6	178.1	537.4

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2012

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 2010	238.4	4.4	111.6	8.6	65.4	428.4
Profit for the year	-	-	-	-	121.2	121.2
Transfer from Revaluation reserve	-	-	(1.7)	-	1.7	-
Actuarial gains on defined benefit schemes	-	-	-	-	84.4	84.4
Tax on components of comprehensive income	-	-	-	-	(24.9)	(24.9)
Total comprehensive (expense)/income for the year	-	-	(1.7)	-	182.4	180.7
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
At 31 March 2011	238.4	4.4	109.9	8.6	185.8	547.1
Profit for the year	-	-	-	-	69.7	69.7
Transfer from Revaluation reserve	-	-	(2.0)	-	2.0	-
Actuarial losses on defined benefit schemes(note 19)	-	-	-	-	(18.6)	(18.6)
Tax on components of comprehensive income	-	-	-	-	3.2	3.2
Total comprehensive (expenses)/income for the year	-	-	(2.0)	-	56.3	54.3
Transactions with owners recorded directly in equity						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
At 31 March 2012	238.4	4.4	107.9	8.6	180.1	539.4

Electricity North West Limited

Annual Report and Consolidated Financial Statements for the year ended 31 March 2012

CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 March 2012

	<i>Note</i>	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Operating activities					
Cash generated from operations	28	231.9	231.9	245.9	246.8
Interest paid		(46.9)	(46.9)	(37.0)	(37.0)
Tax paid		(15.2)	(15.2)	(31.1)	(31.1)
Net cash generated from operating activities		169.8	169.8	177.8	178.7
Investing activities					
Interest received and similar income		1.4	1.4	0.6	0.6
Purchase of property, plant and equipment		(222.0)	(222.0)	(173.9)	(155.2)
Purchase of intangible assets		(0.8)	(0.8)	(3.0)	(2.9)
Acquisition of subsidiary, net of cash acquired	26	(2.0)	(2.0)	(14.3)	(23.5)
Overdraft acquired on hive-up of subsidiary	26	-	-	-	(10.0)
Customer contributions received		30.3	30.3	37.1	37.1
Proceeds from sale of property, plant and equipment		0.6	0.6	0.6	0.1
Net cash used in investing activities		(192.5)	(192.5)	(152.9)	(153.8)
Financing activities					
Proceeds from borrowings		-	-	135.9	135.9
Transfer from/(to) money market deposits		15.0	15.0	(40.0)	(40.0)
Repayment of borrowings		-	-	(3.9)	(3.9)
Receipt on close out of swap		1.8	1.8	-	-
Dividends paid to equity shareholders of the Company		(62.0)	(62.0)	(62.0)	(62.0)
Net cash (used in)/generated from financing activities		(45.2)	(45.2)	30.0	30.0
Net (decrease)/increase in cash and cash equivalents		(67.9)	(67.9)	54.9	54.9
Cash and cash equivalents at the beginning of the year	14	126.9	126.9	72.0	72.0
Cash and cash equivalents at the end of the year	14	59.0	59.0	126.9	126.9

Notes to the financial statements

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

1. ACCOUNTING POLICIES

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

Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and certain property, plant and equipment

The preparation of financial statements, in conformity with generally accepted accounting principles ('GAAP') under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates

Basis of preparation – going concern basis

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

- Management has prepared, and the Directors have reviewed, updated Group forecasts for the DPC5 period which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue, and demonstrate that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period
- The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000
- The Group and Company have considerable financial resources. Short-term liquidity requirements are forecast to be met from the Company's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, committed undrawn bank facilities are available from lenders of £55m within ENWL, £121.4m in North West Electricity Networks Limited and £20m at North West Electricity Networks (Holdings) Limited which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions the covenants are not forecast to pose any operational restrictions

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

Notes *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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

The going concern basis has been adopted by the directors with supporting assumptions or qualifications as necessary, that has been prepared in accordance with 'Going Concern and Liquidity Risk Guidance for Directors of UK companies 2009' published by the Financial Reporting Council in October 2009

Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have had no impact on the amounts reported or the presentation and disclosure in the financial statements. However they may impact the accounting for future transactions and arrangements

- IAS 24 (Nov 2009) Related Party Disclosures
- IAS 32 (amended) Classification of Rights Issues,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments,
- IFRIC 14 (amended) Prepayments of a Minimum Funding Requirement, and
- Improvements to IFRSs (May 2010)

Recently issued accounting pronouncements - International Financial Reporting Standards

At the date of approval of these financial statements, the following relevant standards and interpretations were in issue but not yet effective. The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's financial statements and that the Group will adopt these standards and interpretations at their effective dates

- IFRS 9 Financial Instruments,
- Amendments to IFRS 7, 'Financial Instruments, Disclosures' on transfers of fixed assets,
- Amendment to IFRS 1, 'First time adoption' on fixed dates and hyperinflation,
- Amendment to IAS 12 'Income Taxes' on deferred tax recovery of underlying assets,
- Amendment to IAS 1 'Financial Statement Presentation' regarding other comprehensive income,
- Amendment to IAS 19 'Employee Benefits',
- IFRS 10, 'Consolidated Financial statements',
- IFRS 11 'Joint Arrangements',
- IFRS 12 'Disclosures of Interests in Other Entities',
- IFRS 13 'Fair Value Measurement',
- IAS 27 (revised 2011), 'Separate Financial Statements', and
- IAS 28 (revised 2011) 'Associates and Joint Ventures'

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

Notes (continued)

1 ACCOUNTING POLICIES (continued)

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. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. All costs associated with business combinations are expensed to the income statement.

Goodwill arising on the acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, then the negative goodwill is recognised, but immediately written-off to the income statement.

Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Goodwill is considered as having an indefinite useful life.

Intangible assets

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

Amortisation periods for categories of intangible assets are

Computer software	3-10 years
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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, overground 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.

Notes (continued)

1 ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Other assets

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

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

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

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

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

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

Impairment of tangible and intangible assets

Intangible assets and property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. An intangible asset with an indefinite life is tested for impairment at least annually and whenever there is an indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment of non-current assets is recognised in the income statement within operating costs.

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

Inventories

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

Financial Instruments

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

Notes (continued)

1. ACCOUNTING POLICIES (continued)

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value

Cash and cash equivalents

In the consolidated cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand, deposits, other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash within three months and which are subject to an insignificant risk of change in value

Money market deposits

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

Financial investments

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

Financial Assets

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

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

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

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

Financial liabilities and equity

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

Notes *(continued)*

1 ACCOUNTING POLICIES *(continued)*

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 £0.6m (2011: £0.3m), using an average annual capitalisation rate of 6.9% (2011: 6.7%).

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.

