

ELECTRICITY NORTH WEST LIMITED

Regulatory Financial Statements

31 March 2009

REPORT AND FINANCIAL STATEMENTS 2009

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CHIEF EXECUTIVE OFFICER'S STATEMENT

Key Events

At 31 March 2009, Electricity North West Limited (ENW) completed its first full year as a sole operating company within a group of companies of which the ultimate parent is North West Electricity Networks (Jersey) Limited (NWEN J). The past year has seen the follow key events and activities:

- A significant amount of time and resource has been spent, preparing for Distribution Price Control Review 5, (DPCR5) which takes effect in April 2010. The price control review process takes approximately two years to complete and for DPCR5 we have submitted a high level business plan the Office of the Gas and Electricity Markets (Ofgem) in August 2008 and a detailed business plan in February 2009. Ofgem's final proposals will be published in December 2009. Once agreed, the Ofgem proposals are then enacted through changes to ENW's Electricity Distribution Licence.
- On 31 May 2008 E Cooke resigned as Chief Executive Officer and was replaced by Mike Hughes on an interim basis until 8 September 2008. At this date S Johnson was appointed permanently to the Chief Executive role.
- The new Executive team have also invested substantial time into defining ENWs corporate strategy, vision, values and goals which will be cascaded to the Business in 2009/10
- Focus has also been placed on the financing structure of the Group in light of the medium term bank facilities that are due for renewal in December 2010. These are held within North West Electricity Networks Limited, ENWs immediate parent company.

The business has responded to the economic conditions prevailing during the year and has produced a strong set of results despite the pressures of falling RPI, pension scheme valuations and adverse fair value of financial instruments.

Operations

ENW owns the Electricity distribution network in the North West of England and is accountable for the obligations contained in its licence with the electricity regulator, Ofgem.

Under the Asset Services Agreement (ASA), ENW has engaged United Utilities Electricity Services Limited ("UUES"), a subsidiary of United Utilities plc, to manage delivery of all operations and maintenance, capital investments, connections and customer service. The UU Plc group is the UK's largest outsourced utility Services provider and is committed to the highest standards of customer service and to the safety of the public, their employees and their contractors. ENW is responsible for the strategic management of the distribution network.

ENW work with UUES to ensure:

- Maintenance and development of a reliable and safe network;
- Compliance with licence requirements and other regulatory and legal obligations;
- Achievement of customer service, quality of supply and other service standards; and
- Delivery of efficiencies and financial targets.

Performance

The Chief Executive Officer and board are pleased to report a good set of financial results. Revenue increased by 6.0 per cent to £341.8m, reflecting adverse weather conditions and increased revenue on standard charges and unmetered activity. In addition income with relation to street lighting and a specific engineering project at Whitegate further increased revenues on a year on year basis. Operating profit increased by 1.5 per cent to £181.5m in 2009 (31 March 2008: £176.1m), primarily reflecting the increase in revenue.

ENW's focus on maintaining the integrity, security and safety of its electricity distribution network is in line with its five year delivery plan. During the year the business replaced or refurbished 128 (31 March 2008: 277) kilometres of overhead lines and replaced 378 (31 March 2008: 108) kilometres of underground cables. It also replaced or refurbished 472 (31 March 2008: 533) switchgear units and replaced 568 (31 March 2008: 141) transformers.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Performance (continued)

Electricity supplies were available for 99.99% (31 March 2008: 99.99%) of the time during the financial year ended 31 March 2009, sustaining the business's high level of performance in managing the network to maintain constant supplies for consumers. Under the regulatory interruptions incentive scheme, ENW has been set network performance targets for the number and duration of customer supply interruptions.

The average number of interruptions per 100 consumers per annum was 48.39* (31 March 2008: 50.7), outperforming the regulatory target for the year of 57.10 (31 March 2008: 57.10). The average number of minutes for which consumers were without supply was 50.90 minutes* (31 March 2008: 48.2), beating the regulatory target for the year of 54.7 minutes (31 March 2008: 56.4). (Figures denoted by * are draft subject to Ofgem audit and exclude severe storms and other exclusions in accordance with Ofgem rules).

Corporate Strategy

ENW continues its strategic focus on enhancing the value of the business through investment, and improving the efficiency and quality of service delivered through an Asset Services Agreement with United Utilities Electricity Services Limited ("UUES") under which the latter both maintains and operates the network to ENW's specification and provides capital investment delivery and connections services as well as a number of other less significant services. We are on track to deliver better performance for our stakeholders during the period to 2010.

Commercial strategy is discussed in more detail in the Business Review on page 16.

Stakeholders

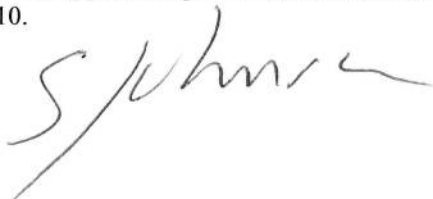
We are committed to listening and responding to the needs of our different stakeholders: employees, customers, investors, regulators and our commercial partners. Understanding their requirements and then managing and reporting our performance is central to how we run our business. The cornerstone of this approach is our employees and I would like to thank them for their continuing commitment and hard work.

The board places great importance on the quality, accuracy and reliability of information on both financial and non-financial matters that we provide to our regulators. Such information is subject to rigorous internal checks, review and sign off before it is submitted.

The Future

The ENW Senior Leadership team are committed to building on the foundations of what has been a challenging and rewarding financial year and continuing to lead the strategy for the long term development of the asset base. In addition, the business are fast approaching DPCR5 and the business is well placed for the price review which will take effect from April 2010.

Steve Johnson
Chief Executive Officer



BUSINESS REVIEW

NATURE OF THE BUSINESS

Nature of the Business

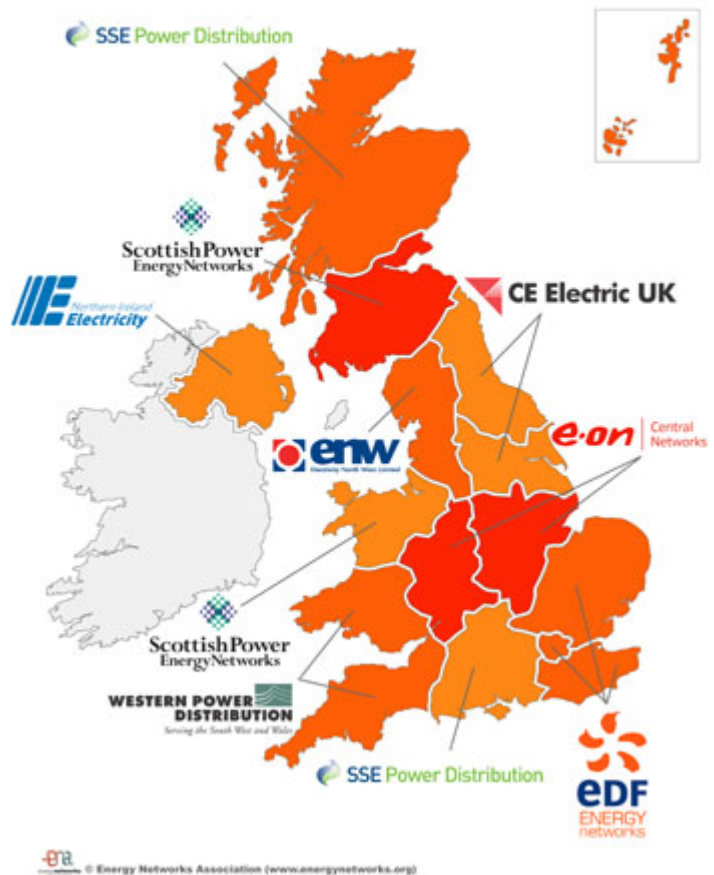
Business overview

ENW ('the Company') is a private limited company registered in England and Wales. The principal activity of the Company is the distribution of electricity in the North West of England.

Business description

The electricity industry in the UK consists of four distinct components: generation, transmission, distribution and supply (see figure 1 – UK electricity market components). The majority of electricity distribution services are provided by regional distribution companies, each with its own service area. These are based on the UK electricity distribution companies in England, Scotland and Wales (Figure 2). The electricity market is regulated by the Gas and Electricity Markets Authority (the Authority), which governs and acts through the Office of Gas and Electricity Markets ('Ofgem'). In the electricity market, suppliers contract with generators (for wholesale power) and with transmission and distribution network businesses (for delivery services), in order that they can provide energy to final consumers.

Figure 1 UK electricity market components Figure 2 UK electricity distribution companies



BUSINESS REVIEW

Electricity Distribution Summary

The Company owns the main electricity distribution network in North West England which carries electricity from the National Grid along power lines to consumers' premises on behalf of the electricity supply companies who are ENW's main commercial customers. Annual revenue is currently driven, in part, by the volume of electricity distributed. The income derived from the distribution business therefore depends currently, in part, on changes in the demand for electricity by consumers in North West England, and also from generators who have been connected to ENW's network under contracts agreed since 1 April 2005. Demand for electricity is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by consumers, weather conditions and energy efficiency measures. The electricity distribution business is a regulated business in which the revenue from charges, which a company may collect in any year, is capped by the electricity regulator (as described in more detail below). Accordingly, profit derived from the distribution business of ENW also depends upon efficiency, achieved by reducing and controlling costs, and providing high standards of service.

Key non-financial performance measures for the business relate to quality of supply. Electricity supplies were available for 99.99% (31 March 2008: 99.99%) of the time during the financial year ended 31 March 2009, sustaining the business's high level of performance in managing the network to maintain constant supplies for consumers. Under the regulatory Interruptions Incentive Scheme, ENW has been set network performance targets for the number and duration of customer supply interruptions. Although we have still outperformed regulatory targets, performance in the past year has been adversely affected by a few high impact events on the grid and primary distribution systems. The average number of interruptions per 100 consumers per annum was 48.39* (31 March 2008: 50.7), out-performing the regulatory target for the year of 57.10 (31 March 2008: 57.10). The average number of minutes for which consumers were without supply was 50.90 minutes* (31 March 2008: 48.2), beating the regulatory target for the year of 54.7 minutes (31 March 2008: 56.4). (Figures denoted by * are draft subject to Ofgem audit and exclude severe storms and other exclusions in accordance with Ofgem rules).

Regulation

Economic Regulation

The electricity industry in Great Britain is regulated under the Electricity Act 1989 (the 'Electricity Act'), the Utilities Act 2000 (the 'Utilities Act'), the Energy Act 2004 and the Energy Act 2008 ('the Energy Acts'). The Electricity Act, as amended, requires all companies distributing electricity to be licensed unless they are covered by an exemption. Economic regulation pursuant to these licences is the responsibility of the Gas and Electricity Markets Authority (GEMA) who act through an executive office, Ofgem. Ofgem also exercises powers on behalf of GEMA under UK competition legislation, most significantly the Competition Act 1998 and the Enterprise Act 2002.

In 2001, in accordance with the requirements of the Utilities Act 2000, the licence for the distribution and supply of electricity which was granted in 1989 was modified to exclude the supply of electricity. The licences continue in force for an indefinite period, subject to potential termination rights as set out below. ENW holds an electricity distribution licence that authorises it to distribute electricity anywhere in Great Britain. Under that licence, ENW distributes electricity across its distribution system covering an area in North West England comprising 2.4million (31 March 2008: 2.3million) consumer premises. Restrictions included within the electricity distribution licence include:

- a non-discrimination obligation;
- restrictions on the payment of dividends. The board of directors must provide a certificate of compliance before declaring dividends, affirming they are satisfied that the business is complying with relevant licence obligations including that it has sufficient resources and that the making of the distribution will not cause it to be in material breach of any of the obligations in the future;
- restrictions on dealing with associated companies. The consent of Ofgem is required before lending any funds to an associated company and all transactions with associated companies must be on an arm's length basis, without cross subsidy;
- ring-fencing of financial and management resources of the licensed business, Regulatory Asset Valuation (RAV) gearing ; and
- restriction on the disposal of any asset forming part of the distribution system.

