

**NORTH WEST ELECTRICITY  
NETWORKS LIMITED**

**Annual Report and Consolidated Financial  
Statements**

**For the year ended 31 March 2010**

# NORTH WEST ELECTRICITY NETWORKS LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS 2010 CONTENTS

<b>Directors' Report</b>	<b>1</b>
<b>Independent Auditors' Report to the Members of North West Electricity Networks Limited</b>	<b>9</b>
<b>Consolidated Income Statement</b>	<b>10</b>
<b>Consolidated and Company Statements of Financial Position</b>	<b>11</b>
<b>Consolidated and Company Statements of Comprehensive Income</b>	<b>12</b>
<b>Consolidated and Company Statements of Changes in Equity</b>	<b>13</b>
<b>Consolidated and Company Statements of Cash Flows</b>	<b>14</b>
<b>Notes to the Financial Statements</b>	<b>15</b>

## Directors' Report

The directors present their report and the audited financial statements of the North West Electricity Networks Limited Group (the 'Group') for the year ended 31 March 2010.

### Profit and dividends

The results for the year set out in the consolidated income statement on page 10, show that revenue for the year ended 31 March 2010 was £323.4m (31 March 2009: £341.8m). Loss for the year after tax was £32.5m (31 March 2009: profit £21.8m). The Directors proposed and paid an interim dividend of £2.4m (31 March 2009: £15.7m) and do not propose a final dividend for the year ended 31 March 2010 (2009: £Nil).

### Business review and principal activities

North West Electricity Networks Limited, (the 'Company'), acts as an intermediate holding company within the North West Electricity Networks (Jersey) Limited Group and is non-trading.

The Group's principal activity is the operation of electricity distribution assets. The distribution of electricity is regulated by the terms of Electricity North West Limited's ("ENW's") Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority. There have not been any significant changes in ENW's principal activities in the year.

### Important Events

The Group was established specifically for the purpose of purchasing ENW on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance, the latter including a £465m bridging loan (the "bridge") to the Company. The bridge was due for repayment in December 2010. During the year, the Company has refinanced the bridge through the issuance of Notes through two newly incorporated subsidiary companies. ENW Capital Finance plc and ENW Finance plc which were incorporated on 8 April 2009 and 12 March 2009 as public limited companies. The principal activities of these entities during the period from incorporation to 31 March 2010 was that of financing companies which issued Notes and listed them on the London Stock Exchange as disclosed below.

On 21 July 2009 the Company:

- (1) became Guarantor of an issue of GBP 300,000,000 6.75 per cent. fixed rate Notes due 2015 (the "NWEN Notes"), listed on the London Stock Exchange, by ENW Capital Finance plc; and
- (2) entered into a loan arrangement with ENW Capital Finance plc for the net proceeds of the NWEN Notes, being £299,118,000.

On 21 July 2009 ENW Finance plc:

- (1) issued GBP 200,000,000 6.125 per cent. Fixed Rate Notes due 2021 (the "ENW Notes"), guaranteed by ENW; and
- (2) secured the listing of those Notes on the London Stock Exchange.

**Directors' Report** *(continued)*

**Key performance indicators**

The performance of the Group is monitored by the Board of directors by reference to key performance indicators. Performance against these measures for the year ended 31 March 2010, are set out in the table below:

<i><b>Financial</b></i>	<b>31 March 2010</b>	<b>31 March 2009</b>
Revenue (£m)	323.4	341.8
Operating profit (£m), (2009: before restructuring credit of £0.8m)	145.7	170.4
(Loss)/profit before tax (£m)	(27.7)	40.4
Interest cover (1)	1.32 times	1.6 times

(1) Interest cover is the number of times the net underlying finance expense is covered by operating profit from continuing operations before restructuring costs. Net underlying interest expense is calculated as the underlying cost of borrowings excluding any pension adjustment and movements in the fair value of debt and derivatives.

The Company operates solely as an investment Company and therefore there are no non-financial key performance indicators. For an understanding of the Group's non-financial key performance indicators the non-financial key performance indicators are presented for ENW and are disclosed in the financial statements of that Company.

**Principal risks and uncertainties**

The Board considers the following risks to be the principal ones that might affect the Group's performance and results and are in addition to those identified in the ENW accounts.

The principal trade and activities of the Group are carried out in ENW and a comprehensive review of the business model, the regulatory environment, the resources and principal risks and uncertainties facing that Company, and ultimately the Group, are discussed in pages 11-16 of the ENW annual accounts.

***Failure to comply with investor and banking covenants***

The Group has a comprehensive set of covenants contained within the legal agreements surrounding the external borrowings. A detailed review of all the covenants has been undertaken and appropriate owners identified within the business who will be responsible for ensuring compliance. A compliance reporting regime has been established and the compliance status is reported to the Board on a monthly basis. There are no covenant breaches forecast.

***Refinancing***

North West Electricity Networks (Jersey) Limited is the holding company of a group of companies (the "NWEN(J) Group") established specifically for the purpose of purchasing ENW on 19 December 2007. The purchase was financed by a combination of equity and bank acquisition finance, the latter including a £465m bridging loan (the "bridge"), a £95m capex facility and a £75m revolving credit facility to North West Electricity Networks Limited ("NWEN"), ENW's parent. These facilities, not falling due for repayment until December 2010, were refinanced in July 2009. The £465m bridge was repaid by two issues of notes listed on the London Stock Exchange. One issue was by ENW Capital Finance plc (ENW CF) of £300m 6.75% 2015 notes and the other by ENW Finance plc (ENW F) of £200m 6.125% 2021 notes. The £95m capex facility was replaced with a £130m capex facility, maturing June 2012 and the £75m revolving credit facility at NWEN was replaced with a £75m revolving credit facility at ENW, maturing June 2012.

The Group and the Company are financed largely by long term external funding, and this together with the present cash position and committed un-drawn facilities provides the appropriate liquidity platform to allow the Company and Group to meet their operational and financial commitments for the foreseeable future.

## **Directors' Report** *(continued)*

### **Principal risks and uncertainties** *(continued)*

#### ***Capital, operations and maintenance services***

ENW engage United Utilities Electricity Services Limited (UUES) to manage delivery of all operations and maintenance, capital investments, connections and customer service. All such activities are implemented through UUES under the Asset Services Agreement (ASA). The ASA is an 8 year agreement which commenced in April 2007 and will expire at the end of March 2015. A fundamental element of the ASA is with regard to the specific basis prescribed for the setting of "Target Costs" for the operations and maintenance services that UUES will provide. For capital delivery, the ASA allows that Target Costs will be set according to the programme of work and projects agreed between ENW and UUES. The ASA commenced within the fourth Distribution Price Control Review Period (DPCR4) and was underpinned by this Ofgem price determination to the period ended 31 March 2010.

The ASA effectively includes a break clause which could be exercised by UUES if, following the receipt and acceptance by ENW of the DPCR5 final proposals, agreement could not be reached on the revised target costs for operations and maintenance for the period 1 April 2010 to 31 March 2015. Negotiations continue between both parties.

If agreement cannot be reached between the parties, the ASA provides for termination, the activities to revert back to ENW and employees to TUPE (Transfer of Undertakings (Protection of Employment) Regulations) back at the same time under Employment Law. In this scenario, agreement would need to be reached on the consideration of UUES's trade and assets valuation.

Under either of the above forecast scenarios, the Directors are confident that a satisfactory outcome can be achieved for the company.

#### **Liquidity and Capital Resources**

The Group's primary source of liquidity is cash generated from its ongoing business operations, and funding raised through external borrowings. The electricity regulator has established price controls to 2015 which will provide certainty for a large majority of the Group's revenues from ongoing operations, providing both a stable and a predictable source of funds. This drives much of the Treasury policy decisions undertaken by management.

During the 2009 and 2010 financial years, pressures in the money markets and UK economy have put pressure on the availability of funding to many institutions. The Group has limited exposure to such liquidity risk, due to the long-term nature of much of the funding in place.

#### ***Treasury policy***

The Group's treasury function operates with the delegated authority of, and under policies approved by, the Group Board and the Audit Committee. 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 to meet foreseeable needs and to maintain reasonable headroom for contingencies. A proportion of long-term borrowings are structured to match earnings through the use of interest rate swaps which are linked to inflation.

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

The principal risks which the Group is exposed to and which arise in the normal course of business include: credit, liquidity and interest rate risks. 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 Group uses interest rate swaps and index linked swaps to hedge cash flows. Where the hedging criteria of IAS 39 are met, hedge accounting is applied and the effective part of any gain or loss on the derivative is recognised directly in equity. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

## **Directors' Report (continued)**

### ***Liquidity and Capital Resources (continued)***

#### ***Financial instruments entered in the year***

The following section provides a comprehensive summary of the Group's treasury activity during the year with specific reference to the relevant subsidiary.

During the year, ENW restructured the index-linked swap, with notional principal of £170m, by entering into 12 index-linked swaps with notional principal totalling £200m. Under these swaps ENW pays RPI adjusted fixed interest and receives fixed 6.125% for the 12 years to 2021 and then receives floating LIBOR until maturity in 2038. The swaps have an underlying 30 year term with a series of scheduled mandatory break clauses.

These derivatives do not qualify for hedge accounting and all movements in fair value are reflected in the income statement. At 31 March 2010 the fair value of these instruments was £70.6m (liability) compared to the fair value of the original swap at 31 March 2009 of £35.4m (liability). The increase in the liability fair value was primarily due to the increased notional principal from £170m to £200m and the increased RPI adjusted fixed interest rate from 1.04% to 2.32% reflecting the extension of the mandatory break clauses.

During the year ENW entered a £75m revolving credit facility and a £135m bank facility. At 31 March 2010 these facilities remained undrawn, but utilisation of £15.8m against the £75m revolving credit facility relating to letters of credit reduced the amount available to be drawn. Drawings under these facilities will be accounted for at amortised cost. During the year NWEN entered a £130m capex facility. At 31 March 2010 this facility was £100m drawn. Drawings under this facility are accounted for at amortised cost.