Notes (continued)

1 ACCOUNTING POLICIES (continued)

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

The Group applied the fair value through profit or loss option to the £250m 8.875% 2026 bond upon initial recognition as the complexity of the associated swaps at that time meant that the criteria to allow hedge accounting was not met and the otherwise inconsistent accounting treatment that would have resulted allowed the Group to satisfy the criteria for this designation.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses on re-measurement recognised in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liabilities and is included in the interest charge. Fair value is determined in the manner described in note 16.

The Group elects to designate a financial liability at inception as fair value through the income statement on the basis that it meets the conditions specified in IAS 39 'Financial Instruments Recognition and measurement'.

Derivative financial instruments and hedge accounting

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

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

Hedge accounting

There are two types of hedge accounting strategies that the Group considers, a fair value hedge and a cash flow hedge. Currently the Group has no formal hedging relationships.

Operating profit

Operating profit is stated after charging operating expenses but before investment income, 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.

Notes *(continued)*

1. ACCOUNTING POLICIES *(continued)*

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

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

All actuarial gains and losses are recognised outside the income statement in retained earnings and presented in the Statement of Comprehensive Income.

In July 2010, the Government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. The Company has taken legal advice on how this change will impact the Scheme. This change was reflected in the Company's accounting figures at 31 March 2011 and a reduction in the benefit obligation of £3m was recognised in equity as a result of this change in assumptions.

In addition, the Group also operates defined contribution pension schemes. 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.

Notes (continued)

1. ACCOUNTING POLICIES (continued)

Employee benefits - Retirement benefit obligations (continued)

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

Revenue recognition

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

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

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. ACCOUNTING POLICIES (continued)

Critical Accounting Policies (continued)

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 2012 was £2,430.7m (2011: £2,309.5m). Additions to PPE, excluding acquisitions, totalled £220.3m (2011: £188.1m) and the depreciation charge was £83.9m (2011: £75.1m) in the year ended 31 March 2012. The estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies 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 2012, the Directors have assessed the carrying value of both tangible and intangible fixed assets in accordance with the principles of IAS36 '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 DPCR5 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.

Notes (continued)

1. ACCOUNTING POLICIES (continued)

Critical Accounting Policies (continued)

Revenue recognition

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

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

Taxation

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

Accounting for provisions and contingencies

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

ENWL held the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to Comet Group Plc ('Comet') in 1996. ENWL still has a potential liability for lease obligations under privity of contract rules for 29 of those premises. It has been considered that the likelihood of Comet defaulting, and hence ENWL becoming liable for these leases is not probable. However, it could be possible and therefore a contingent liability has been disclosed in line with IAS 37, "Provisions, contingent liabilities and contingent assets". For further details refer to note 30.

Retirement benefits

The pension cost under IAS 19 'Employee benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 19 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.

Notes (continued)

1. ACCOUNTING POLICIES (continued)

Critical Accounting Policies (continued)

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 is provided in note 16 to the financial statements.

Impairment of goodwill

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

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

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

	2012	2011
	£m	£m
Revenue	404.6	393.8

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 Team. Included within the above are revenues of approximately £306.1m (2011: £313.9m) which arose from sales to the Group's five (2011: five) largest customers. Customer 1 represented £98.2m (2011: £98.7m), Customer 2 £78.7m (2011: £79.7m), Customer 3 £56.3m (2011: £55.6m), Customer 4 £37.8m (2011: £40.3m) and Customer 5 £35.1m (2011: £39.6m) 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	2012	2011
	£m	£m
Employee costs		
Employee costs (see note 4)	35.3	33.9
Depreciation and amortisation expense (net)		
Depreciation of property, plant and equipment		
Owned assets (see note 10)	83.9	75.1
Amortisation of intangible assets and customer contributions		
Software (see note 9)	8.3	4.3
Customer contributions ¹ (see note 21)	(11.0)	(11.1)
	81.2	68.3
Other income		
Profit on disposal of property, plant and equipment	(0.6)	(0.6)
Other operating costs include:		
Research and development	1.6	1.5
Restructuring costs ²	1.9	1.9
Operating leases		
- land and buildings	1.3	0.6
- hire of plant and machinery	0.1	0.5

¹ In the current year £1.9m (2011: £1.0m) of customer contributions amortisation has been amortised through revenue as a result of the adoption of IFRIC 18 as detailed in note 1.

² Restructuring costs include severance costs of £1.9m (2011: £1.1m).

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Notes (continued)

3 OPERATING PROFIT (continued)

Analysis of the auditor's remuneration is as follows

	Group 2012 £m	Group 2011 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's auditor and their associates for other services to the group	-	-
The audit of the Company's subsidiaries	-	-
Total audit fees	0.1	0.1
Audit-related assurance services	0.1	-
Other taxation advisory services	-	0.1
Corporate finance services	-	0.1
Other services	-	-
Total non-audit fees	0.1	0.2
Total fees	0.2	0.3

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

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report. A contingent tax project has been undertaken during the year ended 31 March 2012. Fees for the project could be up to £260,000 and are excluded from the table above pending the outcome of the services.

Notes (continued)

4 EMPLOYEE COSTS

	Group 2012 £m	Group 2011 £m
Wages and salaries	70.5	51.8
Social security costs	7.0	3.9
Pension costs (see note 19)	11.5	12.6
Employee costs (including Directors' remuneration)	89.0	68.3
Costs transferred directly to fixed assets	(53.7)	(34.4)
Charged to operating expenses	35.3	33.9

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

	Group 2012 Number	Company 2012 Number	Group 2011 Number	Company 2011 Number
Electricity distribution	1,613	1,613	1,189	109

As part of the hive up of ENWSL assets and liabilities to ENWL on 31 March 2011 (see note 26) the employees of ENWSL were transferred to be employees of ENWL

5 INVESTMENT INCOME

	2012 £m	2011 £m
Interest receivable on short-term bank deposits held at amortised cost	1.8	0.6
Expected return on pension scheme assets (see note 19)	52.4	51.7
Interest cost on pension scheme obligations (see note 19)	(49.8)	(50.5)
Net pension interest	2.6	1.2
Total investment income	4.4	1.8

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Notes (continued)

6 FINANCE EXPENSE

Group	2012 £m	2012 £m	2011 £m	2011 £m
Interest payable				
Interest payable on Group borrowings	17.0		17.1	
Interest payable on borrowings held at amortised cost	22.8		21.0	
Interest payable on borrowings designated at fair value through profit or loss	22.2		22.2	
Net receipts on derivatives held for trading	(14.1)		(22.5)	
Other finance charges related to index-linked bonds	12.3		5.3	
Capitalisation of borrowing costs under IAS 23	(0.6)		(0.3)	
Total interest expense		59.6		42.8
Movements on financial instruments				
Fair value movement on borrowings designated at fair value through profit or loss	30.2		6.8	
Fair value movement on derivatives held for trading	50.8		23.5	
Cash settlement on close-out of amortising swaps	(1.8)		-	
Total fair value movements		79.2		30.3
Total finance expense		138.8		73.1

In respect of the movement in the fair value of borrowings designated as at fair value through profit or loss £30.2m loss (2011: £6.8m loss) and a £8.6m gain (2011: £7.5m loss) is attributable to changes in credit spread assumptions which is partially offset by changes in interest rates and therefore interest payable.