BUSINESS REVIEW***Economic regulation (continued)***

Licence conditions can be modified by Ofgem either with the agreement of the licensee (or, in the case of standard conditions, with the agreement of the requisite proportion of licensees) or following reference to the Competition Commission for a decision on public interest grounds. The licence can be terminated on 25 years' notice given by the Secretary of State.

Ofgem regulates electricity distribution charges by capping the average charges that a company can impose in any year. Ofgem conducts a periodic review and sets price caps every five years. This price cap is set by reference to inflation as measured by the retail price index in the UK plus an adjustment factor known as 'X' which is specific to each company. The size of a company's X factor (which can be positive, negative or zero) and the change at the start of a price control period to the opening revenue value (defined as P_0 change) reflect the scale of its capital investment programme, its cost of capital and its operational and environmental obligations, together with scope for it to improve its efficiency. The last periodic review was completed at the end of 2004 and covers the period from 1 April 2005 to 31 March 2010. For the 2005-10 review period, ENW was allowed a real (excluding inflation) P_0 price increase of 8.2 per cent in 2005/06 followed by constant real prices thereafter (i.e. the X factor = zero).

Price cap regulation as operated in the UK is performance based. Companies are incentivised to be efficient, both in terms of their operating costs and in the implementation of their capital expenditure programme. The benefit of any efficiency savings achieved through effective management is retained by the companies for a period of up to five years, after which time the benefit is passed to customers via the price setting process. The cost of any under performance due to poor management is borne by the companies. An incentive scheme was introduced by Ofgem in April 2002 which provided greater focus on three specific service areas: number of interruptions to customers' supplies; length of those interruptions; and quality of the telephone response to customers. Ofgem consulted on its approach to the incentive scheme as part of the price control review and again in 2006; including the form of the scheme, targets and associated costs. It has been agreed that the distribution network operators' performance in those areas will continue to be incentivised until the end of the next price control period (31 March 2015). Under the scheme, ENW is subject to annual rewards and penalties depending upon its performance against pre-specified targets. Both rewards and penalties under the incentive scheme are capped at 3.0 per cent of annual revenues.

Under the terms of their licences, electricity distribution network operators ('DNOs') must produce and implement charging methodologies for both connection to and use of their distribution systems. The methodologies are required to set out the principles and methods by which charges will be calculated. The methodologies must be approved by Ofgem.

Ofgem published its policy paper on the next Price Control Review in December 2010. In this paper Ofgem indicate that they expect to make Initial Proposals at the end of July 2009 and Final Proposals in December 2009.

Electricity metering services

In 2007 Ofgem consulted on licence modifications that were intended to clarify the obligations on DNOs with respect to electricity metering services after the price controls on the provision of new and replacement meters and meter operation services expired on 31 March 2007. The effect of the modifications was to make clear that from 1 April 2007, the regulatory price cap would be retained only for the rental of electricity meters installed prior to 31 March 2007. Other metering services would no longer form part of the definition of a distribution business and DNOs that wished to provide new or replacement meters or meter operation services must do so through a separate subsidiary. As a result of this change, ENW ceased the provision of meter operation services from 30 June 2007. ENW continues to earn revenue for the rental of our legacy stock of installed metering assets. This revenue is governed by a separate price control from the control of distribution system charging.

BUSINESS REVIEW**Environmental regulation***Under grounding of overhead lines*

All electricity companies have a general duty under the Electricity Act to have regard to the desirability of environmental preservation and conservation and the protection of Sites of Special Scientific Interest when they formulate proposals for development. ENW may be required to carry out an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities. In response to discussions with environmental organisations in ENW's operating area, and with the backing of Ofgem, the Company has embarked on a programme of converting from overhead lines to underground cables in designated areas on aesthetic grounds. For the fourth Distribution Price Control Review (DPCR4) period (2005-2010), Ofgem has allowed companies to 'log-up' the efficiently incurred costs of undertaking this work, in ENW's case, to a maximum of £5 million over the period. The first of these schemes was completed in October 2006 and others are in progress. Sufficient work has now been identified to fully invest the Ofgem allowance.

High voltage assisted cables

ENW, in common with all other UK electricity companies, owns and operates pressure assisted high voltage cables. These operate at voltages of 33,000 and 132,000 volts. These cables are either filled with nitrogen gas or a light oil. ENW operates both types, having 553 kilometres (31 March 2008: 568 kilometres) of the latter type of cable. In the main, the oil is biodegradable, although some older cables are pressurised with a variety of oil that is not. The potential for loss into the environment of the oil, due to leaks or third party damage, is recognised nationally by all electricity companies and the Environment Agency (EA) and is an issue concerning waste disposal and pollution law. In order to mitigate the effects of any losses, ENW is party to a national code of practice agreement with the EA. Over the last six years, the company has worked to minimise losses into the environment and has reduced annual loss to around 24.5 m³ (31 March 2008: 34.9 m³) in 2009 from a high of 74 m³ in the year ended 31 March 2002.

Sulphur hexafluoride (SF₆) management

SF₆ is a gas with excellent electrical insulation and other properties, which has led to its widespread use in electrical switchgear. However, there is concern regarding the SF₆ that escapes into the atmosphere as SF₆ is a potent greenhouse gas, with a greenhouse warming potential of 22,200 times that of carbon dioxide. Current legislation relating to the use of SF₆ gases does not require specific reductions within the electrical distribution industry, although there are general requirements under the Kyoto protocol and EU Climate Change Convention directives to look to reduce and curb emissions of all greenhouse gases, including SF₆.

ENW's strategy is to accurately monitor, record and control levels of leakage, to replace equipment at higher leakage rate sites, develop future targets and more importantly safeguard electricity supplies. The company is working with the electricity industry and manufacturers to continue developing vacuum and solid insulation for switchgear, and so work towards eliminating the use of SF₆ switchgear.

The frequency and amount of ENW losses are recorded on a database with results submitted on a yearly basis to Ofgem and the EA as part of the statutory reporting process. The total sum of losses comprise of "actual losses" derived from the amount of SF₆ gas used to refill the equipment during maintenance operations and "assumed yearly losses" estimated as a percentage of the total inventory held, this percentage agreed with the EA is currently 1%.

The total mass of SF₆ controlled by ENW in 2009 was 19,089kg (31 March 2008: 18,350kg), the annual leakage of SF₆, as recorded at 1 April 2009 and reported to the EA, equated to 585kg (31 March 2008: 431kg), or 3.06% (31 March 2008: 2.35%) of the inventory of which 394kg were actual losses and around 40% of this loss was attributable to the ageing Whitegate Substation in East Manchester which is now being replaced.

To further minimise losses due to sampling activities, sampling intervals are restricted to a frequency of once every 4 years for each respective Gas Insulated Switchgear (GIS) plant. Additionally, refurbishment maintenance operations are not undertaken to prolong the life of the GIS equipment. Therefore, items of GIS plant reaching the end of their operational life are removed from site by specialist contractors and are sent back to the manufacturers to ensure that the SF₆ is disposed of correctly by a licensed waste company.

BUSINESS REVIEW***Sulphur hexafluoride (SF₆) management (continued)***

ENW is not currently aware of any requirements or proposals that will result in the Company being required to reduce leakage or otherwise increase costs, although we are monitoring the situation closely through the Energy Networks Association.

Distributed generation and demand patterns

Apart from the largest offshore projects, low-carbon generation sources from renewables and combined-heat-and-power (CHP) are typically of an appropriate scale to connect to distribution networks. New generators may sometimes require new connections, network reinforcement or changes in the use of existing network. Serving generator customers is currently a small business component but is set to grow in the future. The last few years have shown increasing government policy interest in this area and this is likely to continue e.g. Renewables Obligation reform, The Department for Business, Enterprise & Regulatory Reform /Ofgem review of distributed energy, easing of planning restrictions for micro-generation, on-site renewables targets set by local planning authorities for new developments, changes to building regulations, future action to implement EU renewable energy and electricity targets.

As a result, since 2003 ENW has been annually reviewing its forecasts of generator connections at all scales – from large projects through intermediate scale developments to micro-generation. 282MW (31 March 2008: 232MW) of generation was connected between 1 April 2005 and 31 March 2009. In the year to 31 March 2010, one 180MW offshore wind project and 53MW from various onshore projects are expected to connect. From 2005 to 2015 it is expected that total connected generation will have risen from 1GW to around 2.3GW, but with a significant shift in later years from the dominance of a small number of large projects to a much larger number of small renewable and CHP schemes distributed over a wider area.

The growth in distributed generation consists of a mixture of export-led projects (large wind and biomass) for which new network is generally required and demand-offset projects at locations of new and existing electricity demand. Together with schemes to encourage carbon emissions reduction related to energy use, such as CERT (Carbon Emissions Reduction Target – on energy suppliers to reduce domestic emissions) and CRC (Carbon Reduction Commitment – on larger energy users), there could be a reduction of units distributed in the long-term. ENW is working with Ofgem through the price control mechanism with the aim of reaching a satisfactory outcome. Local demand growth is likely to continue in areas of urban development e.g. housing growth as suggested by the North West Regional Spatial Strategy.

Electric and magnetic fields

The possibility that electric and magnetic fields ('EMFs') may cause adverse health effects has been a topic of debate and research for many years. Over the last 20 years, major research programmes throughout the world have explored whether EMFs have an adverse impact on health. A large epidemiological study – the UK Childhood Cancer Study – reported in December 1999 that there was "no evidence that exposure to magnetic fields associated with the electricity supply in the UK increases risk for childhood leukaemia, cancers of the nervous system, or any childhood cancer". International bodies such as the World Health Organisation ('WHO') and the International Agency for Research on Cancer and, in the UK, the Health Protection Agency ('HPA') (which has subsumed the former National Radiological Protection Board) continue to investigate this issue and have concluded that there is no established causal link between EMFs and ill health.

In March 2001, the HPA published a review of the state of the science and concluded "for the vast majority of children in the UK there is now considerable evidence that the EMF levels to which they are exposed do not increase the risk of leukaemia or other malignant disease". However, it also noted that the possibility remains that intense and prolonged exposure to magnetic fields can increase the risk of leukaemia in children but the epidemiological evidence is currently not strong enough to justify a firm conclusion that such fields cause leukaemia in children.

In the spirit of the precautionary approach, the HPA published in May 2003 a consultation document on how to limit exposure to EMFs and, in particular, on whether the UK should adopt the more stringent exposure guidelines of the International Commission for Non-Ionising Radiation Protection ('ICNIRP'). In March 2004, the HPA recommended that the ICNIRP guidelines should be adopted. A report published by the Childhood Cancer Research Group ('CCRG') in 2005 strengthened the evidence that childhood leukaemia rates are slightly higher near power lines, but leaves the question of what causes this more confused than before, stating that: "There is no accepted biological mechanism to explain the epidemiological results; indeed, the relation may be due to chance."

BUSINESS REVIEW

Electric and magnetic fields (continued)

The independent Advisory Group on Non-Ionising Radiation ('AGNIR'), which reports to the HPA, has issued several reports relating to EMFs, considering their possible link with an increased risk of cancer. The most recent AGNIR report on EMFs published in February 2006 concluded that the evidence does not support the hypothesis that exposure to EMFs is associated with an increased risk of breast cancer and that, although it is inconclusive, it does not appear that EMFs affect the hormone melatonin (a reduction in which can lead to breast cancer). The report gave recommendations for further research to be carried out.