### ***Debt financing***

The Group's borrowings net of cash and short-term deposits of £1,110.6m at 31 March 2010 (2009: £1,065.9m) comprised substantially all bonds and loans with long-term maturities. The bonds include those at nominal value of £450m at 8.875 per cent that mature in 2026, £100m of 1.4746 per cent index linked bonds maturing in 2046, £200m at 6.125 per cent that mature in 2021 and bonds which have nominal value of £300m at 6.75 per cent that mature in 2015. The bank loans amount to £98.2m (31 March 2009: £496.9m), of which £nil (31 March 2009: £507.0m) matures within one year, £98.2m (31 March 2009: £nil) matures in 2012.

### ***Shorter-term liquidity***

Short-term liquidity requirements are met from the Group's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances. Cash and short-term deposit balances were £111.7m at 31 March 2010 (2009: £42.3m).

At the year end the Group had £284.2m (31 March 2009: £148.8m) of undrawn committed bank facilities, of which £259.2m (31 March 2009: £178.8m) has maturity dates of longer than twelve months and £25m (2009: £nil) of undrawn committed bank facilities with maturity dates of less than twelve months.

### ***Longer-term liquidity***

The Group's term loans were £1,222.3m at 31 March 2010 (2009: £1,108.2m). Amounts repayable after more than five years comprise bank and other loans. Fixed interest rates for amounts due after more than five years are at 8.875% on £498.9m and £110.8m of index linked debt was held at 31 March 2010 at an interest rate of 1.4746% plus retail price index (RPI), £198.3m (2009: £nil) at 6.125% and £299.1m at 6.75%. These balances are the principal value less discounts and exclude transaction costs.

### ***Interest rate management***

The Group has in place 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.

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.

## **Directors' Report** *(continued)*

### **Interest rate management** *(continued)*

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). The Group has no exposure to foreign currency exchange rate movements. Interest rate management and funding policies are set by the Board.

IAS 39 'Financial Instruments: Recognition and Measurement' limits the use of hedge accounting, thereby increasing the potential volatility of the income statement.

During the year volatility to the Group's consolidated income statement has been experienced, in particular from the fair value movement arising on instruments held in subsidiary companies, namely the bond held at fair value, the index-linked swaps and on close out of the amortising swaps and Gilt Locks. This has led to a fair value losses of £59.4m, excluding cash settlement on close-out of amortising swaps, being recognised in the income statement for this year (31 March 2009: £26.3m fair value loss). Of this, a £41.9m loss relates to the close-out of the amortising swaps, £35.4m gain relates to the maturity of the Gilt Locks and £52.9m to the remaining instruments which will unwind over the remaining life of those instruments. As noted above these movements have no cashflow impact.

Due to the nature of the revenue streams which ENW earns being linked to inflation, management has sought to match a proportion of the cost of funding the business using a combination of an inflation linked bond 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 in and out flows. The Company therefore retains some exposure to movements in inflation rates.

### **Research and development**

The Group is committed to developing innovative, cost-effective and practical solutions for providing high quality services and standards to our customers, and for the benefit of the wider community and the development of the business. The Group aims to maximise the advantage of wide-ranging expertise, abilities and facilities.

### **Employees**

Employees are key to achieving the business strategy and enhancing shareholder value and as such the Group remains committed to maintaining high standards of health and safety in every area of its business.

The Group is committed to improving its employees' skills through training and development and nurturing a culture in which employees feel valued. The Group encourages employees to work to their full potential and respects the dignity and rights of every employee and supports them in performing various roles in society. The Group also challenges prejudice and stereotyping.

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

### **Policy on the payment of suppliers and creditors**

The policy is to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Group seeks to adhere to the payment terms, provided the relevant goods and services have been supplied in accordance with the contracts. Trade creditors principally comprise amounts outstanding to United Utilities Electricity Services Limited (UUES) for capital and operating services provided under the Asset Services Agreement (ASA) contract.

## Directors' Report *(continued)*

### Directors

The directors of the Company during the year ended 31 March 2010 are set out below. All were directors for the whole year except where otherwise indicated.

S Johnson

C Thompson (appointed 24 April 2009)

M Sugden (resigned 12 June 2009)

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

### Going Concern

When considering continuing to adopt the going concern basis in preparing the annual report and financial statements, the directors have taken into account a number of factors, including the following:

- On 7 January 2010 the Group, on behalf of ENW accepted the final proposals with regard to the fifth Distribution Price Control Review for the period from 1 April 2010 to 31 March 2015. It is the Board's view that despite the perceived challenge over the next 5 years, ENW has secured a sustainable outcome over the next five years.
- The Directors have prepared forecasts for a period to the end of DPCR5 which include projections and cashflow forecasts, including covenant compliance considerations. These forecasts are based on the DPCR5 settlement and include key assumptions around the future of the ASA contract as discussed in the principal risks section of the business review. The forecasts have been sensitised for reasonably possible changes in the key assumptions and demonstrate that no covenant breaches are expected and that sufficient resources are available within the forecast period.
- Under certain circumstances considered in the forecasts the Group may require additional funding to meet capital and business planning initiatives. The Directors have sought and received an expression of the ultimate controlling parties' intentions to provide additional funding to meet these circumstances. Whilst the Group projections are not reliant on this support it is indicative of the level of the Shareholder engagement in the business.
- The Group'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 the activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- During the year, the Group has refinanced a £465m bridging loan, a £95m capex facility and a £75m revolving credit facility held by North West Electricity Networks Limited ("NWEN"), ENW's parent through the issuance of Notes.



## **Directors' Report** *(continued)*

### **Going Concern** *(continued)*

- The Group and Company have considerable financial resources. Short-term liquidity requirements are forecast to be met from the Group's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances. Longer-term liquidity is provided by the Group's term loans, made available by HSBC. Furthermore, committed undrawn bank facilities are available from lenders of £199.2m within ENW, £30m NWEN and £30m at North West Electricity Networks (Holdings) Limited (NWEN(H)) which have a maturity of more than one year. Furthermore, within ENW a further facility of £25m is undrawn which has a maturity of June 2010. The utilisation of these facilities is subject to gearing covenant restrictions.

In conclusion the Group and the Company are financed largely by long term external funding, and this together with the present cash position and committed un-drawn facilities provides the appropriate liquidity platform to allow the Group and Company to meet their operational and financial commitments for the foreseeable future. Furthermore the refinance in the year has enabled the directors to continue to hold a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The Board have given detailed consideration to the principal risks and uncertainties affecting the Group and Company, as referred to in the business review.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### **Directors' and officers' insurance**

The Company 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.

### **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. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

**Directors' Report** *(continued)*

**Information given to auditors**

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

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

**Independent auditor**

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

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

**Registered address**

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

Registered number: 6428375

By order of the board

**S Johnson**  
**Director**

**8 June 2010**

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTH WEST ELECTRICITY NETWORKS LIMITED**

We have audited the financial statements of North West Electricity Networks Limited for the year ended 31 March 2010 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Comprehensive Income, the Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and the related notes 1 to 28. 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.

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 auditors' 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 auditors**

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 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 (APB'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.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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

Alan Fendall (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
Manchester, United Kingdom  
8 June 2010

**CONSOLIDATED INCOME STATEMENT**  
**For the year ended 31 March 2010**

	Note	Group 2010 £m	Group 2009 £m
<b>Revenue</b>	2	<b>323.4</b>	341.8
Employee benefits expense	4	(6.7)	(6.5)
Depreciation and amortisation expense		(70.1)	(65.9)
Other operating costs		(100.9)	(99.0)
Restructuring credit		-	0.8
<b>Total operating expenses</b>		<b>(177.7)</b>	<b>(170.6)</b>
<b>Operating profit</b>	3	<b>145.7</b>	171.2
Investment income	5	0.6	4.8
Finance expense	6	(174.0)	(135.6)
<b>(Loss)/profit before taxation</b>		<b>(27.7)</b>	40.4
Taxation	7	(4.8)	(18.6)
<b>(Loss)/profit for the year</b>	24	<b>(32.5)</b>	21.8

All the results shown in the consolidated income statement derive from continuing operations.

**CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION**  
**At 31 March 2010**

	Note	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	10	207.8	-	206.2	-
Property, plant and equipment	11	2,200.7	-	2,101.9	-
Investments	12	-	1,145.7	-	1,145.7
		<u>2,408.5</u>	<u>1,145.7</u>	<u>2,308.1</u>	<u>1,145.7</u>
<b>Current assets</b>					
Trade and other receivables	13	35.6	83.4	44.0	35.6
Cash and cash equivalents	14	111.7	39.6	42.3	5.6
Derivative financial instruments	16	1.1	-	43.2	-
		<u>148.4</u>	<u>123.0</u>	<u>129.5</u>	<u>41.2</u>
<b>Total assets</b>		<u><u>2,556.9</u></u>	<u><u>1,268.7</u></u>	<u><u>2,437.6</u></u>	<u><u>1,186.9</u></u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	17	(747.9)	(698.6)	(729.2)	(668.1)
Derivative financial instruments	16	(70.6)	-	(79.6)	(34.5)
Current income tax liabilities		(5.3)	-	(3.3)	-
		<u>(823.8)</u>	<u>(698.6)</u>	<u>(812.1)</u>	<u>(702.6)</u>
<b>Net current liabilities</b>		<u>(675.4)</u>	<u>(575.6)</u>	<u>(682.6)</u>	<u>(661.4)</u>
<b>Non-current liabilities</b>					
Borrowings	15	(1,222.3)	(393.3)	(1,108.2)	(496.9)
Deferred tax liabilities	19	(412.7)	-	(449.9)	-
Consumer contributions	21	(90.7)	-	(49.8)	-
Refundable customer deposits	22	(3.5)	-	(8.2)	-
Retirement benefit obligations	18	(142.8)	-	(27.5)	-
		<u>(1,872.0)</u>	<u>(393.3)</u>	<u>(1,643.6)</u>	<u>(496.9)</u>
<b>Total liabilities</b>		<u><u>(2,695.8)</u></u>	<u><u>(1,091.9)</u></u>	<u><u>(2,455.7)</u></u>	<u><u>(1,199.5)</u></u>
<b>Net (liabilities) / assets</b>		<u><u>(138.9)</u></u>	<u><u>176.8</u></u>	<u><u>(18.1)</u></u>	<u><u>(12.6)</u></u>
<b>EQUITY</b>					
Share capital	23	3.0	3.0	3.0	3.0
Retained (deficit)/earnings	24	(141.9)	173.8	(21.1)	(15.6)
<b>Total equity</b>		<u><u>(138.9)</u></u>	<u><u>176.8</u></u>	<u><u>(18.1)</u></u>	<u><u>(12.6)</u></u>