Notes (continued)

7 TAXATION

	2012 £m	2011 £m
Current tax		
UK corporation tax	12.1	38.9
Prior year	(9.4)	(1.4)
Deferred tax (see note 20)		
Current year	1.8	1.4
Prior year	2.1	-
Impact of change in future tax rates	(21.3)	(21.0)
Taxation	(14.7)	17.9

Corporation tax is calculated at 26% (2011 28%) of the estimated assessable profit for the period

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

The tax charge in future periods will be affected by the announcement on 21 March 2012 that the corporation tax main rate will be reduced to 24% from 1 April 2012. The rate will be reduced by 1% annually until 1 April 2014 when the rate will be 22%.

Tax rate changes are taken into account if they are substantively enacted at the statement of financial position date. The reduction to 24% was included in a resolution passed under the Provisional Collection of Taxes Act 1968 on 26 March 2012. Accordingly the tax disclosures reflect deferred tax measured on the new 24% rate, resulting in a credit of £21.3m.

A further deferred tax credit, in respect of the change in corporation tax rates from 24% to 22% is expected to be in the region of £20m.

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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

	2012 £m	2011 £m
Profit before tax	55.0	139.1
Tax at the UK corporation tax rate of 26% (2011 28%)	14.3	39.0
Prior year tax adjustments	(7.3)	(1.4)
Impact of withdrawal of IBA allowances	-	1.3
Non Taxable (income)/expense	(0.4)	-
Impact from change in future tax rates	(21.3)	(21.0)
Tax (credit)/expense for the year	(14.7)	17.9

In addition to the amount charged to the Income Statement, deferred tax relating to actuarial gains on defined benefit schemes of £4.4m credit (2011 £22.0m charge), deferred tax due to changes in future tax rates of the brought forward deferred tax asset of £1.2m charge (2011 £2.9m charge) were taken to the Statement of Comprehensive Income

8 DIVIDENDS

Amounts recognised as distributions to equity holders in the year comprise

	2012 £m	2011 £m
Interim dividends paid during the year ended 31 March 2012 of 13p per share (31 March 2011 13p per share)	62.0	62.0

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, no liability has been included in the financial statements at 31 March 12 and 31 March 2011 respectively

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 2010	-	35.4	5.5	40.9
Additions	-	0.4	2.6	3.0
Arising on acquisition of subsidiary	10.1	-	-	10.1
Transfers	-	2.2	(2.2)	-
At 31 March 2011	10.1	38.0	5.9	54.0
Additions	-	-	0.8	0.8
Reclassification from Tangibles to Intangibles ¹	-	-	15.2	15.2
Transfers	-	18.5	(18.5)	-
Disposals	-	(1.8)	-	(1.8)
At 31 March 2012	10.1	54.7	3.4	68.2
Amortisation				
At 1 April 2010	-	19.9	-	19.9
Charge for the year	-	4.3	-	4.3
At 31 March 2011	-	24.2	-	24.2
Charge for the year	-	8.3	-	8.3
Disposals	-	(1.8)	-	(1.8)
At 31 March 2012	-	30.7	-	30.7
Net book value				
At 31 March 2012	10.1	24.0	3.4	37.5
At 31 March 2011	10.1	13.8	5.9	29.8

Goodwill arose on the acquisition of ENWSL in the prior year, see note 26 for details

¹During the year £15.2m of computer software costs have been transferred from tangible assets under the course of construction to intangible assets under the course of construction, due to uncertainty of split from contractors later clarified

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 prior year. 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.

Assets under the course of construction relates primarily to the ENWL IT Refresh Programme (ITRP), which involved changing from the United Utilities platform to Electricity North West's own platform, the remaining balance at year end relates to the DUoS and Associated Distribution Systems capture billing system expected to be completed during next year.

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

At 31 March 2012, the Group and Company had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2011: £2.1m).

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% (2011: 7.00%) 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, equipment, vehicles and other £m	Assets under the course of construction £m	Total £m
Cost or valuation					
At 1 April 2010	2,928.7	11.1	11.6	186.3	3,137.7
Additions	54.2	1.3	4.0	128.6	188.1
Arising on acquisition	-	-	18.3	-	18.3
Transfers	104.5	0.4	1.4	(106.3)	-
Disposals	(7.3)	-	(0.3)	-	(7.6)
At 31 March 2011	3,080.1	12.8	35.0	208.6	3,336.5
Additions	78.0	0.1	34.5	107.7	220.3
Transfers	92.5	0.1	(12.5)	(80.1)	-
Reclassification from Tangibles to Intangibles ¹	-	-	-	(15.2)	(15.2)
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	3,245.4	13.0	51.3	221.0	3,530.7
Depreciation and impairment					
At 1 April 2010	940.9	3.7	8.0	-	952.6
Arising on acquisition	-	-	6.9	-	6.9
Charge for the year	69.9	0.3	4.9	-	75.1
Disposals	(7.3)	-	(0.3)	-	(7.6)
At 31 March 2011	1,003.5	4.0	19.5	-	1,027.0
Charge for the year	74.1	0.4	9.4	-	83.9
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	1,072.4	4.4	23.2	-	1,100.0
Net book value					
At 31 March 2012	2,173.0	8.6	28.1	221.0	2,430.7
At 31 March 2011	2,076.6	8.8	15.5	208.6	2,309.5

At 31 March 2012, the Group and Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.9m (2011: £35.7m)

¹See note 9

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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 2010	2,931.7	11.1	11.6	186.3	3,140.7
Additions	54.2	1.3	1.1	128.6	185.2
Transfers	104.5	0.4	1.4	(106.3)	-
Intra group transfers ¹	-	-	20.9	-	20.9
Disposals	(7.3)	-	-	-	(7.3)
At 31 March 2011	3,083.1	12.8	35.0	208.6	3,339.5
Additions	78.0	0.1	34.5	107.7	220.3
Transfers	92.5	0.1	(12.5)	(80.1)	-
Reclassification from Tangible to Intangibles ²	-	-	-	(15.2)	(15.2)
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	3,248.4	13.0	51.3	221.0	3,533.7
Depreciation and Impairment					
At 1 April 2010	940.9	3.7	8.0	-	952.6
Charge for the year	69.9	0.3	2.3	-	72.5
Disposals	(7.3)	-	-	-	(7.3)
Intra group transfers ¹	-	-	9.2	-	9.2
At 31 March 2011	1,003.5	4.0	19.5	-	1,027.0
Charge for the year	74.1	0.4	9.4	-	83.9
Disposals	(5.2)	-	(5.7)	-	(10.9)
At 31 March 2012	1,072.4	4.4	23.2	-	1,100.0
Net book value					
At 31 March 2012	2,176.0	8.6	28.1	221.0	2,433.7
At 31 March 2011	2,079.6	8.8	15.5	208.6	2,312.5

¹ The intra-group transfer related to the hive-up of net assets from ENWSL in prior year. See note 26 for further details.