In spite of the official view of bodies like the HPA and the WHO, there continues to be significant lobbying by pressure groups concerned about the alleged effects of public electricity infrastructure on health. In 2005, a cross industry all stakeholder group on the issue was set up in the UK. It is known as the Stakeholder Advisory Group on Extra Low Frequency EMFs ('SAGE'). Although SAGE was initiated by National Grid plc, it has now been taken up by the Department of Health, and essentially reported to the Department of Health and the government on EMF issues in relation to health. The industry is represented on SAGE by the National Grid and by the Energy Networks Association of which ENW is a member.

The SAGE report was passed to the Department of Health in April 2007. The balance of advice in the SAGE report supports the status quo, although given the breadth of views necessarily aired in the process, other options which could drive significant costs for the industry (such as the maintenance of building-free corridors around power lines) have had their merits reviewed. However it will be for Government to decide on the appropriate response to stakeholder concerns, and ENW does not currently expect any real shift from the status quo to emerge. So far it is known that the Government has consulted the Health Protection Agency on the SAGE recommendations, and it is believed that Government departments are looking at the practicalities of implementing the SAGE recommendations. There is no indication that the Government will implement anything beyond the SAGE recommendations, at most.

Commercial

Operating Model

ENW engaged UUES to manage delivery of all operations and maintenance, capital investments, connections and customer service from 1 April 2007. All such activities are implemented through UUES under the Asset Services Agreement (ASA). UUES is a subsidiary of United Utilities Plc (UU Plc). United Utilities is the UK's largest outsourced utility services provider and is committed to the highest standards of customer safety and to the safety of the public, their employees and contractors.

ENW holds the Distribution Licence and is the owner of the regulated assets. The Asset Owner (ENW) / Asset Service Provider (UUES) model allows ENW to focus on the long term asset management and strategic development of the network to meet future demands whilst allowing UUES to focus on delivery of network and customer services. ENW is responsible for complying with the Licence conditions. The key ENW functions are:

- regulation and liaison with the electricity regulator, Ofgem;
- compliance with environmental and customer service requirements;
- asset strategy and planning for the development of the electricity network;
- setting tariffs and managing Distribution Use of System (DUoS) sales ledger; and
- managing its balance sheet in order to obtain an efficient cost of capital and asset financing.

Under the ASA, UUES provides all services necessary to:

- Operate, maintain and repair the licensed electricity distribution network;
- Manage and deliver the capital investment projects for the renewal and extension of the network; and
- Provide connections, diversions and other such works required by customers in the North West.

BUSINESS REVIEW

Asset Services Agreement (ASA)

In April 2007 ENW entered into an 8 year Asset Services Agreement (ASA) with UUES for the provision of electricity distribution network services. The ASA establishes a long-term partnership with aligned goals between ENW and UUES.

The ASA sets out “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. UUES earns a management fee based on the target costs.

Furthermore, UUES is incentivised to seek continuous improvement and deliver efficiencies. Under the “pain/gain mechanism” in the ASA, the economic benefits of any savings (and the economic costs of any overruns) will be shared between ENW and UUES. The ASA also specifies a suite of key performance indicators which are aligned with ENW’s regulatory targets and include specific customer satisfaction requirements, quality of service targets, environment and health and safety targets. UUES has a specified base performance level for each key performance indicator with sliding scale bonus/shortfall payments to the extent that performance is above or below this level.

Resources

Employee Engagement

Good employee engagement remains a priority for ENW. The move to an asset owner and service provider model, with a smaller number of staff directly employed, emphasises the need to attract and retain high quality, experienced staff. The period of transition through the sale was a key risk point that the business managed well with little attrition and an independently verified level of employee engagement at 77% (31 March 2008: 77%).

The focus for ENW currently, is to develop a culture which encourages all employees to assist in shaping the organisational strategy by involving participant employees in its development. Furthermore, there has been work completed on role evaluation, reward strategy and career development, paving the way for investment in our people.

Health and safety

ENW remain committed to maintaining high standards of health and safety in every area of the business and is in full alignment with the HSE ‘Revitalising Health and Safety’ strategy. Since the establishment of the Asset Services Agreement, ENW is no longer responsible for the health and safety of UUES’s employees, which now resides entirely with UUES. Key performance indicators are in place within the ENW business and through the Asset Services Agreement with ENW’s Asset Services Provider, and progress is monitored regularly at all levels throughout the business. As a utility business, the risk profile remains broad with major and minor construction projects and contractor management playing a key part. ENW works closely with both the Asset Service Provider and the electricity industry through the Energy Networks Association Health and Safety Groups to ensure focus and priority is maintained in this vital area. ENW as the Asset Owner has a mainly office based organisation and appropriately there have been no reportable accidents. The reporting uses the accident figures for the Asset Service Provider who had 5 accidents in the year to 31 March 2009 (31 March 2008: 7) which were reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (“RIDDOR”), showing a reduction of 29% to the previous year. There have been a total of 43 accidents in 2009 (31 March 2008: 38) of which 11 were Lost Time Accidents (“LTA”) and 5 of those reportable under RIDDOR.

Training and development

ENW encourages employees to work to their full potential and is committed to improving its employees’ skills through training and development and nurturing a culture in which employees feel valued. There has been a particular focus for the business going forward coupled with a strong focus on a high performing organisation culture and career development.

BUSINESS REVIEW**Resources** *(continued)****Dignity and equality***

ENW respects the dignity and rights of every employee and supports them in performing various roles in society. In addition, ENW challenges prejudice and stereotyping and welcomes diversity in its workforce. There is a culture of openness and the encouragement of involvement of all employees in the business is a key activity for the leadership team.

Employees with disabilities

ENW is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, ENW 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. Additionally, ENW is committed to providing full support and appropriate training for employees who become disabled during the course of their employment so that they can continue to work in a position appropriate to their experience and abilities.

Operational assets

As at 31 March 2009, ENW's facilities included 13,038 kilometres (31 March 2008: 13,028 kilometres) of overhead lines, 43,794 kilometres (31 March 2008: 44,408 kilometres) of underground cables (operating at 132 kilovolts, 33 kilovolts, 25 kilovolts, 11 kilovolts, 6.6 kilovolts and 400/230 volts), 16,704 (31 March 2008: 18,242) ground mounted substations and 16,283 (31 March 2008: 16,243) pole mounted transformers (Asset counts subject to confirmation as part of Regulatory Reporting process). ENW holds wayleaves which entitle it to run lines and cables through and across private land and in some circumstances these can be terminated by the landowner or occupier upon notice pursuant to the Electricity Act. However, ENW has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner/occupier. ENW does not anticipate that any significant relocation of these facilities will be required, although any relocation of a major portion of these facilities would have a material adverse effect on its business and financial position. Ground mounted substations are situated on properties either owned by ENW or held under lease. Pole mounted transformers are generally held under wayleave agreements. ENW anticipates that it will be able to negotiate lease renewals on satisfactory terms or relocate equipment so that the non-renewal of any such leases would not have a material adverse effect upon ENW.

Non-operating assets and facilities

In addition to the assets described above, the Company owns a small number of non-operational properties consisting primarily of offices, depots and warehouses. It is anticipated that the Company will be able to negotiate renewals of any expiring leases, or relocate the relevant facilities, without having a material adverse impact on the Company.

Principal Risks and Uncertainties

The Board considers the following risks to be the principal ones that might affect the Company's performance and results but cautions that the risks listed in this section do not address all the factors that could cause results to differ materially. There may be additional risks that the Company does not currently know of, or that are deemed immaterial based on either information currently available or the Company's current assessment of the risk. ENW operates an internal control system to evaluate and manage risks as described immediately below.

Internal control

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Each year management reviews all controls including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the Company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The key features of the internal control system are:

BUSINESS REVIEW

Principal Risks and Uncertainties (continued)

Internal control (continued)

- a control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;
- comprehensive business planning, risk assessment and financial reporting procedures; including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- a monthly board review of financial and non-financial performance to assess progress towards objectives;
- regular monitoring of risks and control systems throughout the year, supported by a risks and issues central recording mechanism;
- use of external professional advisors who provide independent scrutiny of internal control systems and risk management procedures in accordance with engagement scope;
- an annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment;
- health and safety performance reviews carried out by safety professionals in addition to the normal health and safety risk assessment and management processes carried out internally within the business;
- centralised treasury function operating within defined limits, underpinned by a robust treasury policy and subject to regular reporting requirements, periodic audit reviews and oversight by the Audit Risk and Treasury Committee (AR&TC);
- established procedures, set out in an internal control manual, for planning, approving and monitoring major capital expenditure projects which includes short and long-term:
 - project budget, risk evaluation, detailed appraisal and review procedures; and
 - defined authority levels and post-investment performance reviews;
- formal briefings are provided annually to staff on contents and requirements of the internal control manual, as well as updates being communicated to staff during the year as they arise.

In addition, ENW undertakes financial, process and quality audits of UUES and its application of its internal control systems.

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”) to North West Electricity Networks Limited (“NWEN”), ENW’s parent. The bridge is not due for repayment until December 2010. The NWEN(J) Group services its borrowings from the dividends it receives from ENW.

During the year, NWEN in consultation with ENW and with the benefit of external advice has developed plans for the refinancing of the bridge by one or more issues of notes to be listed on the London Stock Exchange. The directors of the NWEN(J) Group companies are committed to the refinancing and are monitoring market conditions, intending to announce plans to issue notes as soon as practicable and before the end of the current financial half year.

BUSINESS REVIEW

Principal risks and uncertainties (continued)

Reductions in RPI will reduce revenues and RAV, adversely impacting profitability and RAV gearing

Reductions in the Retail Price Index (RPI) impact the company in a number of ways, most notably in revenues and Regulatory Asset Value (RAV).

Ofgem caps the increase in average prices ENW can charge in any year by reference to the average RPI growth between July and December of the previous year.

The impact of RPI on revenues in 2010 is known as the revenue inflation factor is now fixed and will not change regardless of further movements in RPI. Future reductions in RPI may result in revenue growth being restricted beyond 2010.

Target costs in the ASA are agreed based on the difference in the average RPI for the year from the assumed ASA RPI level of 2.75%. Reductions in RPI below 2.75% will reduce target costs, which in 2010 as the revenue inflation factor is fixed, will be reflected in profitability in the annual ASA 'true up' adjustment.

Financial covenant tests embedded in the Company's borrowings are dependent upon the Company's RAV, which is indexed using the movement in the average of March 2008 and April 2009 RPI.

Reductions in RPI will reduce RAV, resulting in increased gearing. This restricts the Company's ability to borrow to fund its operations even if debt levels remain unchanged.

ENW does not secure a sustainable outcome at the DPCR5 price review

The price control review process takes approximately two years to complete and the next distribution price control review (DPCR5) required the submission of a high level business plan in August 2008 and a detailed business plan in January 2009 and discussions are ongoing. The process will be completed when companies decide to accept or reject Ofgem's final proposals in December 2009 and these are then enacted through changes to ENW's Electricity Distribution Licence. An adverse price determination may occur as a result of a number of factors, including an inadequate allowed cost of capital or unrealistic regulatory assumptions concerning operating expenses, required capital expenditure and revenue forecasts. This risk is highlighted as the most significant for ENW on the Risk and Issues Database as it is possible to envisage scenarios where allowed revenue varies by over £200 million across the 5 years of the next price control review period.