The Financial Statements of North West Electricity Network Limited (registered number 6428375) were approved by the board of directors on 8 June 2010 and signed on its behalf by

C Thompson  
**Director**

**CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 March 2010**

	Note	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
(Loss)/profit for the financial year		(32.5)	-	21.8	3.2
<b>Other comprehensive (expenses)/ income:</b>					
Actuarial losses on defined benefit pension schemes	18	(119.3)	-	(73.5)	-
Deferred tax on items taken directly to equity	19	33.4	-	23.7	-
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Other comprehensive expense for the year</b>		<b>(85.9)</b>	<b>-</b>	<b>(49.8)</b>	<b>-</b>
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total comprehensive (expense)/ income for the year</b>		<b>(118.4)</b>	<b>-</b>	<b>(28.0)</b>	<b>3.2</b>
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Attributable to equity holders</b>		<b>(118.4)</b>	<b>-</b>	<b>(28.0)</b>	<b>3.2</b>
		<hr/>	<hr/>	<hr/>	<hr/>

**CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY**  
**For the year ended 31 March 2010**  
**Group**

	Called up share capital £m	Retained (deficit)/ earnings £m	Total Equity £m
At 1 April 2009	3.0	(21.1)	(18.1)
Loss for the year	-	(32.5)	(32.5)
Actuarial losses on defined benefit schemes	-	(119.3)	(119.3)
Tax on components of comprehensive income	-	33.4	33.4
<b>Total comprehensive expense for the year</b>	<b>-</b>	<b>(118.4)</b>	<b>(118.4)</b>
<b>Transactions with owners recorded directly in equity</b>			
Equity dividends	-	(2.4)	(2.4)
<b>At 31 March 2010</b>	<b>3.0</b>	<b>(141.9)</b>	<b>(138.9)</b>

**Company**

	Called up share capital £m	Retained (deficit)/ earnings £m	Total Equity £m
At 1 April 2009	3.0	(15.6)	(12.6)
Profit for the year	-	191.8	191.8
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>191.8</b>	<b>191.8</b>
<b>Transactions with owners recorded directly in equity</b>			
Equity dividends	-	(2.4)	(2.4)
<b>At 31 March 2010</b>	<b>3.0</b>	<b>173.8</b>	<b>176.8</b>

**CONSOLIDATED AND COMPANY STATEMENT OF CASHFLOWS**

**For the year ended 31 March 2010**

	Note	Group 2010 £m	Company 2010 £m	Group 2009 £m	Company 2009 £m
<b>Operating activities</b>					
Cash generated from operations	29	218.0	3.0	217.5	0.1
Interest paid		(92.4)	(39.6)	(86.1)	(50.6)
Tax paid		(6.1)	25.2	(33.9)	-
<b>Net cash generated from/(absorbed by) operating activities</b>		<b>119.5</b>	<b>(11.4)</b>	<b>97.5</b>	<b>(50.5)</b>
<b>Investing activities</b>					
Interest received and similar income		0.6	2.2	5.0	1.5
Dividend received		-	218.3	-	69.5
Purchase of property, plant and equipment		(168.9)	-	(176.9)	-
Purchase of intangible assets		(5.0)	-	(1.9)	-
Consumer contributions received		43.9	-	32.6	-
Proceeds from sale of property, plant and equipment		0.2	-	0.3	-
<b>Net cash (used in)/generated from investing activities</b>		<b>(129.2)</b>	<b>220.5</b>	<b>(140.9)</b>	<b>71.0</b>
<b>Financing activities</b>					
Dividends paid		(2.4)	(2.4)	(15.7)	(15.7)
Proceeds from borrowings		572.2	68.3	46.0	36.0
Repayment of borrowings		(490.7)	(502.6)	(46.1)	(41.8)
Proceeds from group borrowings		-	261.6	-	5.2
<b>Net cash generated/(absorbed by) financing activities</b>		<b>79.1</b>	<b>(175.1)</b>	<b>(15.8)</b>	<b>(16.3)</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>		<b>69.4</b>	<b>34.0</b>	<b>(59.2)</b>	<b>4.2</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>42.3</b>	<b>5.6</b>	<b>101.5</b>	<b>1.4</b>
<b>Net cash and cash equivalents at end of the year</b>	14	<b>111.7</b>	<b>39.6</b>	<b>42.3</b>	<b>5.6</b>



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**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, investment properties and certain property, plant and equipment.

The preparation of financial statements, in conformity with generally accepted accounting practice ('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 accounts, the directors have taken into account a number of factors, including the financial position of the Group, its cash flow forecasts, liquidity position, borrowing facilities and covenant compliance as described in the directors' report on pages 5 and 6. Consequently, after making the appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and comply with its banking covenants for the foreseeable future. The Directors have received confirmation that support would be procured from the ultimate holding company as necessary. Accordingly, it is appropriate to adopt the going concern basis in preparing the annual report and accounts.

**Adoption of new and revised standards**

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported or the presentation and disclosure in the financial statements.

***Presentation of financial statements***

IAS1 (revised 2007) 'Presentation of Financial Statements' is mandatory for accounting periods beginning on or after 1 January 2009. The statement requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income, which has replaced the statement of recognised income and expense. As a result, a consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented. Comparative information has been represented so that it is in conformity with the revised standard. The Group has adopted the revised standard; there is no impact on the financial statements other than presentation.

***Segmental Reporting***

IFRS8 'Operating Segments' is mandatory for the first time for accounting periods beginning on or after 1 January 2009. The standard requires that the segments should be reported on the same basis as the internal reporting information that is provided to, and regularly reviewed by, the chief operating decision-maker, whom the Group has identified as the Chief Executive Officer. The Board has reviewed the requirements of IFRS8, including consideration of what results and information the Chief Executive Officer reviews regularly to assess performance and allocate resources, and concluded that as under IAS14, the reportable segment should remain in line with both internal reporting and the allocation of responsibilities within the senior management team. 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.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

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

***Capitalisation of Borrowing Costs***

In the current financial year, the Group has adopted IAS 23 (amended) 'Borrowing Costs'. IAS 23 requires borrowing costs that are directly attributable to the construction of qualifying assets to be capitalised as part of the cost of that asset. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use. Borrowing costs are capitalised when they relate to qualifying assets for which the commencement date for capitalisation is on or after the 1 April 2009. The Group has adopted twelve months as the substantial period for all major large projects. The impact of the adoption was to capitalise interest of £0.1m in the financial year ended 31 March 2010 and there has been no impact to the comparatives due to the prospective application of the standard. The adoption of this standard is likely to have a more significant effect in the future as the standard allows prospective application for all qualifying assets which commenced construction from 1 April 2009.

**Recently issued accounting pronouncements - International Financial Reporting Standards**

At the date of authorisation 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. The directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

IFRS1 (amended); 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'

IFRS 3 (amended); 'Business Combinations'

IAS 27; 'Amendment – Consolidated and Separate Financial Statements'

IFRIC 18; 'Transfers of Assets from Customers'

The Group are participating in industry discussions with regard to the adoption of IFRIC18 for the financial year ended 31 March 2011. Based on the expected conclusions of these discussions the group are retaining the current accounting policy, presentation and disclosure in the financial statements.

Interpretations in issue but not considered relevant to the activities of the group are as follows:

IFRIC 13; 'Customer loyalty Programmes'.

**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. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Business combinations**

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

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**  
**Notes** *(continued)*

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

**Associates**

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method. Losses of an associate in excess of the Group's interest in the associate are not recognised, except to the extent that the Group has incurred obligations in respect of the associate. Unrealised profits and losses recognised by the Group on transactions with an associate are eliminated to the extent of the Group's interest in the associate concerned.

**Intangible assets**

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Assets which have an indefinite life are not subject to amortisation but are tested for impairment at each balance sheet date. The carrying amount is reduced by any provision for impairment where necessary.

Amortisation periods for categories of intangible assets are:

Licence	Indefinite life
Computer software	3 - 10 years

**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.

***Other assets***

All other property, plant and equipment are 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 period 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, fittings, tools and equipment 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 sales proceeds and the carrying amount of the asset and is recognised in income.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

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

**Impairment of tangible and intangible assets**

Intangible assets with definite useful lives 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. 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 cashflows 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 cashflows 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 cashflows 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.

**Financial instruments**

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

***Trade receivables***

Trade receivables are stated at fair 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 cashflow 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 six months and which are subject to an insignificant risk of change in value.

***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 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 TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**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 profit and loss account in the year in which they are accrued. 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.

***Derivatives and borrowings***

The Group's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value. Movements in fair values are reflected through the income statement, except for the effective part of any fair value movement on derivatives designated in a cash flow hedge relationship, which is recognised directly in equity. This has the potential to introduce considerable volatility to both the income statement and balance sheet. The Group accounts for derivative financial instruments at fair value through profit or loss, where hedge accounting cannot be applied. This area is considered to be of significance due to the magnitude of the Group's level of borrowings.

***Financial assets and liabilities designated at fair value through profit or loss***

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. Whilst these swaps were closed out during the year, IAS 39 does not permit the reclassification of the bond, which remains designated at fair value through profit or loss.

***Derivative financial instruments and hedge accounting***

Interest rate 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 balance sheet 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 designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial Instruments: Recognition and Measurement' are met. The Group currently has one portfolio of financial instrument designated in a hedging relationship; to the extent that the hedging relationship is determined to be effective, the change in fair value of the derivative financial instruments is recognised directly in equity, with any ineffective portion of the gain or loss being recognised immediately in the income statement.