² See note 9.

At 31 March 2012, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been approximately £2,291.8m (2011: £2,164.1m). The revaluation surplus is disclosed in note 24, net of deferred tax. The revaluation surplus arose following a Directors' revaluation of operational assets and non operational land and buildings in 1997.

Notes (continued)

11 INVESTMENTS

	Group £m	Company £m
Cost		
At 31 March 2011 and 31 March 2012	-	15.4

Details of the investments as at 31 March 2012, 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
Group and Company	Description of holding	Proportion held	Nature of business
<i>Other Investments</i>			
National Grid plc	Ordinary shares of 11 76p each	Negligible	Energy Distribution
<i>Associated undertaking</i>			
NorWeb 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

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Notes (continued)

12 INVENTORIES

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Raw materials and consumables	6.8	6.8	5.6	5.6

13 TRADE AND OTHER RECEIVABLES

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Trade receivables	6.5	6.5	33.2	33.2
Amounts owed by Group undertakings	0.3	0.3	3.4	3.4
Prepayments and accrued income	46.9	46.9	41.5	41.5
	53.7	53.7	78.1	78.1

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.4m (2011: £0.1m) 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 (2011: 14 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Of the trade receivables, 23% (2011: 10%) are past due but not impaired. The majority of balances are less than 45 days past due, a balance of £1.5m is greater than 45 days past due at 31 March 2012 (2011: £1.3m), against which an allowance for doubtful debt of £0.4m (2011: £0.1m) has been made.

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

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Opening balance	0.1	0.1	0.3	0.3
Charged to the income statement	0.3	0.3	-	-
Utilised	-	-	(0.2)	(0.2)
Closing balance	0.4	0.4	0.1	0.1

Notes (continued)

13 TRADE AND OTHER RECEIVABLES (continued)

Trade receivables comprise 488 (2011 654) individual customers and 77.8% (2011 68.5%) of the trade receivables balance above relates to the regulated provision of infrastructure to electricity retail companies. 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 2012 £2.9m (2011 £2.9m) of cash had been received as security.

The allowed RAV is set by Ofgem for each year of DPC5 (1 April 2010 to 31 March 2015) and is £1,519.2m for the year ended 31 March 2012 based on March closing prices (2011 £1,403.3m).

At 31 March 2012 £97.0m (2011 £95.2m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £9.9m (2011 £10.3m). 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	2012 £m	2011 £m
Short-term bank deposits including cash at bank and in hand	59.0	126.9
Cash and Cash Equivalents	59.0	126.9
Short-term money market deposits (maturity over three months)	25.0	40.0
	84.0	166.9

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 1.25% (2011 0.97%) and these deposits had an average maturity of 245 days (2011 164 days).

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Notes (continued)

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	2012 £m	2011 £m
Non-current liabilities		
Bonds	682.8	646.6
Bank and other term borrowings	141.2	134.7
Amounts owed to parent undertaking	67.4	67.4
Amounts owed to affiliated ¹ undertaking	195.6	195.2
	1,087.0	1,043.9

Carrying value by category

The carrying values by category of financial instruments were as follows

Group and Company	Year of maturity	2012 Carrying Value £m	2011 Carrying Value £m
Borrowings designated at fair value through profit or loss			
8.875% £250m bond	2026	365.4	335.2
Borrowings measured at amortised cost			
8.875% £200m bond	2026	195.5	195.3
1.4746%+RPI ² £100m index-linked bond	2046	121.9	116.1
1.5911%+RPI ² £135m index-linked loan	2024	141.5	135.0
Amortising costs re Long term loans at LIBOR plus 2.25%	2012	-	(0.3)
Amortising costs re Long term loans at LIBOR plus 0.70%	2016	(0.3)	-
Amounts due to parent undertaking	2015	67.4	67.4
Amounts due to affiliated ¹ undertaking	2021	195.6	195.2
Other financial liabilities held at amortised cost		721.6	708.7

¹ Affiliated companies being those owned by Companies above ENWL in the North West Electricity Networks (Jersey) Limited consolidation group

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

All loans and borrowings are unsecured. There is no formal bank overdraft facility in place between 1 April 2011 and 31 March 2012. All borrowings are in sterling. The fair values of the Group's financial instruments are shown in note 16.

Included within the borrowing note are capitalised facility arrangement fees of £0.3m (2011: £0.3m) relating to the undrawn Revolving Credit Facilities.

Borrowing facilities

The Group and Company had £55m (2011: £80m) in unutilised committed bank facilities at 31 March 2012 of which £nil expires within one year (2011: £nil), £5.0m expires after one year but less than two years (2011: £75m) and £50m expires in more than two years (2011: £5m).

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, these are managed by the pension scheme investment managers.

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

Credit risk

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

The counterparties under treasury activities consist of financial institutions. In accordance with IAS 39, the directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. The exposure to counterparty credit risk will continue to be monitored. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. In the year, there have been changes to the Group's policy on risk limits and minimum credit ratings of counterparties to reflect changes to market conditions and the associated level of perceived risks. 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 2012 was 488 (2011: 654), however there are only five (2011: 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 2012 there was £1.5m receivables past due (2011: £3.5m) against which an allowance for doubtful debts of £0.4m has been made (2011: £0.1m).

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 2012 none (2011: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been re-negotiated with any counterparty. The Group has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

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

Credit Rating	2012 £m	2012 %	2011 £m	2011 %
AAA	12.3	13.2	33.7	18.8
AA	-	-	1.0	0.5
AA-	-	-	71.0	39.6
A+	15.0	16.1	48.5	27.1
A	65.9	70.7	25.0	14.0
	93.2	100.0	179.2	100.0

The rating profile of counterparties has decreased due to change in market conditions as a result of global economic uncertainty.

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	2012 Group £m	2012 Company £m	2011 Group £m	2011 Company £m
Trade Receivables	6.5	6.5	33.2	33.2
Derivative Financial Instruments (assets)	-	-	1.0	1.0
Cash and Cash Equivalents	59.0	59.0	126.9	126.9
Money Market Deposits (original maturity over three months)	25.0	25.0	40.0	40.0
	90.5	90.5	201.1	201.1

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

Liquidity risk

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

The Board is responsible for monitoring the maturity of liquidity and deposit funding balances and taking any action as appropriate. A long-term view of liquidity is provided by Group financial models which project cash flows out 40 years ahead, and a medium-term view is provided by the five year Group business plan, which is updated and approved annually by the Board. Shorter-term liquidity is monitored via an 18 month liquidity projection and this is reported to the Board. The Board has approved a liquidity framework within which the business operates.