ENW has a robust process in place for undertaking and managing the price control review which reports monthly to the ENW Board. The experienced team at ENW has developed a thorough regulatory strategy and is engaging positively with Ofgem to secure a sustainable outcome.

Risk that ENW's charging policies are judged to be anti-competitive

As competition in the provision of connections to distribution systems and in the ownership of new electricity networks is in the early stages of development there is a risk that ENW's charging statements, deemed appropriate in a monopoly environment, are viewed by some affected parties as being out of step with the development of the new market, leading to a potential for challenge under Competition Law.

As a concurrent regulator with the Office of Fair Trading ("OFT"), Ofgem has powers under the Competition Act 1998 to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and the electricity sector in Great Britain. These powers include the power to impose fines of up to 10 per cent of worldwide Company wide turnover for the business year preceding the finding of the infringement. Any agreement which infringes the Competition Act 1998 may be void and unenforceable. Breaches of the Competition Act 1998 may also give rise to claims for damages from third parties.

On 20 January 2009, Ofgem announced that, pursuant to its powers under Section 18 of the Competition Act 1998, it had opened an investigation into allegations of abuse of a dominant position by ENW. The allegations relate to the terms imposed by ENW on independent distribution network operators ("IDNOs") connecting to ENW's pre-existing network, and whether these terms foreclose the market to competitors in the area in which ENW is the incumbent

BUSINESS REVIEW

Principal risks and uncertainties *(continued)*

Risk that ENW's charging policies are judged to be anti-competitive *(continued)*

DNO. Whilst the complaint has been specifically directed at ENW, the complainant's view is that this is a common issue across all DNOs and that an Ofgem investigation of ENW should incentivise all DNOs to improve their terms to IDNOs. The investigation should therefore be viewed in this wider context. Ofgem have proposed changes to the distribution licence which will require all DNOs to follow a common charging methodology which will include the method to be used to determine charges to IDNOs. Ofgem will approve this methodology and discussions are ongoing between all DNOs, IDNOs and Ofgem to agree it. This new charging methodology is targeted to be in place from 1 April 2010 from which time future allegations along these lines will be unlikely.

In respect of the specific allegations against ENW, ENW submitted to Ofgem on 18 March 2009 a detailed response to the complaint which concluded that, in ENW's opinion, there were insufficient grounds for Ofgem to continue with its investigation. Ofgem have not replied on the substance of this submission but has formally requested information from ENW in relation to it, which ENW has supplied.

ENW's obligations increase resulting in increased costs, which could adversely affect profitability

The revenue and profitability of ENW is substantially influenced by price controls established every five years by the regulator. The price control review for ENW covering the five-year period commencing on 1 April 2005 was determined by the regulator in November 2004. ENW accepted this determination and did not exercise its right to reject adverse price determinations which Ofgem may ultimately refer to the Competition Commission.

Scope to re-open these price controls within the charging period is limited. Specific re-opening provisions have been made, with effect from 1 April 2005, in relation to uncertain costs associated with specified provisions of the Electricity Safety, Quality and Continuity Regulations 2002 (or amending/replacement regulations), the New Roads and Street Works Act 1991 and the Traffic Management Act 2004.

On 7 November 2008 Ofgem published the Authority's decisions for the DNOs that have submitted applications to re-open their current price control. This document indicated that Ofgem would allow ENW to earn an additional £10.7m of revenue in the DPCR4 period to reflect increased costs related to changes in the Electricity Safety, Quality and Continuity Regulations 2002.

Where there are other significant increases in costs as a result of changing obligations or circumstances ENW can seek to have these costs recognised as part of the DPCR5 negotiations. The one current example of this is the investment ENW has started to make in fibre optic data network capacity to respond to the removal of service provision by British Telecom. ENW have received a non-binding, but positive response from Ofgem regarding the inclusion of this investment in the regulatory asset base in DPCR5.

Failure to deliver the capital investment programmes could adversely affect profitability

ENW requires significant capital expenditure for additions to, or replacement of, plant and equipment for its facilities and networks. The price controls set by Ofgem take into account the level of capital expenditure expected to be incurred during the relevant five-year price review period and the associated funding costs. Historically, ENW has financed this expenditure from cashflow from operations and from debt financing. There can be no assurance that cashflow from operations will not decline, or that additional debt financing or other sources of capital will be available to meet these requirements.

Failure to deliver operational performance or cost savings implicit in the regulatory review could adversely affect profitability

Operating cost savings to be achieved during the current five-year regulatory period are implicit in the regulatory review. To assist the achievement of these operating cost savings, a Target Cost based contract is in place with the Asset Service Provider (UUES). If the operating cost savings are not achieved by the Asset Service Provider, then ENW's profitability would suffer. Similarly, if operational performance were to deteriorate, this may be reflected in less favourable outcomes from future price control reviews and ENW's profitability would suffer. In mitigation, ENW has the right to audit UUES' performance and financial systems.

BUSINESS REVIEW**Principal risks and uncertainties** *(continued)****DPCR5 increase in workload volumes (particularly overhead lines)***

ENW has submitted its detailed capital investment plans for the period 2010-2015 to the regulator, Ofgem, as part of the current distribution price control review. The plans include for a significant increase in the volume of activity particularly with respect to the refurbishment and renewal of overhead lines from both an operational and safety perspective. Failure to deliver the capital plans may lead in some circumstances to non-compliance with safety legislation and ENW policies. ENW is working closely with UUES to develop implementation plans to ensure sufficient contractor resources are procured, work content of projects are designed in a timely manner and IT and governance processes are in place. A project team will be set up to coordinate the necessary preparatory activities and prepare for increased resource requirements.

Environmental regulations could increase ENW's costs and adversely affect profitability

Various environmental protection and health and safety laws and regulations govern the electricity distribution business. These laws and regulations establish, amongst other things, standards for quality of electricity supply, which affect ENW's operations. In addition, ENW is required to obtain various environmental permissions from regulatory agencies for its operations. ENW endeavours to comply with all regulatory standards. Should ENW fail to comply, it would face fines imposed by the courts or otherwise face sanctions by the regulator.

Service interruptions could adversely affect profitability

In addition to the capital investment programmes, ENW controls and operates the electricity distribution network and undertakes maintenance of the associated assets with the objective of providing a continuous service. Historically, there have been interruptions to the supply of services, such as the incident in January 2005 affecting Cumbria and Lancashire, when a storm and severe flood in Carlisle severely damaged the electricity network supply to 250,000 customers, but the majority of interruptions relate to minor issues that are rectified promptly.

Nevertheless, the failure of a key asset could cause a more significant interruption to the supply of services (in terms of duration or number of customers affected), which may have an adverse effect on the ENW's operating results or financial position.

Failure of the Asset Service Provider or of the IT Services Provider to deliver contract performance

UUES has comprehensive contractual obligations and performance targets under the ASA relating to capital delivery, connections, operations and maintenance and fixed fee services. Delivery of these obligations and performance targets is critical to ENW performing under its legal and regulatory obligations and meeting its forecast profitability. ENW and UUES have developed appropriate governance to monitor UUES performance led by a joint committee, comprising senior management of both ENW and UUES. This committee is supported by monthly service area performance reviews and by monthly risk and health and safety forums.

Both UUES and ENW are currently dependent for IT services upon a service contractor, (Vertex) engaged by United Utilities Water Plc ("UUW") which has for many years provided the IT services upon which the UU Plc businesses are reliant. ENW is reliant upon UUW for the enforcement of the IT service provider's contractual obligations. Inadequate performance by the IT service contractor coupled with ineffective contractual enforcement by UUW could adversely affect the ability of UUES to perform its obligations under the ASA and ENW's ability to conduct its business effectively.

BUSINESS REVIEW**Principal risks and uncertainties** *(continued)****Pension scheme obligations may require the Company to make additional contributions to the schemes which would reduce profitability***

The Company participates in both defined benefit (“DB”) - closed to new members, and defined contribution (“DC”) pension schemes. The principal scheme is a defined benefit scheme and the assets of the scheme are held in trust funds independent of Company finances. See note 18 for further information.

The Company’s proportion of the schemes was estimated to have a combined pre-tax deficit of £27.5m as at 31 March 2009 compared to a pre-tax surplus of £45.1m at 31 March 2008, as disclosed under IAS 19 ‘Employee Benefits’.

The fund undertook a triennial valuation as at 31 March 2008 which identified a draft funding deficit of £106.7m. The deficit repair plan is currently being negotiated with the Trustees of the scheme and the Company will be required to make additional payments to repair the funding deficit. Current turbulence in the credit markets is likely to have a further impact on the valuation, both through impacting value of the assets held and the financial assumptions used. Other assumptions including mortality were also updated, increasing the scheme deficit. Any further increased future contributions will have an impact on the Company’s profitability and cash flow. Currently efficient pension contributions and a proportion of the existing scheme deficits are recoverable through the price controls established by Ofgem.

Treasury policy and financial instruments

There are a number of financial risks facing the company, the most significant of which are liquidity, interest rate risk and financial derivative valuations. These financial risks facing the company are outlined in the treasury section on page 16 below.

Long Term Strategy, Business objectives and Performance

The long term strategy of ENW is to consistently deliver value over the long term by managing the trade-off between risk, reward and reputation in a regulated environment.

The key objectives of ENW are to:

- Ensure the public safety and the safety of our employees;
- Deliver improved customer service through more efficient processes, systems and higher first time resolution;
- Deliver sustainable operating and capital expenditure efficiencies;
- Construct a credible investment case that delivers value for money to customers, and achieves investors objectives on sustainable returns on investment; and
- Enable its people to achieve their full potential.

Long-term value will be secured by ensuring the best, sustainable outcome from DPCR5 and subsequent price reviews in terms of funded Regulatory Asset Value (“RAV”) growth and opportunities to out-perform allowed revenues. Short-term profit maximisation will be achieved by:

- optimising the economic return within each regulatory period to meet the cash distribution expectations of shareholders;
- the efficient delivery of the key outcomes for customers in each regulatory period; and
- the efficient delivery of the capital programme, securing maximum RAV growth, in each regulatory period.

Additional growth of the business through additional regulatory and non-regulatory income streams will be targeted, but not to the detriment of either long-term value or short-term profit in the existing business.

BUSINESS REVIEW

Long Term Strategy, Business objectives and Performance (continued)

Developing a high performance company

Our strategy is built upon the key enabler of a high performance culture and the achievement of a long-term sustainable operating model. This requires significant transformational change of the business in the way it will enhance expenditure planning and manage its assets and workforce.

The Company has identified a number of measurements against which it assesses its performance:

- Customer minutes lost (CMLs) – to meet or out-perform regulatory targets during the regulatory period 2005-10.
- Customer interruptions (CIs) – to meet or out-perform regulatory targets during the regulatory period 2005-10.
- Overall customer satisfaction – we, in conjunction with our services provider UUES, are targeting 85% customer satisfaction by the end of 2010.

Good progress has already been made in meeting the efficiency challenges set by Ofgem and 82% (31 March 2008: 76%) of ENW's customers (over the period April 2008 – March 2009), who had made an enquiry, were satisfied with the overall service they received. Successful delivery of the capital investment programme is vital and the partnership framework approach that has been developed will help to optimise the Company's performance. The current strategy is to target customer service and operational performance improvement. Overall the Company's progress means that it has a strong platform from which to develop.

Our progress on our strategic objectives is monitored by the board of directors by reference to key performance indicators. Performance in 2009 against these measures is set out in the table below, together with the prior year performance data.