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

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

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

**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 one formal hedging relationship that is designated as a cash flow hedge.

**Cash flow hedge**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective part of any gain or loss on the derivative is recognised directly in equity. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately. Hedge accounting is discontinued when the hedge designation is revoked, or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

**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 the tax currently payable and deferred tax.

**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 balance sheet date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

**Deferred taxation**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the balance sheet 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 balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit 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 equity.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

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

**Retirement benefit obligations**

The Group's defined pension benefit arrangements are provided through a division of the Electricity Supply Pension Scheme (ESPS).

The division is split into two sections, the Electricity North West Limited (ENWL) section for defined benefit members of the former ESPS who are now employed by ENWL and the United Utilities Electricity Services Limited (UUES) section for defined benefit members of the former ESPS who are now employed by UUES.

The Group has taken on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme for the UUES section over the life of the ASA contract. In addition, at termination of the contract it is expected that the activities will revert back to the Electricity North West Limited group and that members of the UUES section will TUPE back at the same time under Employment Law. As a result the Group has accounted for both sections of the ESPS in accordance with IAS 19 'Employee benefits'.

The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2008 and 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 18 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 balance sheet.

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

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. The difference between the expected return on scheme assets and interest on scheme liabilities are included within the income statement within finance expense.

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

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

**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

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

**Revenue recognition**

Revenue represents the fair value of the income receivable in the ordinary course of business for the distribution of electricity during the year, exclusive of value-added tax.

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.

**Consumer 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.

**Refundable Customer Deposits**

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

**Leases**

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

**Critical accounting judgements and key sources of estimation uncertainty**

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 paragraphs detail the policies the Group believes to have the most significant impact on the annual results under IFRS.

***Carrying value of property, plant and equipment***

The carrying value of property, plant and equipment (PPE) as at 31 March 2010 was £2,200.7m (2009: £2,101.9m). Additions to PPE totalled £167.3m (2009: £182.3m) and the depreciation charge was £68.5m in the year ended 31 March 2010 (2009: £63.8m). The estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that 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 Group, 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.

The Group 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 cashflows, growth rates and discount rates of the cash-generating units under review.



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

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

***Revenue recognition***

The Group 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 customers of the electricity distribution business are the electricity supply companies that utilise Electricity North West Limited's distribution network to distribute electricity from generators to the end consumer. The receivable 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.

***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.

***Retirement benefits***

The Group participates in a sectionalised defined benefit scheme as described further in note 18. The Group has taken on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme for the UUES section over the life of the contract. In addition, at termination of the contract it is expected that the activities will revert back to the Electricity North West Limited Group and members of the UUES section will TUPE back at the same time. As a result the Group has accounted for both sections of the ESPS in accordance with IAS 19 'Employee 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 18 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for Scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

***Fair values of derivative financial instruments***

The Group uses derivative financial instruments to manage the exposure to interest rate risk and bond issues. The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. All financial derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet 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 designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial Instruments: Recognition and Measurement' are met.

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.

# NORTH WEST ELECTRICITY NETWORKS LIMITED

## NOTES TO THE ACCOUNTS For the year ended 31 March 2010

### 2. REVENUE

	2010 £m	2009 £m
Revenue	<u>323.4</u>	<u>341.8</u>

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.

Included within the above are revenues of approximately £254.4m (31 March 2009: £266.1m) which arose from sales to the Groups five largest customers. Customer 1 represented £78.6m (2009: £89.7m), Customer 2 £64.4m (2009: £68.8m), Customer 3 £43.5m (2009: £43.7m), Customer 4 £35.1m (2009: £34.7m) and Customer 5 £32.9m (2009: £29.2m) of revenues. No other customer represented more than 10 per cent of revenues.

### 3. OPERATING PROFIT

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

	2010 £m	2009 £m
<b>Employee benefits expense</b>		
Employee costs (note 4)	6.7	6.5
<b>Depreciation and amortisation expense</b>		
Depreciation of property, plant and equipment		
Owned assets (note 11)	68.5	63.8
Amortisation of intangible assets and consumer contributions		
Software (note 10)	3.5	3.3
Consumer contributions (note 21)	(1.9)	(1.2)
<b>Other income</b>		
(Profit)/loss on disposal of property, plant and equipment	(0.2)	(0.3)
<b>Other operating costs include:</b>		
Research and development	1.3	1.4
Operating leases:		
- land and buildings	0.9	0.8
- hire of plant and machinery	1.7	1.7
Restructuring credit	-	(0.8)
	<u>          </u>	<u>          </u>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**3. OPERATING PROFIT** *(continued)*

During the year, the Group obtained the following services from the Group's auditors, at costs detailed below:

	2010 £m	2009 £m
Fees payable to the company's auditors for the audit of the company's subsidiaries pursuant to legislation	0.1	0.1
Fees payable to the company's auditors and their associates for other services to the group	-	-
	0.1	0.1
<b>Total audit fees</b>	<b>0.1</b>	<b>0.1</b>
<b>Other services</b>		
- Tax services	0.1	0.7
- Corporate finance services	-	0.1
	0.2	0.9
	0.2	0.9

Fees payable for the audit of the Company's accounts were £6,000 (2009: £6,000). Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

**4. DIRECTORS AND EMPLOYEES**

**Directors' remuneration**

Disclosure in respect of directors is included within note 9.

**Employee costs**

	2010 £m	2009 £m
Wages and salaries	6.4	5.7
Social security costs	0.5	0.5
Pension costs (note 19)	6.7	8.5
	13.6	14.7
Capital schemes and charges against provisions	(6.9)	(8.2)
	6.7	6.5
	6.7	6.5

**Average number of employees during the period (full-time equivalent including directors)**

	2010 Number	2009 Number
Electricity distribution - Group	94	83
	94	83

There are no employees of the Company.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**5. INVESTMENT INCOME**

	2010 £m	2009 £m
Interest receivable on short-term bank deposits held at amortised cost	0.6	3.3
Interest receivable on derivative instruments	-	1.5
	0.6	4.8
	0.6	4.8

**6. FINANCE EXPENSE**

	2010 £m	2010 £m	2009 £m	2009 £m
<b>Interest payable</b>				
Expected return on pension scheme assets (note 18)	(41.7)		(47.7)	
Interest cost on pension scheme obligations (note 18)	46.6		50.0	
		4.9		2.3
Net pension interest expense				
Interest payable on bank borrowings	0.3		0.2	
Interest payable on group borrowings	25.4		30.2	
Interest payable on borrowings held at amortised cost	51.0		49.0	
Interest payable on borrowings designated at fair value through profit or loss	22.2		22.2	
Net payments/(receipts) on derivatives held for trading	3.8		(6.4)	
Other finance charges related to index linked bonds	(1.6)		5.4	
		101.1		100.6
<b>Fair value (gains)/losses on financial instruments</b>				
Borrowings designated at fair value through profit and loss	26.3		(13.6)	
Derivatives held for trading	33.1		46.3	
Cash settlement on close-out of amortising swaps	(18.0)		-	
Cash settlement on close-out of gilt locks	26.6		-	
		68.0		32.7
<b>Total finance expense</b>		<b>174.0</b>		<b>135.6</b>

In respect of the movement in the fair value of borrowings designated as at fair value through profit or loss of £26.3m loss (2009:£13.6m gain), £32.3m loss (2009:£44.3m gain) is attributable to changes in credit spread assumptions which is partially offset by changes in interest rates.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**7. TAXATION**

	2010 £m	2010 £m	2009 £m	2009 £m
<b>Current tax:</b>				
UK corporation tax - current year	4.1		12.9	
- prior year	4.5		-	
		8.6		12.9
<b>Deferred tax (note 19):</b>				
Current year	(12.3)		5.7	
Prior year	8.5		-	
		(3.8)		5.7
		4.8		18.6

Corporation tax is calculated at 28% (2009:28%) of the estimated assessable profit for the year.

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

	2010 £m	2010 %	2009 £m	2009 %
(Loss)/profit before tax	(27.7)		40.4	
Tax at the UK corporation tax rate of 28% (2009: 28%)	(7.8)	(28.0)	11.3	28.0
Prior year adjustment	13.0	46.9	-	-
Non-taxable (income)/expense	(1.3)	(4.8)	(1.2)	(3.0)
Impact from withdrawal of IBA allowances	0.9	3.2	8.5	21.0
	4.8	(17.3)	18.6	46.0

In addition to the amount charged to the income statement, deferred tax relating to actuarial losses on defined benefits schemes of £33.4m (2009: £23.7m) was also credited to the statement of recognised income and expense under IAS 19 and IFRIC 14.

**8. DIVIDENDS**

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

	2010 £m	2009 £m
Interim dividends for the year ended 31 March 2010 of £0.82 per share (period ended 31 March 2009: £5.23 per share)	2.4	15.7
	2.4	15.7

The Company has not proposed a final dividend for the year ended 31 March 2010.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**9. DIRECTORS AND THEIR INTERESTS**

The aggregate emoluments of the directors in 2010 amounted to £1,063,853 (2009: £388,829). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (S Johnson) in 2010 in respect of services to the Company amounted to £699,185 (2009: S Johnson £234,653).

The pension contributions for the highest paid director for 31 March 2010 (S Johnson) were £37,100 (2009: S Johnson £18,383). S Johnson is a member of the company defined contribution scheme.

At as 31 March 2010, all Directors Remuneration was borne by Electricity North West Limited.

As at 31 March 2010 the directors have no interests in the ordinary shares of North West Electricity Networks Limited.