Available liquidity at 31 March was as follows:

Available Liquidity	2012 Group £m	2012 Company £m	2011 Group £m	2011 Company £m
Cash and Cash Equivalents	59.0	59.0	126.9	126.9
Money Market Deposits (original maturity over three months)	25.0	25.0	40.0	40.0
Committed Undrawn Bank facilities	55.0	55.0	80.0	80.0
	139.0	139.0	246.9	246.9

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Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

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

Committed undrawn bank facilities include £nil (2011 £nil) of facilities that expire within one year, £5.0m (2011 £75.0m) that expires after one year but less than two years and £50.0m (2011 £5.0m) that expires in more than two years

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

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

Group and Company 31 March 2012	On demand £m	<1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	>4 years £m	Total £m
Trade payables	(23.5)	-	-	-	-	-	(23.5)
Amounts owed to parent undertaking	-	(4.4)	(4.4)	(73.0)	-	-	(81.8)
Amounts owed to affiliated undertaking	-	(12.3)	(12.3)	(12.3)	(12.3)	(267.4)	(316.6)
Bonds	-	(41.8)	(41.8)	(41.8)	(41.8)	(1,030.0)	(1,197.2)
Borrowings and overdrafts	-	(2.3)	(2.3)	(2.3)	(2.3)	(159.8)	(169.0)
Derivative financial instruments (net)	-	14.2	(23.6)	7.0	7.0	(33.6)	(29.0)
	(23.5)	(46.6)	(84.4)	(122.4)	(49.4)	(1,490.8)	(1,817.1)

Group and Company 31 March 2011	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	(10.0)	-	-	-	-	-	(10.0)
Amounts owed to parent undertaking	-	(4.4)	(4.4)	(4.4)	(73.0)	-	(86.2)
Amounts owed to affiliated undertaking	-	(12.3)	(12.3)	(12.3)	(12.3)	(279.6)	(328.8)
Bonds	-	(41.7)	(41.7)	(41.7)	(41.7)	(1,062.9)	(1,229.7)
Borrowings and overdrafts	-	(2.1)	(2.1)	(2.1)	(2.1)	(155.3)	(163.7)
Derivative financial instruments (net)	-	15.2	15.2	(22.2)	7.9	10.6	26.7
	(10.0)	(45.3)	(45.3)	(82.7)	(121.2)	(1,487.2)	(1,791.7)

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

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.

	2012			2011		
	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	(17.9)	16.8	32.7	(8.4)	22.8	30.2
Interest rate swaps	(0.2)	0.2	0.4	0.1	(0.1)	(0.1)
Inflation-linked swaps	(35.5)	30.5	56.6	(27.5)	23.4	43.3
Total fair value movement	(53.6)	47.5	89.7	(35.8)	46.1	73.4

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 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.

	2012			2011		
	Change in interest rates			Change in interest rates		
	-0.5%	+0.5%	+1%	-0.5%	+0.5%	+1%
	£m	£m	£m	£m	£m	£m
Interest rate swaps	(0.0)	0.0	0.1	(0.1)	0.1	0.1
Total finance expense impact	(0.0)	0.0	0.1	(0.1)	0.1	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 revenues of ENWL are linked to movements in inflation, as measured by the Retail Prices Index (RPI). To economically hedge exposure to RPI, ENWL links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's index-linked swaps are exposed to a risk of change in their fair value arising from a risk of change of future cash flows due to changes in inflation rates. The Company's revenues are also linked to RPI via returns on the Regulated Asset Value (RAV) and an increase in RPI would increase revenues, mitigating any increase in finance expense.

Sensitivity analysis

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.

	2012			2011		
	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	37.1	(41.5)	(87.8)	31.2	(35.0)	(74.4)
Total fair value movement	37.1	(41.5)	(87.8)	31.2	(35.0)	(74.4)

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.

	2012			2011		
	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	1.3	(1.3)	(2.7)	1.3	(1.3)	(2.5)
Inflation-linked swaps	-	-	(0.1)	-	-	(0.1)
Total finance expense impact	1.3	(1.3)	(2.8)	1.3	(1.3)	(2.6)

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 2012, the Group's derivatives are not designated in formal hedging relationships (2011: none), and instead are measured at fair value through the income statement.

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Fair values

The tables below provide a comparison of the book values and fair values of the Group's financial instruments by category as at the statement of financial position date. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

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

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

Group and Company	2012		2011	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Non-current assets				
Derivative financial instruments	-	-	1.0	1.0
Current assets				
Trade receivables	6.5	6.5	33.2	33.2
Cash and cash equivalents	59.0	59.0	126.9	126.9
Money Market Deposits (original maturity over three months)	25.0	25.0	40.0	40.0
	90.5	90.5	201.1	201.1

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Group and Company	2012		2011	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Non-current liabilities				
Borrowings designated at FVTPL	(365.4)	(365.4)	(335.2)	(335.2)
Borrowings measured at amortised cost	(458.6)	(555.4)	(446.1)	(518.9)
Amounts due to parent undertaking	(67.4)	(67.4)	(67.4)	(67.4)
Amounts due to affiliated companies	(195.6)	(234.9)	(195.2)	(217.8)
Derivative financial instruments	(126.1)	(126.1)	(76.3)	(76.3)
Current liabilities				
Trade and other payables	(23.5)	(23.5)	(10.0)	(10.0)
	(1,236.6)	(1,372.7)	(1,130.2)	(1,225.6)

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

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Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

31 March 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	10	-	10
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(76.3)	-	(76.3)
Financial liabilities designated at FVTPL	(335.2)	-	-	(335.2)
	(335.2)	(76.3)	-	(411.5)

There were no transfers between levels during the current year

17 TRADE AND OTHER PAYABLES

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Trade payables	23.5	23.5	10.0	10.0
Amounts owed to group	15.6	15.6	-	-
Amounts owed to subsidiary undertakings	-	15.4	-	15.4
Other taxation and social security	6.7	6.7	13.8	13.8
Customer contributions (see note 21)	28.9	28.9	29.0	29.0
Refundable customer deposits (see note 22)	0.4	0.4	6.5	6.5
Accruals and deferred income	76.1	76.4	92.2	92.2
	151.2	166.9	151.5	166.9

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 20 days from receipt of invoice (2011: 23 days).