Key performance indicators

	2009	2008
Financial		
Revenue (£m)	£341.8	£322.6
Operating profit before restructuring credit of £0.8m (2008: restructuring charge £4.8m)	£180.7	£180.9
Profit before tax (£m)	£142.3	£191.7
RAV Gearing ⁽¹⁾	46.3%	42%
Interest cover ⁽²⁾	4 times	4.9 times
Capital expenditure on property, plant and equipment (cashflow) (£m)	£182.3	£217.3
Non-financial		
Average minutes for which customers were without supply ⁽³⁾	50.9	50.7
Customer interruptions per 100 customers ⁽⁴⁾	48.39	48.2
Overall customer satisfaction ⁽⁵⁾	82%	75.9%
Electricity supply availability	99.99%	99.99%

(1) RAV Gearing is measured as borrowings net of cash and short-term deposits divided by the allowed Regulatory Asset Value (RAV) of £1,263.3m (2007: £1,241.8m). The RAV Gearing is on a Company basis which is consistent with Ofgem's reporting requirements.

(2) 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 but including the £22.2m (2008: £22.2m) interest on swaps and debt under fair value option.

(3) The minutes of supply lost per customer is an Ofgem measure calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents and dividing by the number of connected customers as at 30 September each year. The 2009 figure is yet to be audited by Ofgem.

(4) Customer interruptions per 100 customers is a standard measure of network reliability used by Ofgem and is calculated as: (total customers affected/total customers connected to the network) x 100. The 2009 figure has not been audited by Ofgem as at the date of this report.

(5) Overall customer satisfaction in relation to the response received from an enquiry is measured by an internal overall customer experience assessment mechanism. It involves a series of interviews with customers. Sample interviews are conducted monthly.

BUSINESS REVIEW**Financial Performance****Financial review**

Revenue increased by 6.0 per cent to £341.8m (31 March 2008: £322.6m), reflecting adverse weather conditions and increased revenue on standard charges and un-metered activity. In addition non regulated income with relation to street lighting and a specific engineering project at Whitegate further increased revenues on a year on year basis. Operating profit increased by 3.1 per cent to £181.5m at 31 March 2009 (31 March 2008: £176.1m), primarily reflecting the increase in revenue. Capital investment in property, plant and equipment for the year was £182.3m (2008: £214.3m). This is within the regulatory assumptions and reflects the re-phasing of expenditure across the 2005-10 regulatory review period.

The net finance expense for the year was £39.2m compared with a net finance income of £15.6m in 2008, which included £15.0m profit on disposal of subsidiary. The 31 March 2009 position reflects adverse fair value movements specifically with regard to the index link swaps (£35.4m) and other debt and derivative financial instruments. The 31 March 2008 amount included a fair value gain of £29m on borrowings designated at fair value.

Dividends and dividend policy

In 2009, ENW's dividends recognised in the period were £69.5m (31 March 2008: £111m). This figure represents an interim payment of £30.9m in June 2008 and a further interim payment of £38.6m in December 2008. The directors do not propose a final dividend for the year ended 31 March 2009.

The Company's dividend policy is that the Company shall distribute the maximum amounts of available cash in each Financial Year at semi-annual intervals, subject to any change in such policy approved by the Board. Distributions are limited by the maximum amount permitted by applicable law in any financial year.

Liquidity and Capital Resources

The Company'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 2010 which will provide certainty for a large majority of the Company'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 financial year, pressures in the money markets and UK economy have put pressure on the availability of funding to many institutions. ENW has limited exposure to such liquidity risk, due to the long-term nature of much of the funding in place. Nonetheless, management continues to monitor liquidity closely.

Treasury policy

ENW's treasury function operates with the delegated authority of, and under policies approved by, the ENW Board. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies. Long-term borrowings are structured to match earnings or are indexed to inflation and are subject to regulatory price reviews every five years. The exposure limits with counterparties are reviewed regularly. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The principal risks which the Company 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. A derivative is a financial instrument, the value of which changes in response to some underlying variable (e.g., an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date. At present, the Company predominantly uses interest rate swaps to hedge balance sheet exposures, and no formal hedge accounting is undertaken. During the period the Company entered into an index linked swap which is described further below.

BUSINESS REVIEW**Liquidity and Capital Resources (continued)***Financial instruments entered in the year*

ENW entered into an inflation linked swap during the year, with notional principal of £170m, under which ENW pays RPI adjusted fixed interest and receives floating LIBOR. The swap has an underlying 30 year term, with a mandatory break clause in 2011. The swap was entered to hedge a proposed inflation linked bond issue, with a 30 year maturity, and provides certainty over the 'real' element of the bond coupon. This derivative does not qualify for hedge accounting and all movements in fair value are reflected in the income statement. At 31 March 2009, the fair value of this instrument was £35.4m (liability) which was due to the dislocation in the Gilt market as a result of the economic downturn.

Debt financing

The Company's borrowings net of cash and short-term deposits of £584.6m at 31 March 2009, compared with £517.6m at 31 March 2008, included bonds with long-term maturities of £611.3m at 31 March 2009, compared with £617.7m at 31 March 2008. These bonds have nominal value of £450m at 8.875 per cent that mature in 2026 and £100m of 1.4746 per cent index linked bonds maturing in 2046.

Shorter-term liquidity

Short-term liquidity requirements are met from the Company's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances. Cash and short-term deposit balances were £36.7m at 31 March 2009, compared with £100.3m at 31 March 2008. At the year end the Company had £30m (2008: £30m) of undrawn committed bank facilities with maturity dates of longer than twelve months.

Longer-term liquidity

The Company's term loans were £611.3m at 31 March 2009, compared with £617.7m at 31 March 2008. Amounts repayable after more than five years comprise bank and other loans. Fixed interest rates for amounts after more than five years are at 8.875 per cent on £498.9m (2008: £510.7m). £112.4m of index linked debt was held at 31 March 2009 (2008: £107m) at an interest rate of 1.4746% plus retail price index (RPI).

Interest rate management

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

The Company's use of derivative instruments relates directly to underlying indebtedness, including pre-hedging future bond issues; 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). ENW has no exposure to foreign currency exchange rate movements. Interest rate management and funding policies are set by the Board.

In order to hedge the interest cost implicit in the regulatory contract, ENW fixes interest rates for the duration of each five-year review period by typically swapping fixed rate debt to floating at the time of issue and then swapping back to fixed rate at the outset of each five-year regulatory contract period. IAS 39 'Financial Instruments: Recognition and Measurement' limits the use of hedge accounting, thereby increasing the potential volatility of the income statement. However, this has no cashflow impact and the effect of IAS 39 should broadly balance out over the 2005-10 period.

During the year volatility to the income statement has been experienced, in particular from the fair value movement arising on the bond held at fair value. This has led to a fair value gain of £13.6m being recognised in the income statement for this year (31 March 2008: £29.0m fair value gain). Over the life of the bond (which is repayable in 2026) this fair value movement will unwind, but as noted above these movements have no cashflow impact.

BUSINESS REVIEW***Interest rate management (continued)***

Due to the nature of the revenue streams which ENW earns being linked to inflation, management has sought to match the cost of funding the business using an inflation linked bond. 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.

Summary

The Board has reviewed the 31 March 2010 Budget, the requirements of licence condition 30 (“availability of resources”) and considers that the Company has sufficient liquidity to meet the anticipated financial and operating commitments for the next 12 months. In total at 31 March 2009, unutilised committed facilities of £30.0m, together with £36.7m of cash and short-term deposits provide substantial liquidity for the Company.

Critical Accounting Policies

The Company prepares its consolidated financial statements in accordance with accounting principles consistent 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 Interpretation Committee (‘IFRIC’). As such, the Company 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 periods presented.

On an ongoing basis, the Company 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 period in which the facts that give rise to the revision become known.

The Company’s accounting policies are detailed in the consolidated financial statements. The following paragraphs detail the policies the Company believes to have the most significant impact on the annual results under IFRS.

Carrying value of long-lived assets

The Company’s accounting policy for property, plant and equipment (‘PPE’) is detailed in the accounting policies section of the consolidated financial statements. The carrying value of PPE under IFRS as at 31 March 2009 was £2,089.1m (2008: £1,970.2m). Additions to PPE totalled £182.3m (2008 £217.3m) and the depreciation charge was £63.5m (2008 £59.4m) in the year ended 31 March 2009. 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 Company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

During the period the Directors engaged a professional valuation specialist to complete a tangible asset valuation of the fair values of PPE at 19 December 2007, the date that North West Electricity Networks Limited (NWEN) acquired ENW. The valuation was performed to determine the fair values of the assets acquired in the consolidated financial statements of NWEN as required by IFRS 3 Business Combinations. The results of the valuation supported a fair value in excess of the book value at the acquisition date, based on an assessment of discounted cashflow projections generated by the tangible asset base. In addition, management have completed a review of tangible fixed assets for impairment and no indication was identified.

BUSINESS REVIEW**Critical Accounting Policies** *(continued)***Revenue recognition**

Under IFRS, the Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue. The Company raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. The customers of the business are the electricity supply companies that utilise ENW's distribution network to distribute electricity from generators to the end consumer. The amount billed is dependent upon the volume of electricity distributed, including estimates of the units distributed to customers. The estimated usage is based on historic data, judgement and assumptions. Operating revenues are gradually adjusted to reflect actual usage in the period over which the meters are read.

Retirement benefits

The Company participates in a sectionalised defined benefit scheme, and a separate defined contribution section, which are independent of the Company's finances. Actuarial valuations of the schemes for funding purposes are carried out 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 schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Derivatives and borrowings

The Company'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. This has the potential to introduce considerable volatility to both the income statement and balance sheet. This area is considered to be of significance due to the magnitude of the Company's level of borrowings and the fair value movements which can result. The Company's accounting policies in relation to this area are detailed in note 1.

Accounting for provisions and contingencies

The Company 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 Company 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. In accordance with IFRS, 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

Research and Development

The Company undertakes research primarily to provide improved standards of service to customers, together with continuing improvements in business efficiency. Research and development within the Company's electricity network aims to deliver financial, supply quality, environmental and safety improvements to customers and is supported under the Innovation Funding Incentive introduced by Ofgem. The Company is a member of a number of collaborative research programmes including EA Technology Limited which addresses common issues that face the electricity industry. The Company also undertakes specific projects with these and other research and development providers, manufacturers and with universities. Research and development expenditure (IFI) by the Company was £1.37m in the year ended 31 March 2009 (2008: £0.9m). Costs are written off to the income statement as incurred.

BUSINESS REVIEW

Events after the Balance Sheet Date

There have been no significant events after the balance sheet date.

Cautionary Statement Regarding Forward Looking Statements

Certain statements included or incorporated by reference within the annual report may constitute 'forward looking statements'. Forward looking statements are based on expectations, forecasts and assumptions by our management and involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those stated.

This report contains certain statements with respect to the financial condition, results of operations and business of the Company. Some of these statements are not facts, including those about the Board's beliefs and expectations. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential', 'reasonably possible', 'targets' and variations of these words and similar expressions reflect inherent risks and uncertainty. Such statements are based on current plans, estimates and projections, and therefore investors should not rely on them. Further, the company undertakes no obligation to update publicly any of them in light of new information or future events and they are relevant only as at the date made. The company cautions investors that a number of important factors could cause actual results to differ materially from those anticipated or implied in any forward looking statements. These factors include: (i) the effect of, and changes in, regulation and government policy; (ii) the effects of competition and price pressures; (iii) the ability of the company to achieve cost savings and operational synergies; (iv) the ability of the company to service its future operations and capital requirements; (v) the timely development and acceptance of new products and services by the Company; (vi) the effect of technological changes; and (vii) the company's success in managing the risks of the foregoing. There may be additional risks that the Company does not currently know of, or that are deemed immaterial based on either information currently available or the Company's current assessment of the risk. The Company's business, financial condition or results of operations could be materially affected by any of these risks.