**10. INTANGIBLE ASSETS**

Group	Software £m	Licence £m	Assets in course of construction £m	Total £m
<b>Cost</b>				
At 1 April 2008	33.6	186.9	0.3	220.8
Additions	-	-	2.0	2.0
Transfers	0.9	-	(0.9)	-
	<u>34.5</u>	<u>186.9</u>	<u>1.4</u>	<u>222.8</u>
At 1 April 2009	34.5	186.9	1.4	222.8
Additions	-	-	5.1	5.1
Transfers	0.9	-	(0.9)	-
	<u>35.4</u>	<u>186.9</u>	<u>5.6</u>	<u>227.9</u>
<b>At 31 March 2010</b>	<u><u>35.4</u></u>	<u><u>186.9</u></u>	<u><u>5.6</u></u>	<u><u>227.9</u></u>
<b>Amortisation</b>				
At 1 April 2008	13.3	-	-	13.3
Charge for the year	3.3	-	-	3.3
	<u>16.6</u>	<u>-</u>	<u>-</u>	<u>16.6</u>
At 1 April 2009	16.6	-	-	16.6
Charge for the year	3.5	-	-	3.5
	<u>20.1</u>	<u>-</u>	<u>-</u>	<u>20.1</u>
<b>At 31 March 2010</b>	<u><u>20.1</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>20.1</u></u>
<b>Net book value at 31 March 2010</b>	<u><u>15.3</u></u>	<u><u>186.9</u></u>	<u><u>5.6</u></u>	<u><u>207.8</u></u>
Net book value at 31 March 2009	<u>17.9</u>	<u>186.9</u>	<u>1.3</u>	<u>206.2</u>
Net book value at 31 March 2008	<u>20.3</u>	<u>186.9</u>	<u>0.3</u>	<u>207.5</u>

The licence held by the Group to transmit and distribute electricity is viewed as having an indefinite life as the directors' believe the licence would only be revoked if there were a serious breach of the terms and conditions of the licence. The licence is held subject to 25 years notice in writing from the Authority to the licensee.

**NOTES TO THE ACCOUNTS**

**For the year ended 31 March 2010**

**10. INTANGIBLE ASSETS (CONTINUED)**

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. 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 prepares cash flow forecasts the period up to 31 March 2015 and have extrapolated the cash flows into perpetuity. The rate used to discount cash flows was 9.5% and reflects the level of risk associated with the cash flows generated from the licence and is based on a premium over the internal rate of return, taking into account the regulatory return on tangible assets.

At 31 March 2010, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £nil (2009:£nil).

**11. PROPERTY, PLANT AND EQUIPMENT**

Group	Operational structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets in course of construction £m	Total £m
<b>Cost</b>					
At 31 March 2008	2,622.8	12.5	9.2	182.7	2,827.2
Additions	87.1	0.2	1.5	93.5	182.3
Transfers	83.6	(0.2)	2.4	(85.8)	-
Disposals	(9.3)	(1.3)	(1.4)	-	(12.0)
<b>At 31 March 2009</b>	<b>2,784.2</b>	<b>11.2</b>	<b>11.7</b>	<b>190.4</b>	<b>2,997.5</b>
Additions	85.0	-	0.2	82.1	167.3
Transfers	86.6	(0.1)	(0.3)	(86.2)	-
Disposals	(11.0)	-	-	-	(11.0)
<b>At 31 March 2010</b>	<b>2,944.8</b>	<b>11.1</b>	<b>11.6</b>	<b>186.3</b>	<b>3,153.8</b>
<b>Depreciation</b>					
At 31 March 2008	832.6	3.9	7.3	-	843.8
Charge for the year	62.0	0.9	0.9	-	63.8
Disposals	(9.3)	(1.3)	(1.4)	-	(12.0)
<b>At 31 March 2009</b>	<b>885.3</b>	<b>3.5</b>	<b>6.8</b>	<b>-</b>	<b>895.6</b>
Charge for the year	67.1	0.2	1.2	-	68.5
Disposals	(11.0)	-	-	-	(11.0)
<b>At 31 March 2010</b>	<b>941.4</b>	<b>3.7</b>	<b>8.0</b>	<b>-</b>	<b>953.1</b>
<b>Net book value at 31 March 2010</b>	<b>2,003.4</b>	<b>7.4</b>	<b>3.6</b>	<b>186.3</b>	<b>2,200.7</b>
Net book value at 31 March 2009	1,898.9	7.7	4.9	190.4	2,101.9
Net book value at 31 March 2008	1,790.2	8.6	1.9	182.7	1,983.4

At 31 March 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £33.4m (2009:£47.5m).

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**12. INVESTMENTS**

**2010**  
**Company**  
**£m**

Cost at 31 March 2009 and 31 March 2010

1,145.7

Details of the investments at 31 March 2010 are as follows:

**Company**

<b>Subsidiary undertaking</b>	<b>Description of holding</b>	<b>Proportion held</b>	<b>Nature of business</b>
Electricity North West Limited	Ordinary shares of 50p each	100%	Energy distribution
ENW Capital Finance plc	Ordinary shares of £1 each	100%	Financing company
ENW Finance plc	Ordinary shares of £1 each	100%	Financing company

**Group**

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

**Other investments**

	<b>Description of holding</b>	<b>Proportion held</b>	<b>Nature of business</b>
ESN Holdings Limited	Ordinary shares of £1 each	6.20%	Investment company
National Grid plc	Ordinary shares of 11.76p each	Negligible	Energy distribution

**Associated undertaking**

	<b>Description of holding</b>	<b>Proportion held</b>	<b>Nature of business</b>
Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**13. TRADE AND OTHER RECEIVABLES**

	<b>Group 2010 £m</b>	<b>Company 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2009 £m</b>
Trade receivables	2.0	-	1.6	-
Amounts owed by group undertakings	0.1	83.3	-	35.6
Prepayments and accrued income	33.5	0.1	42.4	-
	<u>35.6</u>	<u>83.4</u>	<u>44.0</u>	<u>35.6</u>

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.3m (2009: £0.6m) 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 14.0 days (2009: 14.0 days). Of the trade receivables, 2.3% (2009: 17.2%) are past due but not impaired.

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

	<b>Group 2010 £m</b>	<b>Company 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2009 £m</b>
Balance at beginning of year	0.6	-	-	-
Charged to income statement	0.3	-	0.6	-
Utilised	(0.6)	-	-	-
	<u>0.3</u>	<u>-</u>	<u>0.6</u>	<u>-</u>

Trade receivables comprise 32 (2009: 30) individual customers and 26.4% (2009: 56%) of the trade receivables balance above relates to the regulated provision of infrastructure to electricity retail companies. The Group is required by the regulator 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 the regulator 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 Electricity North West Limited. 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. At the year end £2.8m (2009: £2.9m) of cash had been received as security.

The allowed RAV is set by the regulator for each year of the current price review period (April 2005 – March 2010) and is £1,343.8m for the year ended 31 March 2010 based on March closing prices (2009: £1,262.7m).

At the year end £87.2m (2009: £70.4m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £9.7m (2009: £9.5m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poors and A3 from Moodys or a guarantee from a parent company of the same rating level. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

Of the trade receivables, 2.3% (2009: 17.2%) are past due but not impaired.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**14. CASH AND CASH EQUIVALENTS NET OF BANK OVERDRAFTS**

	<b>Group 2010 £m</b>	<b>Company 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2009 £m</b>
Short-term bank deposits including cash at bank and in hand	111.7	39.6	42.3	5.6

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 six months or less, net of any bank overdrafts which are payable on demand. The effective interest rate on short-term deposits was a weighted average of 0.52% (2009: 4.05%) and these deposits had an average maturity of 67.9 days (2009: 8.2 days).

**15. BORROWINGS**

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk and liquidity risk see note 16.

	<b>Group 2010 £m</b>	<b>Company 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2009 £m</b>
<b>Non-current liabilities</b>				
Bonds	1,124.0	-	611.3	-
Bank and other term borrowings	98.2	98.7	496.9	496.9
Amounts owed to affiliated undertaking	-	294.6	-	-
	<u>1,222.2</u>	<u>393.3</u>	<u>1,108.2</u>	<u>496.9</u>
<b>Current liabilities</b>				
Amounts owed to parent undertaking	648.0	648.0	667.5	667.1
Amounts owed to subsidiary undertaking	-	20.5	-	-
	<u>648.0</u>	<u>668.5</u>	<u>667.5</u>	<u>667.1</u>
	<u>1,870.3</u>	<u>1,061.9</u>	<u>1,775.7</u>	<u>1,164.0</u>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**15. BORROWINGS** *(Continued)*

**Carrying value by category**

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

		<b>Group 2010</b>	<b>Company 2010</b>	<b>Group 2009</b>	<b>Company 2009</b>
	Year of maturity	Carrying value £m	Carrying value £m	Carrying value £m	Carrying value £m
<b>Borrowings designated at fair value through profit and loss</b>					
8.875% £250m bond	2026	328.4	-	302.1	-
<b>Borrowings measured at amortised cost</b>					
8.875% £200m bond	2026	195.4	-	196.8	-
6.125% £200m bond	2021	194.9	-	-	-
6.75% £300m bond	2015	294.6	-	-	-
1.4746%+RPI <sup>1</sup> £100m index-linked bond	2046	110.8	-	112.4	-
Long term loans at LIBOR plus 2.25%	2012	(0.6)	-	-	-
Long term loans at LIBOR plus 3.0% (2009: LIBOR plus 0.55%)	2012	98.7	98.7	496.9	496.9
Amounts owed to subsidiary undertaking	2015	-	294.6	-	-
<b>Other financial liabilities held at amortised cost</b>					
Trade payables (note 17)	2010	33.2	-	32.2	-
Amounts owed to parent undertaking	2010	648.0	648.0	667.5	667.1
Amounts owed to subsidiary undertaking	2010	-	20.5	-	-
		<u>1,903.4</u>	<u>1,061.8</u>	<u>1,807.9</u>	<u>1,164.0</u>

<sup>1</sup> Adjusted for RPI - Retail Price Index – the UK general index of retail prices (for all items) as published by the Office of National Statistics.

The 6.75% £300m bonds are secured and guaranteed by the Company, the issuing company, ENW Capital Finance plc, and NWEN Group Limited (the “Parent Company”). All other loans and borrowings are unsecured. There is no formal bank overdraft facility in place at 31 March 2010. All amounts are in sterling. The fair values of the Group’s financial instruments are shown in note 16.