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

Notes (continued)

18 DIRECTORS' REMUNERATION

	2012 £m	Re-presented 2011 £m
Salaries	0.7	1.0
Accrued Bonus	0.6	0.6
Pension	0.1	0.1
	1.4	1.7

Directors' emoluments have been re-presented in respect of 2011 in order to correct an overstatement of £62,498

The aggregate emoluments of the Directors in 2012 amounted to £1,433,746 (2011 re-presented £1,671,953). 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 2012 in respect of services to the Group amounted to £757,933 (2011 re-presented £756,511). Included in the total emoluments shown above for the current year, are amounts payable for compensation for loss of office of £nil (2011 re-presented £410,000) all paid in cash. Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 27.

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

The pension contributions for the highest paid Director for 31 March 2012 were £36,013 (2011 £38,500). The accrued pension at 31 March 2012 for the highest paid Director was £nil (2011 £nil).

As at 31 March 2012 the Directors have no interests in the ordinary shares of the Company.

19 RETIREMENT BENEFIT SCHEMES

Group and Company

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

The defined benefit section of the scheme was closed to all new entrants on 1 September 2006. New employees of the Group are instead provided with access to a defined contribution section of the Scheme. The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2012 was £1.3m (2011 £0.9m) and represents contributions payable to the Scheme at rates specified in the rules of the Scheme.

Notes (continued)

19 RETIREMENT BENEFIT SCHEMES (continued)

During the year the Group made contributions of £53.3m (2011 £27.6m) to the defined benefit section of the Scheme. This included advance payment of the April 2013 to March 2015 deficit contributions paid by the Group on 30 March 2012. The Group estimates that contributions for the year ending 31 March 2013 will amount to around £12m. The total defined benefit pension expense for the year was £7.6m (2011 pension expense £10.5m). Information about the pension arrangements for the Executive Directors is contained in note 18.

As at 31 March 2012 contributions of £3.3m (2011 £2.3m) due in respect of the current reporting period had not been paid over to the Scheme.

The last actuarial valuation of the Scheme was carried out as at 31 March 2010. The valuation has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2012. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension deficit under IAS 19 of £14.2m is included in the statement of financial position at 31 March 2012 (2011 deficit of £41.3m).

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

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

	2012	2011
	%	%
Discount rate	5.1	5.5
Expected return on assets	5.6	6.0
Pensionable salary increases	3.9	4.4
Pension increases	3.3	3.4
Price inflation	3.3	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 2011). A long term improvement rate of 1.25% p.a. is assumed (2011 1.0% p.a.). These factors have been taken into account in the calculation of the defined benefit obligations of the Scheme.

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

	2012	2011
	Years	Years
Male life expectancy at age 60		
Retired member	26.4	25.8
Non-retired member (currently aged 45)	27.9	27.0

In valuing the liabilities of the Scheme at 31 March 2012 mortality assumptions have been made as indicated above. If the life expectancy had been changed to assume that all members of the Fund lived for one year longer, the value of the reported liabilities at 31 March 2012 would have increased by approximately £25m before deferred tax.

Notes (continued)

19 RETIREMENT BENEFIT SCHEMES (continued)

As at 31 March 2012, the Scheme's assets and liabilities recognised in the statement of financial position were as follows

	Scheme assets at 31 March 2012	Value at 31 March 2012	Scheme assets at 31 March 2011	Value at 31 March 2011
	%	£m	%	£m
Equities	45.5	435.8	43.7	385.6
Gilts	10.4	100.0	11.8	104.7
Bonds	34.0	326.1	38.3	338.7
Property	6.9	66.2	4.5	39.8
Cash	0.6	5.9	1.0	9.0
Assets arising on ENWSL acquisition	-	-	0.6	5.4
Net current assets	2.6	24.7	0.1	0.6
Total fair value of assets	100.0	958.7	100.0	883.8
Present value of liabilities	-	(972.9)	-	(925.1)
Net retirement benefit obligation		(14.2)		(41.3)

To develop the expected long-term rate of return on assets assumption, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on the Scheme assets was £62.5m gain (2011 £56.1m gain). None of the pension scheme assets are held in the Group's own financial instruments or any other assets used by the Group.

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

	2012	2011
	£m	£m
At 1 April	(925.1)	(984.1)
Current service cost	(9.9)	(11.4)
Interest cost on Scheme obligations	(49.8)	(50.5)
Member contributions	(2.1)	(2.1)
Augmentation	(1.0)	(0.3)
Actuarial (losses)/gains— assumptions	(28.7)	52.9
Actuarial gains — experience items	-	27.1
Benefits paid	51.2	48.7
ENWSL acquisition and other bulk transfers	(7.5)	(5.4)
At 31 March	(972.9)	(925.1)

Notes (continued)

19 RETIREMENT BENEFIT SCHEMES (continued)

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

	2012	2011
	£m	£m
At 1 April	883.8	841.3
Expected return on Scheme assets	52.4	51.7
Actuarial gains	10.1	4.4
Company contributions	53.3	27.6
Member contributions	2.1	2.1
Benefits paid	(51.2)	(48.7)
ENWSL acquisition and other bulk transfers	8.2	5.4
At 31 March	958.7	883.8

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

	2012	2011
	£m	£m
Current service cost	(9.9)	(11.4)
Past service cost ²	(0.3)	(0.3)
Expected return on Scheme assets	52.4	51.7
Interest on Scheme obligations	(49.8)	(50.5)
Net pension expense before taxation	(7.6)	(10.5)

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

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

	2012	2011
	£m	£m
At 1 April	(41.3)	(142.8)
Expense recognised in the income statement	(7.6)	(10.5)
Contributions paid	53.3	27.6
Actuarial (losses)/gains gross of taxation	(18.6)	84.4
At 31 March	(14.2)	(41.3)

² For the year ending 31 March 2012, the Past Service Cost includes £1m in respect of augmentations and (£0.7m) due to the difference between the assets received and the increase in liabilities in respect of the bulk transfers received on 12 January 2012

Notes (continued)

19 RETIREMENT BENEFIT SCHEMES (continued)

Actuarial gains and losses are recognised in the statement of comprehensive income. At 31 March 2012, a cumulative gain of £180.5m (2011 gain of £199.1m) had been recorded directly in the statement of comprehensive income.