The directors of Electricity North West Limited advise that all the information supplied in the Chief Executive Officer's Statement on pages 1 and 2 and the Business Review on pages 3 to 22 form part of the directors' report as incorporated by reference. Any liability for the information is restricted to the extent prescribed in the Companies Act 1985.

CORPORATE GOVERNANCE STATEMENT

The Combined Code

Electricity North West Limited (the “Company” and “ENW”) is committed to a high level of corporate governance commensurate with its status as a public interest entity.

Combined Code

As a private company, having listed bonds and not listed equity, the Company has not been bound by the Combined Code of Corporate Governance (the “Code”) at any time during the period under review. It is, however, required by standard condition 44.12 of its licence to distribute electricity, to include a corporate governance statement in its accounts that has the coverage and content of the corporate governance statement that a quoted company is required to prepare under the Combined Code on Corporate Governance issued under the Financial Services authority’s Listing Rules and interpretations on corporate governance.

Compliance statement

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

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

Set out below and in the Business review, the Company outlines its compliance or explains its non-compliance with the provisions of the Code.

The Board

An effective board is in place, whose major role is to create value for the Company’s shareholders and provide an efficient service to stakeholders and customers. In order to achieve this the Board meets to provide entrepreneurial leadership, set strategic objectives and ensure that appropriate financial and human resources are made available to enable the Company to meet those objectives.

In the period under review, the Company has operated in accordance with the policies and procedures of the Board of North West Electricity Networks (Jersey) Limited (“NWEN(J)” and “the Group”), the Company’s ultimate holding company, (the “Parent Board”).

The Company has identified a number of key areas that are subject to regular reporting to the Board and this is one of the ways that the performance of management is reviewed and monitored. A schedule of decisions reserved for the Board is currently being updated.

The names of the persons who are or have been directors of the Company during the period under review are listed in the Directors’ Report along with the statement of directors’ responsibilities.

For the majority of the period under review, the Board of the Company comprised six executive directors and one non-executive director. The non-executive director, M J Boxall, is not considered independent according to the provisions laid out in A.3.1 of the Combined Code, due to his past employment with the Company, but is considered to challenge the Board constructively and to provide assistance in developing strategic policies. The Board is currently recruiting a second non-executive director to join the Board who would fulfil the requirements of independence as set out in the Code. This will enable the Company to establish an audit committee in compliance with the requirements of section 7.1 of the Disclosure and Transparency Rules of the FSA but will not enable the Company to be compliant with the provisions of A.3.2 in relation to the number of independent non-executive directors required to be on the board of a smaller company.

CORPORATE GOVERNANCE STATEMENT**The Board** (continued)

Since 1 April 2008, the Board has met twelve times in the year with 9 unscheduled supplementary meetings. Attendance by individual directors at meetings of the Board during the year ended 31 March 2009 was as follows:

	Scheduled/Unscheduled Board Meetings during appointment	Scheduled Board Meeting attendance	Unscheduled Board Meeting attendance
Bircham, P R	12/9	11	8
Boxall, M J	12/9	12	2
Cooke, E J (resigned 31/5/2008)	2/2	2	1
Johnson, S (appointed 8/9/2008)	7/3	7	3
Hughes, M A (appointed 25/4/2008 and resigned 10/10/2008)	5/6	5	1
Kay, M J	12/9	12	3
McCallion, M G	12/9	10	8
Taylor, P R	12/9	11	9
Sugden, M G	12/9	12	8

As there are no formal audit, nomination or remuneration committees at ENW level, as further discussed below, we have not presented the number of meetings and attendances as required by the Code.

The Board has ensured that an appropriate level of directors' and officers' insurance is in place for directors of the Company.

Board management

The post of chairman has not been formally appointed and a clear division of responsibilities has therefore, not been established as required by A.2 of the code. Since the date of his appointment, Steve Johnson, as Chief Executive Officer, has chaired the Company's Board meetings, when present, during the period under review. Prior to this date, the previous Chief Executive Officers, Mike Hughes and Eoin Cooke, chaired the Company's Board meetings when present. There is a clear division of responsibilities for each executive director, however, and no one director has unfettered powers of decision. In addition, as mentioned previously, the Board operates in accordance with the policies and procedures of the Parent Board (in common with most private companies).

As discussed above, the Code would require the Company to have at least two independent non-executive directors on its Board. The Company considers, however, that despite not complying with the provisions of Section A.3 of the Code, its composition gives the Company an effective balance of skills and experience that are appropriate for ensuring the success of the business.

All directors receive comprehensive information on a regular basis. Board papers are distributed via the company secretary's office sufficiently well in advance of the relevant meeting to allow time for directors to be fully briefed. The papers are detailed enough to enable the directors to obtain a thorough understanding of the management and financial performance of the Company and its business. During the period under review, the minutes of Board meetings and of any committee meetings were circulated to all Board members as soon as practicable. The company secretary assists with professional development when required and advises on governance matters. All directors have access to the advice and services of the company secretary in addition to independent professional advice at the Company's expense where necessary to fulfil their responsibilities as directors. Directors do not currently receive a formal induction on joining the Board.

Directors are aware of their right to ensure that any concerns they have, about the running of the Company or a proposed action, which cannot be resolved, are recorded in the Board minutes.

Where the directors are non-executive directors on the board of other companies, they are not considered to be significant commitments in either time or remuneration.

CORPORATE GOVERNANCE STATEMENT

Board committees

In May 2008, the parent board appointed a remuneration and risk committee and an audit and treasury committee. Details of their responsibilities are listed below.

Remuneration and Risk committee

The remuneration and risk committee has responsibility to ensure that all commercial, health & safety and regulatory risk issues are fully understood, analysed, reported and effectively managed. The committee is also responsible for ensuring that the Group's policies and practices relating to the insurance of risks are prudent and compliant with the Group's banking facilities together with providing oversight of the impact of and compliance with externally imposed regulatory rules on the operations of the business. Subsequent to 31 March 2009, evaluation of risk has transferred to the audit and treasury committee in order to strengthen this area and better utilise committee skills and expertise.

The committee has responsibility to make recommendations to the Board on the policy and framework for the remuneration of the directors, approve employment related benefits for other Group employees and implement employees bonus and long term incentive plans.

Levels of remuneration are reviewed in order to attract, retain and motivate directors of sufficient quality to deliver the objectives of the Group. Performance-related elements of remuneration have formed a significant portion of the total remuneration package of executive directors in the period under review and these are linked to both corporate and individual performance objectives. The directors' service contracts are designed to reward good performance and the notice periods are set at one year or less.

Remuneration for non-executive directors reflects the time and responsibilities of the role.

The remuneration committee has responsibility for setting remuneration for all the Company's directors and senior management as appropriate. None of the Company's Board members are members of the remuneration committee.

The board use external consultants to provide benchmark data for the base salary, bonus and other benefits of directors. These are reviewed annually and pension benefits are considered when reviewing the overall compensation package and there is no commitment to increase year on year.

The board has applied the principles of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces.

Audit and Treasury committee

The audit and treasury committee of the Parent Board consists of members who have recent and relevant financial experience; however this is not considered a formal audit committee of ENW and the committee members cannot be considered independent non-executive directors in accordance with the code. Therefore, the Company does not strictly comply with C.3.1. The committee monitors the integrity of the Group's financial statements and the effectiveness of the external audit process together with providing recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditors. The committee continually assesses the external auditors independence and the level of non-audit services provided to the Company. The committee regularly reviews the systems of internal control and the effectiveness of the internal audit function. The internal control function is discussed in more detail below.

The code requires independent non-executive directors to be members of the committees but as the membership of each committee is drawn from the membership of the Parent Board and no member of either committee has either an executive or non-executive position with the Company, the composition of the committees is considered by the Board to be effective and objective.

As mentioned above, ENW is establishing a separate audit committee in compliance with the requirements of section 7.1 of the Disclosure and Transparency Rules of the FSA which will perform the above duties for future years, therefore the Company is currently not compliant with the provisions of C.3.1

Nomination committee

There is no nomination committee in place at the current time therefore the provisions laid out in A.4.1 are not complied with. The Company, however, is committed to following a rigorous and transparent procedure for the appointment of new directors. The most recent appointment, Carol Thompson, was made using an external search consultancy.

CORPORATE GOVERNANCE STATEMENT

Nomination committee (continued)

Directors are not subject to periodic retirement and re-election although, in the absence of a specific decision by the Board to the contrary, an executive directorship would cease with the cessation of the director's employment contract with the Company.

Performance evaluation

Neither the Board nor the committees of the Parent Board have carried out an evaluation of their own performance during the period under review. They are each committed to carrying out a formal appraisal and evaluation of their performance in 2009/10.

Internal control

Each year management review all controls including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the Company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The board is responsible for the Group's system of internal control and for reviewing its effectiveness.

The key features of the internal control system are:

- a control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;
- comprehensive business planning, risk assessment and financial reporting procedures; including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- The Board review financial and non-financial performance on a monthly basis to assess progress towards objectives;
- regular monitoring of risks and control systems throughout the year, supported by a risks and issues central recording mechanism;
- an annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment;
- health and safety performance reviews carried out by safety professionals in addition to the normal health and safety risk assessment and management processes carried out internally within the business;
- centralised treasury function operating within defined limits and subject to regular reporting requirements and periodic external and internal audit reviews;
- established procedures, set out in an internal control manual, for planning, approving and monitoring major capital expenditure, major projects which includes short and long-term:
 - project budget, risk evaluation, detailed appraisal and review procedures; and
 - defined authority levels and post-investment performance reviews.
- formal briefings are provided annually to staff on the contents and requirements of the internal control manual, as well as updates being communicated to staff during the year as they arise.

In addition to the above, the Company has the right under the Asset Services Agreement ("ASA") to undertake financial, process and quality audits of United Utilities Electricity Services Limited ("UUES") and its application of its internal control systems. An approved audit plan is in place in respect of the ASA, aligned to the specific identified risks.

In compliance with the Code, the board regularly reviews the effectiveness of the Company's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses identified are promptly remedied or managed by more extensive monitoring. The board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The audit and treasury committee assisted the board in discharging its review responsibilities.

CORPORATE GOVERNANCE STATEMENT

Financial Reporting

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

Directors' responsibility in relation to accounts preparation and their statement in relation to information given to auditors is given in the directors' report page 27.

Going Concern

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

Dialogue with shareholders

As a private company, the holding company of which has just two major shareholders, ENW does not hold an AGM. The Parent Board has oversight of the Company's activities and comprises a membership taken exclusively and proportionately from the Company's shareholders and therefore the Company's relationship with the shareholders is a strong one.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Electricity North West Limited (the 'Company') for the year ended 31 March 2009.

Profit and dividends

The results for the year set out in the income statement on page 33, show that revenue for the year ended 31 March 2009 increased to £341.8m (2008: £322.6m), an increase of 6.0% per cent over the previous year. Profit for the year after tax was £95.2m (2008: £173.1m).

In 2009, dividends recognised in the period were £69.5m (31 March 2008: £111.0m). This figure represents an interim payment of £30.9m in June 2008 and a final payment of £38.6m in December 2008. The directors do not propose a final dividend for the year ended 31 March 2009 (2008: same).