**Borrowing facilities**

The Group had £254.2m (2009:£148.8m) in unutilised committed bank facilities at 31 March 2010 of which £25m (2009: £nil) expires within one year, £nil (2009:£143.8) expires after one year but less than two years and £229.2m (2009:£5.0m) expires in more than two years.

**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.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS** *(continued)*

The principal risks which the Group is exposed to and which arise in the normal course of business include credit risk, liquidity and market risk, in particular interest rate risk and inflation risk. Derivatives are used to hedge exposure to fluctuations in interest rates. 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.

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 Group has no exposure to foreign exchange risk or equity price risk.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up to date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Audit Committee is responsible for independently overseeing the activities in relation to Group risk management. The Electricity North West Limited'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 policies and processes for managing risk and the methods used to measure risk have not changed since the prior year.

**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. It arises principally from trade finance, and treasury activities. The Group has dedicated standards, policies and procedures to control and monitor credit risk.

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

Significant changes in the economy, or in the utilities sector could result in losses not necessarily provided for at the balance sheet date. With only a small number of customers in 2010, 32 (2009: 28) the creditworthiness of each of these is closely monitored. Whilst the loss of one customer could have a significant impact on the Group due to the small customer base, 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.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS** *(continued)*

**a) Trade receivables**

Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of customers, and the fact that each customer 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 2010 there was £0.3m receivables past due (2009: £0.9m) against which an allowance for doubtful debts of £0.3m has been made (2009: £0.6m).

**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 2010 none (2009: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been renegotiated 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	2010	2010	2009	2009
	£m	%	£m	%
AA	1.1	1.0	-	-
AA-	47.0	42.3	6.8	8.0
A+	39.0	35.1	59.7	69.8
A	25.7	21.6	19.0	22.2
	112.8	100.0	85.5	100.0

No collateral is held in relation to Treasury assets.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**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 balance sheet. For trade receivables, the value is net of any collateral held in cash deposits (please refer to note 13 for further details).

	2010 Group £m	2010 Company £m	2009 Group £m	2009 Company £m
<b>Credit risk by class</b>				
Trade receivables	2.0	-	1.6	-
Derivative financial instruments (assets)	1.1	-	43.2	-
Cash and cash equivalents	111.7	39.6	42.3	5.6
<b>Total</b>	<u>114.8</u>	<u>39.6</u>	<u>87.1</u>	<u>5.6</u>

Trade receivables and cash and cash equivalents are measured at amortised cost. Derivative financial instruments are measured at fair value.

**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 cashflows 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 advising on any action to be taken as appropriate. A long-term view of liquidity is provided by the Business Plan, which is updated annually and projects cashflows out 40 years ahead, and a medium-term view is provided by the outputs of the five-year regulatory review process. Shorter-term liquidity is monitored via an 18 month liquidity projection and this is reported to the Board. The Board approves a liquidity framework within which the business operates.

Available liquidity at 31 March was as follows;

	2010 Group £m	2010 Company £m	2009 Group £m	2009 Company £m
<b>Available Liquidity</b>				
Cash and Cash Equivalents	111.7	39.6	42.3	5.6
Committed Undrawn Bank facilities	254.2	254.2	148.8	118.8
<b>Total</b>	<u>365.9</u>	<u>293.8</u>	<u>191.1</u>	<u>124.4</u>

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

Committed undrawn bank facilities include £25.0m (2009: £nil) of facilities that expire within one year, £nil (2009: £143.8m) that expires after one year but less than two years and £229.2m (2009:£5.0m) that expires in more than two years.

The Group largely manages all of its financing cashflows over the observed five-year regulatory period; the Group uses economic hedges to ensure that certain cash flows can be matched and, where all criteria are met, management uses hedge accounting to account for these.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS** *(continued)*

The Group gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cashflows within particular time periods.

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 cashflows have been shown net; all other cashflows are shown gross.

<b>Group</b>	<b>On</b>	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>&gt;4 years</b>
<b>As at 31 March 2010</b>	<b>demand</b>					
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Trade and other payables	(33.2)	-	-	-	-	-
Amount owed to parent undertaking	(648.0)	-	-	-	-	-
Bonds	-	(74.2)	(74.0)	(74.0)	(74.0)	(1,717.5)
Other borrowings and overdrafts	-	(3.9)	(3.9)	(101.0)	-	-
Derivative financial instruments (net)	-	7.9	7.9	7.9	7.9	(32.4)
	<b>(681.2)</b>	<b>(70.2)</b>	<b>(70.0)</b>	<b>(167.1)</b>	<b>(66.1)</b>	<b>(1,749.9)</b>
<b>As at 31 March 2009</b>						
Trade payables	(32.2)	-	-	-	-	-
Amount owed to parent undertaking	(667.5)	-	-	-	-	-
Bonds	-	-	(41.5)	(41.5)	(41.5)	(1,120.8)
Other borrowings and overdrafts	-	(53.8)	(510.3)	-	-	-
Derivative financial instruments (net)	-	(31.1)	9.3	(27.7)	7.1	125.1
	<b>(699.7)</b>	<b>(84.9)</b>	<b>(542.5)</b>	<b>(69.2)</b>	<b>(34.4)</b>	<b>(995.7)</b>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS** *(continued)*

**Liquidity Risk** *(continued)*

Company	On demand	<1 year	1-2 years	2-3 years	3-4 years	>4 years
As at 31 March 2010	£m	£m	£m	£m	£m	£m
Amount owed to parent undertaking	648.0	-	-	-	-	-
Amount owed to subsidiary undertaking	20.5	20.3	20.3	20.3	20.3	330.4
Other borrowings and overdrafts	-	3.9	3.9	101.0	-	-
Derivative financial instruments (net)	-	-	-	-	-	-
	<b>668.5</b>	<b>24.2</b>	<b>24.2</b>	<b>121.3</b>	<b>20.3</b>	<b>330.4</b>
<b>As at 31 March 2009</b>						
Amount owed to parent undertaking	667.1	-	-	-	-	-
Other borrowings and overdrafts	-	12.2	510.3	-	-	-
Derivative financial instruments (net)	-	34.5	-	-	-	-
	<b>667.1</b>	<b>46.7</b>	<b>510.3</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Market risk**

Market risk is the risk that future cash flows 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 finance director under delegated authority. The Group has no foreign exchange and no equity exposure.

The Group borrows in the major global debt markets at both fixed 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 future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's floating rate borrowings are exposed to a risk of change in cashflows due to changes in interest rates. The Group uses interest rate swap contracts to hedge these exposures. Investments in short-term receivables and payables are not exposed to interest rate risk.

Under an interest rate swap, the Group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments 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. Interest rate swaps mature in 2026.



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS (continued)**

**Sensitivity analysis**

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 adverse market conditions occur. The sensitivity figures are calculated based on upward parallel shifts of 1% and 3% in the yield curve.

Sensitivity Analysis	Year ended 31 March 2010		Year ended 31 March 2009	
	<i>+1% change in interest rates</i>	<i>+3% change in interest rates</i>	<i>+1% change in interest rates</i>	<i>+3% change in interest rates</i>
	£m	£m	£m	£m
Debt held at fair value	30.5	80.8	27.9	73.6
Interest rate swaps	(0.7)	(1.2)	(18.8)	(41.6)
Total fair value movement	<u>29.8</u>	<u>79.6</u>	<u>9.1</u>	<u>32.0</u>

The sensitivity analysis above shows the amount by which the fair value of items recorded on the balance sheet at fair value would be adjusted by. As such fair value movements are taken through the income statement; there would be a corresponding adjustment to profit in these scenarios (numbers in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

**Market risk**

Although the above measures provide 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 exposures are calculated on static balance sheet positions, and therefore future changes in the structure of the balance sheet are ignored.

Index-linked debt is carried at amortised cost and as such the balance sheet in relation to this debt is not exposed to movements in interest rates.

**Inflation risk**

The revenues of ENW are linked to movements in inflation, as defined by the Retail Price Index ("RPI"). To economically hedge exposure to RPI, ENW 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 borrowings and 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 carrying value of index-linked debt at 31 March 2010 was £110.8m (2009: £112.4m). Whilst management does not formally monitor the sensitivity to changes in inflation, it is estimated that a 1% increase in inflation would lead to a £1.1m (2009:£1.2m) decrease in profits in relation to this index-linked debt.

The Group also has £200m notional principal of index-linked swaps that convert a portion of the fixed rate of interest payable under bonds to an inflation-linked rate. These swaps were executed in conjunction with the associated bond issue so that the fixed rate of interest receivable under the swaps matches the nominal interest payable on the bond. Interest settlement dates under the swaps are timed to coincide with the bond interest payments, which are semi-annual.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS** *(continued)*

**Currency risk**

The Group makes no significant sales or purchases in currencies other than its functional currency. Accordingly, the Group has no material unhedged foreign currency exposures.

**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 2010, the Group's derivatives are not designated in effective hedging relationships, and instead are measured at fair value through profit and loss.

**Fair values**

The tables below provide a comparison of the book and fair values of the Group's financial instruments by category as at the balance sheet 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, trade and other payables and short-term loans and receivables with a maturity of less than one year the book values approximate 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 period end.

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

<b>Financial assets:</b>	<b>Group Carrying value</b>	<b>Group Fair value</b>	<b>Company Carrying value</b>	<b>Company Fair value</b>
<b>2010</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i><b>Current assets:</b></i>				
Cash and cash equivalents	111.7	111.7	39.6	39.6
Derivative financial instruments	1.1	1.1	-	-
	<b>112.8</b>	<b>112.8</b>	<b>39.6</b>	<b>39.6</b>
	<b>112.8</b>	<b>112.8</b>	<b>39.6</b>	<b>39.6</b>
<b>2009</b>				
<i><b>Current assets:</b></i>				
Cash and cash equivalents	42.3	42.3	5.6	5.6
Derivative financial instruments	43.2	43.2	-	-
	<b>85.5</b>	<b>85.5</b>	<b>5.6</b>	<b>5.6</b>
	<b>85.5</b>	<b>85.5</b>	<b>5.6</b>	<b>5.6</b>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS (continued)**

The carrying value of trade and other receivables approximates to their fair value for both the Group and Company.