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	(972.9)	(925.1)	(984.1)	(728.0)	(796.3)
Fair value of Scheme assets	958.7	883.8	841.3	700.5	841.4
Net retirement benefit (obligation)/surplus	(14.2)	(41.3)	(142.8)	(27.5)	45.1
Experience adjustments on Scheme liabilities	-	27.1	-	0.8	(18.4)
Experience adjustments on Scheme assets	10.1	4.4	-	(152.5)	(12.9)

20 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 2010	306.5	(40.0)	(12.8)	253.7
(Credited)/charged to the income statement	(20.8)	4.4	(3.2)	(19.6)
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes	-	22.0	-	22.0
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	2.9	-	2.9
Arising on acquisition	-	-	(0.4)	(0.4)
At 1 April 2011	285.7	(10.7)	(16.4)	258.6
(Credited)/charged to the income statement	(19.3)	10.5	(8.6)	(17.4)
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes	-	(4.4)	-	(4.4)
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	1.2	-	1.2
At 31 March 2012	266.4	(3.4)	(25.0)	238.0

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Notes (continued)

20 DEFERRED TAX (continued)

Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2010	307.4	(40.0)	(12.8)	254.6
(Credited)/charged to the income statement	(21.0)	4.4	(3.2)	(19.8)
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes	-	22.0	-	22.0
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	2.9	-	2.9
Arising on 'hive-up' of ENWSL	-	-	(0.1)	(0.1)
At 1 April 2011	286.4	(10.7)	(16.1)	259.6
Charged/(credited) to the income statement	(19.4)	10.5	(8.8)	(17.7)
Deferred tax on actuarial (losses)/gains on defined benefit pension schemes	-	(4.4)	-	(4.4)
Adjustment due to change in future tax rates of brought forward deferred tax asset	-	1.2	-	1.2
At 31 March 2012	267.0	(3.4)	(24.9)	238.7

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

Notes (continued)

21 CUSTOMER CONTRIBUTIONS

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

Group and Company	£m
At 1 April 2010	450.6
Additions during the year	39.0
Amortisation	(12.1)
At 1 April 2011	477.5
Additions during the year	34.6
Amortisation	(12.9)
At 31 March 2012	499.2

	2012 £m	2011 £m
Amounts due in less than one year (see note 17)	28.9	29.0
Amounts due after more than one year	470.3	448.5
	499.2	477.5

22 REFUNDABLE CUSTOMER DEPOSITS

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

Group and Company	2012 £m	2011 £m
Amounts due in less than one year (see note 17)	0.4	6.5
Amounts due after more than one year	3.4	1.6
	3.8	8.1

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Notes (continued)

23 SHARE CAPITAL

	2012 £	2011 £
Authorised:		
569,999,996 (2011 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
	2012 £	2011 £
Allotted, called up and fully paid:		
476,821,341 (2011 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)

24 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 2011	238.4	4.4	109.9	8.6	183.8	545.1
Profit for the year	-	-	-	-	69.7	69.7
Transfer from Revaluation Reserve	-	-	(2.0)	-	2.0	-
Actuarial losses on defined benefit Schemes	-	-	-	-	(18.6)	(18.6)
Tax on components of comprehensive income	-	-	-	-	3.2	3.2
Total comprehensive (expense)/income for the year	-	-	(2.0)	-	56.3	54.3
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(62.0)	(62.0)
At 31 March 2012	238.4	4.4	107.9	8.6	178.1	537.4

The profit after tax for the parent Company for the year ended 31 March 2012 was £69.7m (2011 £121.2m) and the income for the year was £404.6m (2011 £393.8m). As permitted by s408 of the Companies Act 2006, the Company has not presented its own income statement.

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

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

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Notes (continued)

24 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 2011	238.4	4.4	109.9	8.6	185.8	547.1
Profit for the year	-	-	-	-	69.7	69.7
Transfer from Revaluation reserve	-	-	(2.0)	-	2.0	-
Actuarial losses on defined benefit Schemes	-	-	-	-	(18.6)	(18.6)
Tax on components of comprehensive income	-	-	-	-	3.2	3.2
Total comprehensive income for the year	-	-	(2.0)	-	56.3	54.3
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(62.0)	(62.0)
At 31 March 2012	238.4	4.4	107.9	8.6	180.1	539.4

Notes (continued)

25 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 2012 £m	Plant and machinery 2012 £m	Land and buildings 2011 £m	Plant and machinery 2011 £m
Within one year	1.3	0.1	0.7	0.1
In the second to fifth years inclusive	3.9	0.4	1.9	0.4
After five years	4.7	2.9	1.4	3.0
	9.9	3.4	4.0	3.5

26 ACQUISITION OF SUBSIDIARY

On the 30 June 2010, the Group acquired 100 per cent of the issued share capital of Electricity North West Services Limited ("ENWSL") (formerly United Utilities Electricity Services Limited) for cash consideration of £25.5m. ENWSL had been engaged as a third party service provider to manage delivery of all operations and maintenance, capital investments, connections and customer service for ENWL. Incorporating the operations and maintenance contract into one business is expected to reduce costs, improve efficiency and secure continued delivery of all services to customers in the region. This transaction has been accounted for using the purchase method of accounting.

As a result of the acquisition, goodwill arose of £10.1 (note 9).

It has been more than 12 months since the date of acquisition and therefore, the figures included in note 26 of the Annual Report and Consolidated Financial Statements of Electricity North West Limited at March 2011 are now final and there have been no changes to any of the balances since that date.

Deferred consideration of £2.0m was paid on 22 December 2011 as per the agreement.

Hive up of ENWSL assets and liabilities to ENWL

On 31 March 2011, the trade, assets and liabilities of ENWSL, a wholly owned subsidiary undertaking, were hived up to ENWL. The consideration was equal to the net book value of the assets and liabilities and is included in amounts owing to group companies.

Notes (continued)

27 RELATED PARTY TRANSACTIONS

For the Group, transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

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

	Group 2012	Company 2012	Group 2011	Company 2011
	£m	£m	£m	£m
Transactions with related parties				
Recharges to Electricity North West (Construction and Maintenance) Limited	0.4	0.4	0.2	0.2
Executive Directors' remuneration (note 18)	1.4	1.4	1.7	1.7
Directors' services	0.2	0.2	0.1	0.1
Interest payable to North West Electricity Networks Ltd	4.4	4.4	4.5	4.5
Interest payable to ENW Finance plc	12.4	12.4	12.4	12.4
Dividends paid to North West Electricity Networks Ltd	62.0	62.0	62.0	62.0

Amounts outstanding with related parties are as follows

	Group 2012	Company 2012	Group 2011	Company 2011
	£m	£m	£m	£m
Amounts owed to related parties				
Group tax relief to North West Electricity Networks Ltd	11.9	11.9	-	-
Interest payable to North West Electricity Networks Ltd	1.3	1.3	-	-
Interest payable to ENW Finance plc	2.4	2.4	-	-
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	195.6	195.6	195.2	195.2
Amounts owed by related parties				
Group tax relief from North West Electricity Networks Ltd	-	-	3.4	3.4
Amounts owed by Electricity North West (Construction and Maintenance) Ltd	0.3	0.3	-	-

The loan from North West Electricity Networks Ltd accrues interest at 6.5% (2011: 6.5%) and is repayable in March 2015. The loan from ENW Finance plc accrues interest at 6.125% (2011: 6.125%) and is repayable in July 2021.

Fees of £0.1m (2011: £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 31.

Fees of £0.1m (2011: £nil) 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 31.