Business review and principal activities

The chief executive officer's statement on pages 1 and 2 and the business review on pages 3 to 22 report on the Company's activities during the year and on likely future developments. A summary of key performance indicators can be found in the business review. The directors, in preparing the business review, have not sought to comply with the ASB's 2006 Reporting Statement on operating and financial reviews. All the information supplied in the chief executive officer's statement and the Business Review form part of the directors' report as incorporated by reference. Any liability is restricted to the extent prescribed in the Companies Act 1985.

Principal risks and uncertainties

Principal risks and uncertainties are discussed as part of the business review.

Research and development

The Company 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. It seeks to take as part of this process maximum advantage of wide-ranging expertise, abilities and facilities within the Company.

Employees

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

The Company is committed to improving its employees' skills through training and development and nurturing a culture in which employees feel valued. The Company 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 Company also challenges prejudice and stereotyping.

The Company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, the Company 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. Additionally, the Company is committed to providing full support and appropriate training for employees who become disabled during the course of their employment, so they can continue to work in a position appropriate to their experience and abilities.

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 Company 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 UUES for capital and operating services provided under the ASA contract. The credit period with UUES is 10 days from receipt of invoice.

DIRECTORS' REPORT

Directors

The directors of the Company during the year ended 31 March 2009 are set out below. All were directors for the whole year except where otherwise indicated.

P R Bircham
M J Boxall
E J Cooke (resigned 31/5/2008)
S Johnson (appointed 8/9/2008)
M A Hughes (appointed 25/4/2008 and resigned 10/10/2008)
M J Kay
M G McCallion
P R Taylor
M G Sugden
C Thompson (appointed 24/4/2009)

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 Company's business.

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.

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:

- The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- As part of a review of licensees' financing requirements, on 15 January 2009 Ofgem issued an information request to all DNOs under standard licence condition 6 relating to the financial resources each DNO has available in the 24 months ending 31 December 2009. After making enquiries and taking account of several factors, the directors approved the submission to Ofgem of a certificate confirming their reasonable expectation that the Company has, or will have available to it, sufficient financial resources and/or financial facilities to enable the Company to carry on its regulated business for a period of two years since the date of the last statutory accounts;
- 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;
- The Company has considerable financial resources. Short-term liquidity requirements are met from the Company's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances. Longer-term liquidity is provided by the Company's term loans, made available by HSBC, and committed undrawn bank facilities from HSBC, Commonwealth Bank of Australia and Mizuho, with maturity dates of longer than twelve months.
- The Company is 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 to meet its operational and financial commitments for the foreseeable future;
- The Company expects to raise further finance as required. The directors do not consider there to be any doubt over the Company's ability to raise such finance, given the investment grade issuer ratings held by the Company and due to the fact that the Company operates within a stable and traditionally low risk industry. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. In addition, there are no consequences of being unable to refinance given the existing facilities all extend beyond 12 months; and
- The Board have given detailed consideration to the principal risks and uncertainties affecting the Company, as referred to in the business review, and all other factors which could impact on Company's ability to remain a going concern.

DIRECTORS' REPORT

Going Concern (*continued*)

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- 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 proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Information given to 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.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Independent auditor

On 1 December 2008 Deloitte & Touche LLP changed their name to Deloitte LLP. Deloitte LLP have expressed their willingness to continue in office as auditors of the company.

In accordance with section 384 of the Companies Act 1985, Deloitte LLP are deemed to be re-appointed as auditors of the Company.

DIRECTORS' REPORT

Registered address

Electricity North West Ltd
Dalton House
104 Dalton Avenue
Birchwood Park
Warrington
WA3 6YF

Registered number: 2366949

By order of the board

A handwritten signature in black ink, appearing to read 'S. Johnson', written over a horizontal line.

S. Johnson

Director

28 May 2009

INDEPENDENT AUDITORS' REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ('THE REGULATOR') AND ELECTRICITY NORTH WEST LIMITED ('THE COMPANY')

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2009 on pages 33 to 68 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement, and the related notes numbered 1 to 29. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 (formerly Standard condition 44) of the Electricity Distribution Licence, (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence and the accounting policies set out in the notes to the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not necessarily been prepared under the basis of International Financial Reporting Standards adopted for use in the European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition 44 of the Regulatory Licence are set out in the statement of directors' responsibilities on page 29.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 *'Reporting to Regulators of Regulated Entities'*.

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 37 to 44, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the Chief Executive Officer's statement, business review, the directors' report, the corporate governance statement, and the statement of directors' responsibilities on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

Basis of opinion

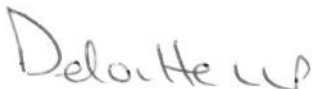
We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under United Kingdom Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory Accounts of the Company on which we reported on 4 June 2009, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Audit opinion

In our opinion, the Regulatory Accounts present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 37 to 44 the financial position of the Company as at 31 March 2009 and of its financial performance and cashflows for the year then ended, and have been properly prepared in accordance with Standard Condition 44 and the Company's accounting policies.



Deloitte LLP

Chartered Accountants and Registered Auditors

Manchester, United Kingdom

4 June 2009

INCOME STATEMENT
For the year ended 31 March 2009

	<i>Note</i>	2009 £m	2008 £m
Revenue	2	341.8	322.6
Employee benefits expense	4	(6.4)	(19.3)
Depreciation and amortisation expense		(56.1)	(53.3)
Other operating costs		(98.6)	(69.1)
Restructuring costs	3	0.8	(4.8)
Total operating expenses		(160.3)	(146.5)
Operating profit	3	181.5	176.1
Investment income	5	1.0	31.5
Finance expense	6	(40.2)	(15.9)
Net investment income and finance expense		(39.2)	15.6
Profit before taxation		142.3	191.7
Taxation	7	(47.1)	(18.6)
Profit for the year		95.2	173.1

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

BALANCE SHEET
At 31 March 2009

	<i>Note</i>	2009 £m	2008 £m
ASSETS			
Non-current assets			
Intangible assets	<i>10</i>	19.2	20.6
Property, plant and equipment	<i>11</i>	2,089.1	1,970.2
Retirement benefit surplus	<i>18</i>	-	45.1
		<u>2,108.3</u>	<u>2,035.9</u>
Current assets			
Trade and other receivables	<i>13</i>	44.0	33.9
Cash and cash equivalents	<i>14</i>	36.7	100.3
Derivative financial instruments	<i>16</i>	43.2	5.1
		<u>123.9</u>	<u>139.3</u>
Total assets		<u>2,232.2</u>	<u>2,175.2</u>
LIABILITIES			
Current liabilities			
Borrowings	<i>15</i>	(10.0)	(0.2)
Trade and other payables	<i>17</i>	(106.0)	(94.8)
Derivative financial instruments	<i>16</i>	(45.1)	(0.5)
Current income tax liabilities		(3.3)	(24.7)
		<u>(164.4)</u>	<u>(120.2)</u>
Net current (liabilities)/assets		<u>(40.5)</u>	<u>19.1</u>
Non-current liabilities			
Borrowings	<i>15</i>	(611.3)	(617.7)
Deferred tax	<i>19</i>	(289.7)	(304.8)
Provisions	<i>20</i>	-	(2.0)
Consumer contributions	<i>21</i>	(397.4)	(362.6)
Refundable customer deposits	<i>22</i>	(8.2)	(10.1)
Retirement benefit obligations	<i>18</i>	(27.5)	
		<u>(1,334.1)</u>	<u>(1,297.2)</u>
Total liabilities		<u>(1,498.5)</u>	<u>1,417.4</u>
Total net assets		<u>733.7</u>	<u>757.8</u>
EQUITY			
Called up share capital	<i>23</i>	238.4	238.4
Share premium account	<i>24</i>	4.4	4.4
Revaluation reserve	<i>24</i>	116.4	117.8
Capital redemption reserve	<i>24</i>	8.6	8.6
Retained earnings	<i>24</i>	365.9	388.6
Total equity		<u>733.7</u>	<u>757.8</u>

Approved by the board of directors on 28 May 2009 and signed on its behalf by:

M Sugden
Director



STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 31 March 2009

	<i>Note</i>	2009 £m	2008 £m
Fair value loss on cash flow hedges	<i>16</i>	-	(2.0)
Actuarial (losses)/gains on defined benefit pension schemes	<i>18</i>	(73.5)	23.4
Tax on items taken directly to equity	<i>19</i>	23.7	(8.0)
		<hr/>	<hr/>
Net income recognised directly in equity		(49.8)	13.4
Profit for the year		95.2	173.1
		<hr/>	<hr/>
Total recognised income and expense for the year		45.4	186.5
		<hr/> <hr/>	<hr/> <hr/>

CASHFLOW STATEMENT
For the year ended 31 March 2009

	<i>Note</i>	2009 £m	2008 £m
Operating activities			
Cash generated from operations	29	217.4	225.0
Interest paid		(35.5)	(43.1)
Tax paid		(39.1)	(55.6)
		<hr/>	<hr/>
Net cash generated from operating activities		142.8	126.3
Investing activities			
Interest received and similar income		3.5	20.9
Disposal of subsidiaries	27	-	45.0
Purchase of property, plant and equipment		(176.8)	(217.3)
(Purchase)/ disposal of other intangible assets		(1.9)	0.5
Consumer contributions received		32.6	90.7
Proceeds from sale of property, plant and equipment		0.3	16.8
Acquisition of subsidiary	27	-	(30.0)
		<hr/>	<hr/>
Net cash used in investing activities		(142.3)	(73.4)
Financing activities			
Proceeds from borrowings		10.0	1.5
Repayment of borrowings		(4.4)	(94.4)
Dividends paid to equity holders of the company		(69.5)	(111.0)
		<hr/>	<hr/>
Net cash used in financing activities		(63.9)	(203.9)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(63.4)	(151.0)
		<hr/>	<hr/>
Net cash and cash equivalents at beginning of the year		100.1	251.1
		<hr/>	<hr/>
Net cash and cash equivalents at end of the year	<i>14</i>	36.7	100.1
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

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 period. 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 financial statements, the directors have taken into account a number of factors, including the following:

- The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- As part of a review of licensees' financing requirements, on 15 January 2009 Ofgem issued an information request to all DNOs under standard licence condition 6 relating to the financial resources each DNO has available in the 24 months ending 31 December 2009. After making enquiries and taking account of several factors, the directors approved the submission to Ofgem of a certificate confirming their reasonable expectation that the Company has, or will have available to it, sufficient financial resources and/or financial facilities to enable the Company to carry on its regulated business for a period of two years since the date of the last statutory accounts;
- 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;
- The Company has considerable financial resources. Short-term liquidity requirements are met from the Company's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances. Longer-term liquidity is provided by the Company's term loans, made available by HSBC, and committed undrawn bank facilities from HSBC, Commonwealth Bank of Australia and Mizuho, with maturity dates of longer than twelve months.
- The Company is 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 to meet its operational and financial commitments for the foreseeable future;
- The Company expects to raise further finance as required. The directors do not consider there to be any doubt over the Company's ability to raise such finance, given the investment grade issuer ratings held by the Company and due to the fact that the Company operates within a stable and traditionally low risk industry. As a consequence, the directors believe that the Company is well placed to manage its business risks despite the current uncertain economic outlook. There are no consequences of being unable to refinance given the existing facilities all extend beyond 12 months; and
- The Board have given detailed consideration to the principal risks and uncertainties affecting the Company, as referred to in the business review, and all other factors which could impact on Company's ability to remain a going concern.

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

1. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

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

Amortisation periods for categories of intangible assets are:

Computer software 3-10 years

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 Company 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 Company 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.

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 Company 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.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009**1. ACCOUNTING POLICIES (CONTINUED)****Impairment of tangible and intangible assets (continued)**

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

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 period.