2010	Group Carrying value	Group Fair value	Company Carrying value	Company Fair value
	£m	£m	£m	£m
<b>Financial liabilities:</b>				
<i>Non-current liabilities:</i>				
Borrowings designated at fair value through profit and loss	(328.4)	(328.4)	-	-
Borrowings measured at amortised cost	(927.1)	(1,047.9)	(393.3)	(428.7)
	<u>(1,255.5)</u>	<u>(1,376.3)</u>	<u>(393.3)</u>	<u>(428.7)</u>
<i>Current liabilities:</i>				
Borrowings - amounts owed to parent undertaking	(648.0)	(648.0)	(648.0)	(648.0)
Borrowings - amounts owed to subsidiary undertaking	-	-	(20.5)	(20.5)
Derivative financial instruments	(70.6)	(70.6)	-	-
	<u>(718.6)</u>	<u>(718.6)</u>	<u>(668.5)</u>	<u>(668.5)</u>
2009	Group Carrying value	Group Fair value	Company Carrying value	Company Fair value
	£m	£m	£m	£m
<b>Financial liabilities:</b>				
<i>Non-current liabilities:</i>				
Borrowings designated at fair value through profit and loss	302.1	302.1	-	-
Borrowings measured at amortised cost	806.1	848.6	496.9	496.9
	<u>1,108.2</u>	<u>1,150.7</u>	<u>496.9</u>	<u>496.9</u>
<i>Current liabilities:</i>				
Borrowings - bank overdrafts	667.5	667.5	667.1	667.1
Derivative financial instruments - held for trading swaps	79.6	79.6	34.5	34.5
	<u>747.1</u>	<u>747.1</u>	<u>701.6</u>	<u>701.6</u>

The carrying value of trade and other payables approximates to their fair value for both the Group and Company.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**16. FINANCIAL INSTRUMENTS (continued)**

**Fair value measurements recognised in the statement of financial position**

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

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

	<b>31 March 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets	-	1.1	-	1.1
<b>Total</b>	<b>-</b>	<b>1.1</b>	<b>-</b>	<b>1.1</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities	-	(70.6)	-	(70.6)
Financial liabilities designated at FVTPL	(328.4)	-	-	(328.4)
<b>Total</b>	<b>(328.4)</b>	<b>(70.6)</b>	<b>-</b>	<b>(399.0)</b>
	<b>31 March 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets	-	43.2	-	43.2
<b>Total</b>	<b>-</b>	<b>43.2</b>	<b>-</b>	<b>43.2</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities	-	(79.6)	-	(79.6)
Financial liabilities designated at FVTPL	-	(302.1)	-	(302.1)
<b>Total</b>	<b>-</b>	<b>(381.7)</b>	<b>-</b>	<b>(381.7)</b>

Financial liabilities designated at FVTPL comprise the £250m 8.875% 2026 bond; during the year the basis of valuation of this financial liability changed. At 31 March 2009 this was a Level 2 valuation calculated by discounting cash flows at observable market rates. At 31 March 2010 this was a Level 1 valuation based on quoted prices observable for the bond.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**17. TRADE AND OTHER PAYABLES**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Trade creditors	33.2	-	32.2	-
Amounts owed to parent undertaking	648.0	648.0	667.5	667.1
Amounts owed to subsidiary undertakings	-	20.5	-	-
Other taxation and social security	6.0	-	2.7	-
Consumers' contributions (note 21)	2.5	-	1.4	-
Refundable customer deposits (note 22)	6.9	-	7.9	-
Accruals and deferred income	51.3	30.1	17.5	1.0
	<u>747.9</u>	<u>698.6</u>	<u>729.2</u>	<u>668.1</u>

Trade creditors principally comprise amounts outstanding to United Utilities Electricity Services for capital and operating services provided under the ASA contract. The credit period with UUES is 10 days (2009: 10 days) from receipt of invoice.

**18. RETIREMENT BENEFIT SCHEMES**

**Group**

The Group's defined pension benefit arrangements are provided through a division of the Electricity Supply Pension Scheme (ESPS).

The division is split into two sections, the Electricity North West Limited (ENWL) section for defined benefit members of the former ESPS who are now employed by ENWL and the United Utilities Electricity Services Limited (UUES) section for defined benefit members of the former ESPS who are now employed by UUES.

The Group has taken on a contract and assumes the obligation to contribute variable amounts to the defined benefit pension scheme for the UUES section over the life of the ASA contract. In addition, at termination of the contract it is expected that the activities will revert back to the Electricity North West Limited group and members of the UUES section will TUPE back at the same time under Employment Law. As a result the group has accounted for both sections of the ESPS in accordance with IAS 19 'Employee benefits'.

The scheme is closed to new entrants and the Group instead provides defined contribution arrangements for new entrants. The total cost charged to the income statement in relation to the defined contribution scheme was £0.2m (2009: £0.5m) and represents contributions payable to the scheme at rates specified in the rules of the plan.

The last actuarial valuation of the scheme was carried out as at 31 March 2008. This 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 at 31 March 2010. 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.

During the year the Group made contributions of £15.4m (2009: £13.2m) to the defined benefit sections of the scheme. The Group will continue to make payments into the scheme in accordance with the results of the formal actuarial valuation of the Scheme as at 31 March 2008. The Group estimates that contributions for the year ending 31 March 2011 will amount to £13.9 m.

The total defined benefit pension expense for the year was £11.4m (2009: pension expense £12.3m). A pension deficit of £142.8m is included in the balance sheet at 31 March 2010 (2009: deficit of £27.5m). Information about the pension arrangements for executive directors is contained in note 9.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**18. RETIREMENT BENEFIT SCHEMES** *(continued)*

The main financial assumptions used by the actuary were as follows:

	<b>At 31 March 2010</b>	At 31 March 2009
	%	%
Discount rate – ENWL	<b>5.20</b>	6.50
Discount rate - UUES	<b>5.30</b>	6.90
Expected return on assets –ENWL	<b>6.00</b>	6.00
Expected return on assets – UUES	<b>7.20</b>	7.10
Pensionable salary growth - ENWL	<b>4.60</b>	3.80
Pensionable salary growth - UUES	<b>4.70</b>	4.30
Pension increases - ENWL	<b>3.60</b>	2.90
Pension increases - UUES	<b>3.70</b>	3.30
Price inflation – ENWL	<b>3.60</b>	2.90
Price inflation - UUES	<b>3.70</b>	3.30

Recent studies have shown faster rates of life expectancy improvement than had previously been expected. An allowance has been made for these faster rates of improvements. Studies have also illustrated that mortality rates vary significantly with the location of employees and the nature of their work. These factors have been taken into account in the calculation of the defined benefit obligations of the Group.

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

	<b>At 31 March 2010</b>	At 31 March 2009
Life expectancy at age 60:		
Retired member	<b>26.0</b>	25.9
Non-retired member	<b>27.9</b>	27.8

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**18. RETIREMENT BENEFIT SCHEMES** *(continued)*

As at 31 March 2010, the Group's share of the fair value of Scheme's assets, together with the liabilities in the Schemes recognised in the balance sheet were as follows:

	Scheme assets at 31 March 2010 %	Value at 31 March 2010 £m	Scheme assets at 31 March 2009 %	Value at 31 March 2009 £m
Equities	40.1	337.6	37.8	264.8
Gilts	18.7	157.6	21.1	148.0
Bonds	38.7	325.2	40.9	286.3
Property	0.6	5.3	-	-
Cash	1.9	15.6	0.2	1.4
	<hr/>	<hr/>	<hr/>	<hr/>
Total fair value of assets	100.0	841.3	100.0	700.5
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Present value of liabilities		(984.1)		(728.0)
		<hr/>		<hr/>
Net retirement benefit obligation		(142.8)		(27.5)
		<hr/> <hr/>		<hr/> <hr/>

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 class 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 asset allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on Scheme assets was £175.9 million gain (2009: £104.8 million loss). None of the pension scheme assets are held in the Group's own financial instruments or property occupied by, or other assets used by the Group.

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

	2010 £m	2009 £m
At 1 April	(728.0)	(796.3)
Current service cost	(6.1)	(8.0)
Interest cost on scheme obligations	(46.6)	(50.0)
Member contributions	(2.2)	(2.1)
Past service cost	(0.4)	(2.0)
Actuarial (losses)/gains	(252.2)	79.0
Benefits paid	51.4	51.4
	<hr/>	<hr/>
At 31 March	(984.1)	(728.0)
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**18. RETIREMENT BENEFIT SCHEMES** *(continued)*

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

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
At 1 April	700.5	841.4
Expected return on scheme assets	41.7	47.7
Actuarial gains/(losses)	132.9	(152.5)
Company contributions	15.4	13.2
Member contributions	2.2	2.1
Benefits paid	(51.4)	(51.4)
	<hr/>	<hr/>
At 31 March	<b>841.3</b>	<b>700.5</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Current service cost	(6.1)	(8.0)
Past service cost	(0.4)	(2.0)
Expected return on scheme assets	41.7	47.7
Interest on scheme obligations	(46.6)	(50.0)
	<hr/>	<hr/>
Net pension expense before taxation	<b>(11.4)</b>	<b>(12.3)</b>
	<hr/> <hr/>	<hr/> <hr/>

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

The reconciliation of the opening and closing balance sheet position is as follows:

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
At 1 April	(27.5)	45.1
Expense recognised in the income statement	(11.4)	(12.3)
Contributions paid	15.4	13.2
Net actuarial losses gross of taxation	(119.3)	(73.5)
	<hr/>	<hr/>
At 31 March 2010	<b>(142.8)</b>	<b>(27.5)</b>
	<hr/> <hr/>	<hr/> <hr/>



**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**18. RETIREMENT BENEFIT SCHEMES** *(continued)*

Actuarial gains and losses are recognised directly in the statement of recognised income and expense. At 31 March 2010, a cumulative loss of £114.7 million (2009: gain of £4.6 million) had been recorded directly in the statement of recognised income and expense.