Notes (continued)

27 RELATED PARTY TRANSACTIONS (continued)

Directors' remuneration is as follows

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Short-term employee benefits	1.0	1.0	0.9	0.9
Post-employment benefits	0.1	0.1	0.1	0.1
Termination benefits	-	-	0.4	0.4
Other long-term employee benefits	0.3	0.3	0.3	0.3
	1.4	1.4	1.7	1.7

28 CASH GENERATED FROM OPERATIONS

	Group 2012 £m	Company 2012 £m	Group 2011 £m	Company 2011 £m
Operating profit	189.4	189.4	210.4	210.4
Adjustments for:				
Depreciation of property, plant and equipment	83.9	83.9	75.1	72.5
Amortisation of intangible assets	8.3	8.3	4.3	4.3
Amortisation of customer contributions	(12.9)	(12.9)	(12.1)	(12.1)
Profit on disposal of property, plant and equipment	(0.6)	(0.6)	(0.6)	(0.1)
Cash contributions in excess of pension charge to operating profit	(43.1)	(43.1)	(15.9)	(15.9)
Operating cash flows before movements in working capital	225.0	225.0	261.2	259.1
Changes in working capital				
(Increase) in inventories	(1.2)	(1.2)	(0.2)	-
Decrease / (Increase) in trade and other receivables	25.7	25.7	(4.1)	(33.9)
(Decrease) / increase in payables	(17.6)	(17.6)	(11.0)	21.6
Cash generated from operations	231.9	231.9	245.9	246.8

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 23. 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 on the transfer of securities or on voting rights.

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

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association, copies of which are available on request, and the Corporate Governance statement on pages 26 to 36.

Notes (continued)

30 CONTINGENT LIABILITY

ENWL holds 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 Comet Group Plc ('Comet') in 1996. ENWL still has a potential liability for lease obligations under privity of contract rules for 29 of those premises. In prior years, owing partly to the protection afforded by Kesa Electricals Plc (the parent company of Comet ('Kesa')), and partly due to the strength of Comet's own financial covenant, ENWL management assessed the risk of exposure to be remote.

Although ENWL is still protected from landlord claims by Comet's indemnity, on 3 February 2012 Kesa disposed of the Comet Retail Business to a private investment company OpCapita for £2 whilst retaining pensions liability (there is a reported £39m pension deficit) and injecting £50m cash into the new company with a clawback arrangement should the company be sold on for more than £70m.

There is an obligation in the proposed business sale for the new company to continue trading for at least eighteen months from the completion of business sale in February 2012.

ENWL management considers the risk of exposure to be low but is monitoring the store closure programme in relation to the 29 leasehold retail units (that could potentially produce a liability in the future) and rent payments to landlords. To date, none of the 29 units are in the closure programme nor have we received any notification from landlords or market intelligence that there are any problems with lease payments by Comet in relation to the 29 former ENWL leases.

The 29 stores have lease expiry dates ranging from 2013 to 2021. The total annual accommodation cost, which includes rent, rates, service charge, insurance and maintenance, for these 29 properties for the next year is £7.0m. However based on the favourable location and size of the stores ENWL management expects to be able to relet the majority of these properties within a relatively short time period and considers any exposure to be in the total range of £5m-£10m (pre tax, undiscounted).

This figure is subject to a significant degree of uncertainty as it involves making judgements on 29 individual retail premises, the period of vacant possession and negotiations with individual landlords, letting agents and tenants.

31 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

The largest group in which the results of the company are consolidated is that headed by North West Electricity Networks (Jersey) Limited incorporated in Jersey. The smallest group in which they are consolidated is that headed by North West Electricity Networks Limited, a company incorporated and registered in the UK.

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.

Notes (continued)

32 EVENTS AFTER THE BALANCE SHEET DATE

At the balance sheet date, ENWL had index-linked swaps totalling £200m notional, with a single accretion payment on maturity in 2038. At that date the swaps had mandatory breaks as follows, £66m notional in July 2013, £66m notional in July 2016 and £68m notional in July 2019. On these break dates, ENWL could have been liable to pay the full mark-to-market value of the swaps to the swap counterparties.

On 2 May 2012, the £66m notional with a mandatory break in July 2013 was re-structured to remove the mandatory break clause and to convert to a 'pay-as-you-go' profile, with accretion pay downs scheduled every five years from July 2012 until maturity in 2038, rather than a single payment on maturity. The real-rate coupon payable was also amended on re-structure.

The index-linked swaps meet the IAS39 definition of a derivative and are, therefore, accounted for at fair value through profit or loss. At the balance sheet date, i.e. prior to re-structure, the £66m notional index-linked swaps were included in the Statement of Financial Position as a £35.3m liability, part of the derivative liabilities totalling £126.1m. On 2 May 2012, immediately prior to re-structure, these swaps were a £33.8m liability. The impact of the re-structure was to increase the £33.8m liability, by £45.9m, to £79.7m. The £45.9m impact is a non-cash fair value movement through the income statement post the balance sheet date.

Glossary

AGMA	Association of Greater Manchester Authorities
CGU	Cash Generating Unit
CI	Customer Interruptions
CML	Customer Minutes Lost
COMA	Electricity North West (Construction and Maintenance) Limited
CSR	Corporate Social Responsibility
DNO	Distribution Network Operator
DPC4	Distribution Price Control 4, 2005-2010
DPC5	Distribution Price Control 5, 2010-2015
DuOS	Distribution use Of System
ELT	Executive Leadership Team
ENA	Electricity Networks Association
EOS	Employee Opinion Survey
ENWL	Electricity North West Limited
ENWSL	Electricity North West Services Limited (formerly 'UUES')
ESG	Environmental, Social and Governance
ESPS	Electricity Supply Pension Scheme
ESQCR	Electricity Safety and Quality Continuity (Amendment) Regulations
FIT	Feed In Tariff
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
HI	Health Indices
HV/LV	High Voltage / Low Voltage
ICP	Independent Connections Provider
IDNO	Independent Distribution Network Operator
IET	Institute of Engineering and Technology
IFI	Innovation Funding Incentive
KV	Kilo Volts
LCNF	Low Carbon Network Fund
LI	Load Indices
LRRM	Losses Rolling Retention Mechanism
NTR	Non Trading Rechargeable
NWEN(J)	North West Electricity Networks (Jersey) Limited
Ofgem	Office of Gas and Electricity Markets
PFI	Private Finance Initiative
RAV	Regulatory Asset Value
RCF	Revolving Credit Facility
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation
RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RIIO – GD1	Revenue using Incentives to deliver Innovation and Outputs – Gas Distribution 1
RIIO – T1	Revenue using Incentives to deliver Innovation and Outputs – Transmission 1
UU	United Utilities Group PLC
UUES	United Utilities Electricity Services Limited