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

	2010	2009	2008
	£m	£m	£m
Present value of defined benefit obligation	(984.1)	(728.0)	(796.3)
Fair value of scheme assets	841.3	700.5	841.4
	<hr/>	<hr/>	<hr/>
Net retirement benefit (obligation)/ surplus	(142.8)	(27.5)	45.1
	<hr/>	<hr/>	<hr/>
Experience adjustments on scheme liabilities	-	0.8	(18.4)
Experience adjustments on scheme assets	-	(152.5)	(12.9)
		<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**19. 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 reporting period.

<b>Group</b>	<b>Accelerated tax depreciation £m</b>	<b>Retirement benefit obligations £m</b>	<b>Other £m</b>	<b>Total £m</b>
At 31 March 2008	450.5	15.8	1.6	467.9
Charged/(credited) to the income statement	8.1	0.3	(2.7)	5.7
Credited to equity for the year	-	(23.7)	-	(23.7)
	<u>458.6</u>	<u>(7.6)</u>	<u>(1.1)</u>	<u>449.9</u>
At 31 March 2009	458.6	(7.6)	(1.1)	449.9
Charged/(credited) to the income statement	6.3	1.1	(11.2)	(3.8)
Credited to equity for the year	-	(33.4)	-	(33.4)
	<u>6.3</u>	<u>(33.4)</u>	<u>-</u>	<u>(33.4)</u>
<b>At 31 March 2010</b>	<b><u>464.9</u></b>	<b><u>(39.9)</u></b>	<b><u>(12.3)</u></b>	<b><u>412.7</u></b>

Changes to the rules to phase out industrial building allowances were enacted in the Finance Act 2008. The impact of this change resulted has been an increase to the deferred tax liability of £8.5m in the year ended 31 March 2010.

**Company**

	<b>Other £m</b>	<b>Total £m</b>
At 31 March 2008	0.1	0.1
Credited to the income statement	(0.1)	(0.1)
	<u>-</u>	<u>-</u>
At 31 March 2009	-	-
Credited to the income statement	-	-
	<u>-</u>	<u>-</u>
<b>At 31 March 2010</b>	<b><u>-</u></b>	<b><u>-</u></b>

**20. PROVISIONS**

<b>Group</b>	<b>2010 Provision £m</b>	<b>2009 Provision £m</b>
<b>Restructuring</b>		
At 1 April	-	2.0
Provided in year/period (note 3)	-	0.3
Utilisation of provision	-	(2.3)
	<u>-</u>	<u>-</u>
At 31 March	-	-

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**21. CONSUMER CONTRIBUTIONS**

Consumer contributions are amounts received from a customer in respect of the provision of a new connection to the network.

Consumer contributions are amortised through the income statement over the lifetime of the relevant asset.

<b>Group</b>	<b>£m</b>
At 31 March 2008	19.8
Additions in the year	32.6
Amortisation	(1.2)
	93.2
At 31 March 2009	51.2
	93.2
Additions in the year	43.9
Amortisation	(1.9)
	93.2
<b>At 31 March 2010</b>	<b>93.2</b>
	<b>93.2</b>
Amounts due in less than one year (note 17)	2.5
Amounts due after more than one year	90.7
	93.2
	<b>93.2</b>

**22. REFUNDABLE CUSTOMER DEPOSITS**

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

<b>Group</b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Amounts due in less than one year (see note 17)	6.9	7.9
Amounts due after more than one year	3.5	8.2
	10.4	16.1

**23. SHARE CAPITAL**

<b>Group and Company</b>	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
<b>Authorised:</b>		
3,000,000 ordinary shares of £1 each	3,000,000	3,000,000
	3,000,000	3,000,000
	3,000,000	3,000,000
<b>Allotted, called up and fully paid:</b>		
3,000,000 ordinary shares of £1 each	3,000,000	3,000,000
	3,000,000	3,000,000
	<b>3,000,000</b>	<b>3,000,000</b>

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**24. SHAREHOLDER'S EQUITY**

<b>Group</b>	<b>Called up share capital £m</b>	<b>Retained earnings /(deficit) £m</b>	<b>Total £m</b>
At 1 April 2008	3.0	22.6	25.6
Profit for the year	-	21.8	21.8
Dividends paid	-	(15.7)	(15.7)
Post employment benefits: Post tax actuarial losses on defined benefit schemes	-	(49.8)	(49.8)
	<u>3.0</u>	<u>(21.1)</u>	<u>(18.1)</u>
At 1 April 2009	<u>3.0</u>	<u>(21.1)</u>	<u>(18.1)</u>
Loss for the year	-	(32.5)	(32.5)
Dividends paid	-	(2.4)	(2.4)
Post employment benefits: Post tax actuarial losses on defined benefit schemes	-	(85.9)	(85.9)
	<u>3.0</u>	<u>(141.9)</u>	<u>(138.9)</u>
<b>At 31 March 2010</b>	<u><u>3.0</u></u>	<u><u>(141.9)</u></u>	<u><u>(138.9)</u></u>

As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The amount of Group profit after tax for the financial period dealt with in the Company's income statement is £191.8m (2009:£3.2m profit).

<b>Company</b>	<b>Called up share capital £m</b>	<b>Retained (deficit)/ earnings £m</b>	<b>Total £m</b>
At 1 April 2008	3.0	(3.1)	(0.1)
Profit for the year	-	3.2	3.2
Dividends paid	-	(15.7)	(15.7)
	<u>3.0</u>	<u>(15.6)</u>	<u>(12.6)</u>
At 1 April 2009	<u>3.0</u>	<u>(15.6)</u>	<u>(12.6)</u>
Profit for the year	-	191.8	191.8
Dividends paid	-	(2.4)	(2.4)
	<u>3.0</u>	<u>173.8</u>	<u>176.8</u>
<b>At 31 March 2010</b>	<u><u>3.0</u></u>	<u><u>173.8</u></u>	<u><u>176.8</u></u>

# NORTH WEST ELECTRICITY NETWORKS LIMITED

## NOTES TO THE ACCOUNTS For the year ended 31 March 2010

### 25. OPERATING LEASES

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

	<b>Land and buildings 2010 £m</b>	<b>Plant and machinery 2010 £m</b>	<b>Land and buildings 2009 £m</b>	<b>Plant and machinery 2009 £m</b>
Within one year	0.6	0.1	0.7	0.1
In the second to fifth years inclusive	2.1	0.4	2.0	0.4
After five years	1.6	2.9	1.5	2.9
	<u>4.3</u>	<u>3.4</u>	<u>4.2</u>	<u>3.4</u>

The Company does not hold any non-cancellable operating leases as at the 31 March 2010 (2009:Nil).

### 26. RELATED PARTY TRANSACTIONS

#### Group and Company

Loans are made between companies in the North West Electricity Networks (Jersey) Group on which varying rates of interest are chargeable. 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 period, group companies entered into the following transactions with related parties who are not members of the Group:

	<b>2010 £m</b>	<b>2009 £m</b>
Interest paid	25.4	30.2
Loans from related parties	<u>648.0</u>	<u>655.5</u>

The loans from related parties comprise amounts loaned from the immediate parent undertaking, North West Electricity Networks (Holdings) Limited. £200.0 million carries interest at 10% per annum, £327.0 million is interest free, £119.0 million carries interest at LIBOR plus 1.75% and other amounts are loaned at LIBOR plus 1.5%. All amounts are all repayable on demand.

The remuneration of directors, who are the key management personnel of the Group, is disclosed in note 9.

Amounts outstanding at 31 March 2010 between the North West Electricity Networks Limited Group and other companies within the Electricity North West Limited Group are provided in notes 13 and 17.

The Company entered into the following transactions with related parties:

	<b>2010 £m</b>	<b>2009 £m</b>
Loans from/ (to) Electricity North West Limited	70.4	(10.0)
Loans from North West Electricity Networks (Holdings) Limited	942.6	655.5
Interest paid	<u>25.4</u>	<u>30.2</u>

The loan to Electricity North West Limited carries interest at LIBOR plus 1.5% and is repayable on demand. The loans from North West Electricity Networks (Holdings) Limited are described above.

**NOTES TO THE ACCOUNTS**  
**For the year ended 31 March 2010**

**28. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The immediate and ultimate parent undertaking is North West Electricity Networks (Jersey) Limited, a company registered in Jersey. The external address of the ultimate parent company is: Whiteley Chambers, Don Street, St Helier, Jersey, JE4 9WG.

There are two joint ultimate controlling parties, each controlling 50% of the company's shares and voting rights. They are IIF International Holding GP Ltd managed by JP Morgan and Commonwealth Bank of Australia.

**29. CASH GENERATED FROM OPERATIONS**

	<b>Group 2010 £m</b>	<b>Company 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2009 £m</b>
<b>Cash generated from operations</b>				
Loss/profit before taxation	(27.7)	(180.2)	40.4	(22.6)
Adjustment for investment income, finance expense and other gains and losses	173.4	180.5	130.8	22.1
	<u>145.7</u>	<u>0.3</u>	<u>171.2</u>	<u>(0.5)</u>
Operating profit/(loss)				
Adjustments for:				
Depreciation of property, plant and Equipment	68.5	-	63.8	-
Amortisation of intangible assets	3.5	-	3.3	-
Amortisation of customer contributions	(1.9)	-	(1.2)	-
Profit on disposal of property, plant and equipment	(0.2)	-	(0.3)	-
Other gains and losses – non capitalised pension costs	(11.9)	-	(8.7)	-
Movement in restructuring provision	-	-	(2.0)	-
	<u>203.7</u>	<u>0.3</u>	<u>226.1</u>	<u>(0.5)</u>
Operating cash flows before movement in working capital				
Changes in working capital:				
Decrease/(Increase) in trade and other receivables	6.8	(0.1)	(9.9)	0.5
Increase in provisions and payables	7.5	2.8	1.3	0.1
	<u>218.0</u>	<u>3.0</u>	<u>217.5</u>	<u>0.1</u>
Cash generated from continuing operations				