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 Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period 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 period. 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 Company derecognises financial liabilities when, and only when, the Company'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 period 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.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

1. ACCOUNTING POLICIES (CONTINUED)

Derivatives and borrowings

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

The Company applies the fair value through profit or loss option as no hedge accounting is currently undertaken. This area is considered to be of significance due to the magnitude of the Company's level of borrowings.

Derivative financial instruments and hedge accounting

Interest rate swap agreements are used to manage interest rate exposure. The Company 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 are recognised in the income statement within finance expense as they arise; the Company does not currently designate derivatives into hedging relationships and apply hedge accounting.

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

Hedge accounting

There are two types of hedge accounting strategies that the Company undertakes and these are summarised below:

Fair value hedge

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. To the extent there is an effective hedging relationship, the associated hedged items are stated at fair value in respect of hedged risk, with any gain or loss also recognised in the income statement. As a result these two items offset each other and reduce profit volatility.

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.

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

The Company applies this designation where the complexity of the swaps means that they are disallowed from being allocated in a hedge relationship despite there being significant fair value offset between the hedged item and the derivative itself. The otherwise inconsistent accounting treatment that would have resulted allows the Company to satisfy the criteria for this designation. The treatment of financial assets and liabilities designated at fair value through the income statement is consistent with the Company's documented risk management strategy.

Operating profit

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009**1. ACCOUNTING POLICIES (CONTINUED)****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 period 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 Company 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 periods 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 profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

Employee benefits**Retirement benefit obligations**

The Company previously participated in two defined benefit schemes, operated by United Utilities PLC. Under the terms of the separation of Electricity North West Limited and United Utilities Electricity Services Limited, and the subsequent acquisition of Electricity North West Limited by North West Electricity Networks Limited, a new division of the Electricity Supply Pension scheme (ESPS) was established.

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 Company 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 ENW and members of the UUES section will TUPE back at the same time under Employment Law. As a result the Company 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 actuarial valuations will be carried out thereafter at intervals of not more than three years. The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 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.

**NOTES TO THE ACCOUNTS
For the year ended 31 March 2009****1. ACCOUNTING POLICIES (CONTINUED)****Retirement benefit obligations (continued)**

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.

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

'IFRIC14: The limit on a defined benefit asset, minimum funding requirements and their interaction' was published by the interpretations committee of the International Accounting Standards Board in July 2007 and was adopted during the year ended 31 March 2008. IFRIC14 provides guidance on the extent to which a pension scheme surplus should be recognized as an asset and may also require additional liabilities to be recognized 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.

Provisions

Provisions are recognised when the Company 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.

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 Company 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 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 otherwise credited to customer contributions.

Leases

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

**NOTES TO THE ACCOUNTS
For the year ended 31 March 2009****1. ACCOUNTING POLICIES (CONTINUED)****Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the Company's accounting policies, the Company 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 periods presented.

On an ongoing basis, the Company 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 period in which the facts that give rise to the revision become known.

The following paragraphs detail the policies the Company 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 2009 was £2,086.1 million (2008: £1,967.2 million). Additions to PPE totalled £182.3 million (2008: £217.3 million) and the depreciation charge was £63.5 million in the year ended 31 March 2009 (2008: £61.9 million). 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 Company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

Revenue recognition

The Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue.

The primary 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. Significant revenue is also derived from new connections activities.

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 Company 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 Company 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.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2009

Critical accounting judgements and key sources of estimation uncertainty (continued)

Retirement benefits

The Company 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 ENW and members of the UUES section will TUPE back at the same time. As a result the Company has accounted for the two relevant 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.

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 Company's financial statements. The directors anticipate that the Company 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'

IFRS 8; 'Operating Segments'

IAS 23; 'Amendment – Borrowing Costs'

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

IFRIC 18; 'Transfers of Assets from Customers'

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

IFRIC 13; 'Customer loyalty Programmes'

2. REVENUE

	2009	2008
	£m	£m
Revenue	341.8	322.6

Revenue predominantly arises from the principal activity of electricity distribution and associated activities.

The geographical origin and destination of turnover is all within the United Kingdom.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

3. OPERATING PROFIT

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

	2009	2008
	£m	£m
Employee benefits expense		
Employee costs (see note 4)	6.4	6.0
Depreciation and amortisation expense		
Depreciation of property, plant and equipment		
Owned assets (see note 11)	63.5	59.4
Amortisation of intangible assets and contributions		
Software (see note 10)	3.3	3.1
Consumer contributions (see note 21)	(10.7)	(9.2)
Other income		
(profit)/loss on disposal of property, plant and equipment	(0.3)	2.3
Profit on disposal of investment property		-
Other operating costs include:		
Research and development	1.4	0.9
Operating leases:		
- land and buildings	0.8	0.9
- hire of plant and machinery	1.7	1.4
Restructuring (credit)/charge	(0.8)	4.8

The restructuring credit in the year to 31 March 2009 relates to the difference between the IAS 19 past service cost and the pension cash funding amount as provided in the prior year for Electricity North West Limited's share of the costs of a voluntary redundancy programme implemented by its sub-contractor United Utilities Electricity Services Limited. The credit of £0.8m (2008: £4.8m charge) comprises £0.3m severance costs (2008: £1.8m), £nil early retirement deficit contributions (2008: £3.0m) and £1.1m pension credit in respect of IAS 19 past service costs (2008: £nil).

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

	2009	2008
	£m	£m
Audit services		
Statutory audit of the Company's annual accounts	0.1	0.1
Audit related regulatory reporting for the Company	-	-
Total audit fees	0.1	0.1
Other services		
- Tax services	0.5	0.1
- Corporate finance services	0.1	-
Total other services	0.7	0.2

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

4. DIRECTORS AND EMPLOYEES

Directors' remuneration

	2009	2008
	£m	£m
Salaries	0.9	0.5
Bonus	0.3	1.0
	<u>1.2</u>	<u>1.5</u>

Employee costs

	2009	2008
	£m	£m
Wages and salaries	5.6	4.5
Social security costs	0.5	0.5
Pension costs (see note 18)	8.5	8.4
	<u>14.6</u>	<u>13.4</u>
Capital schemes and charges against provisions	<u>(8.2)</u>	<u>(7.4)</u>
Charged to the income statement	<u>6.4</u>	<u>6.0</u>

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

	2009	2008
	Number	Number
Electricity distribution	<u>83</u>	<u>66</u>

The total expense included within operating profit in respect of share-based payments was £nil (2007: £nil).

5. INVESTMENT INCOME

	2009	2009	2008	2008
	£m	£m	£m	£m
Interest receivable on short term bank deposits held at amortised cost		3.3		11.1
Profit on disposal of subsidiary (see note 27)		-		15.0
Expected return on pension scheme assets (see note 18)	47.7		49.2	
Interest cost on pension scheme obligations (see note 18)	(50.0)		(43.8)	
Net pension interest (expense)/income		<u>(2.3)</u>		<u>5.4</u>
		<u>1.0</u>		<u>31.5</u>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

6. FINANCE EXPENSE

	2009	2009	2008	2008
	£m	£m	£m	£m
Interest payable				
Interest payable on bank borrowings	0.2		0.3	
Interest payable on bank borrowings in a cash flow hedging relationship	-		3.9	
Interest payable on borrowings held at amortised cost	21.1		19.5	
Interest payable on bank borrowings at fair value	22.2		22.2	
Other finance charges related to index linked bonds	5.4		3.9	
	<u> </u>	48.9	<u> </u>	49.8
Fair value (gains)/losses on financial instruments				
Derivatives designated at fair value through profit and loss	4.9		(4.9)	
Borrowings designated at fair value through profit and loss	(13.6)		(29.0)	
	<u> </u>	(8.7)	<u> </u>	(33.9)
Net finance expense		<u>40.2</u>		<u>15.9</u>

In respect of the total movement in the fair value of financial liabilities designated as at fair value through profit or loss of £8.7m gain (2008:£33.9m gain), £44.3m (2008:£27.5m) of the gain is attributable to changes in credit risk which is partially offset by changes in interest rates.

7. TAXATION

	2009	2008
	£m	£m
Current tax:		
UK corporation tax	38.5	46.8
Deferred tax (note 21):		
Current year	0.3	(14.1)
Impact from withdrawal of IBA allowances	8.5	-
Prior year	(0.2)	(14.1)
	<u>47.1</u>	<u>18.6</u>

Corporation tax is calculated at 28 per cent (2008: 30 per cent) of the estimated assessable profit for the year. The change in the applicable tax rate from 30% to 28% reflects the reduction in UK Corporation Tax enacted in the Finance Act 2008.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2009

7. TAXATION (continued)

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

	2009	2009	2008	2008
	£m	%	£m	%
Profit before tax	142.3		191.7	
Tax at the UK corporation tax rate of 28% (2008: 30%)	39.8	28.0	57.5	30.0
Prior years' tax adjustments	(0.2)	(0.2)	(14.1)	(7.5)
Impact from change in future tax rates	-	-	(21.7)	(11.5)
Impact from withdrawal of IBA allowances	8.5	6.0		
Non-taxable income	(1.0)	(0.7)	(3.1)	(1.6)
	47.1	33.1	18.6	9.4

In addition to the amount charged to the income statement, deferred tax relating to actuarial gains on defined benefit schemes of £23.7m credit (2008: £8.6m charge) and adjustments under IAS 32 and 39 of £nil (2008: £0.6m credit) were also taken to the statement of recognised income and expense.

8. DIVIDENDS

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

	2009	2008
	£m	£m
Final dividend for the year ended 31 March 2008 of nil per share (year ended 31 March 2007: 21.0p per share)	-	100.0
Interim dividends paid during the year ended 31 March 2009 of 14.6p per share (year ended 31 March 2008: 2.3p per share)	69.5	11.0
	69.5	111.0

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, have not been included as a liability in the financial statements at 31 March 2009 and 31 March 2008 respectively.

9. DIRECTORS AND THEIR INTERESTS

The aggregate emoluments of the directors in 2009 amounted to £1,180,563 (2008: £1,461,298). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (S Johnson) in 2009 in respect of services to the Company amounted to £234,653 (2008: E Cooke £562,413).

M Kay, M Sugden and P Bircham are members of, and contribute to, the Electricity Supply Pension Scheme, a defined benefit scheme which provides on normal retirement at the age of 60 a pension equal to 1/80th of pensionable earnings for each completed year of service (plus 3/80th cash). Early retirement is possible from the age of 50 if the Company agrees.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

9. DIRECTORS AND THEIR INTERESTS (*continued*)

E Cooke, M McCallion and P Taylor are former members of the United Utilities Pension Scheme and are members of, and contributed to, the ENW Electricity Supply Pension Scheme (“ENW ESPS”) scheme, a section of the defined benefit scheme which provides an entitlement on normal retirement of age 60 (or age 65 for some people) equal to between 1/30th and 1/60th of pensionable earnings for each completed year of service. Early retirement is possible from the age of 50 if the Company agrees.

The earnings cap previously applying to directors under the Finance Act 1989 was removed as part of the “A-day” changes introduced by the Company as at 6 April 2006.

The pension contributions for the highest paid director for 31 March 2009 (S Johnson) were £18,383 (2008: E Cooke £54,416). S Johnson is a member of the company defined contribution scheme. The accrued pension at 31 March 2009 for the highest paid director (S Johnson) was £nil (2008: E Cooke £48,614).

As at 31 March 2009 the directors have no interests in the ordinary shares of Electricity North West Limited.

10. INTANGIBLE ASSETS

	Software	Assets in	Total
	£m	course of	£m
		construction	
		£m	
Cost			
At 1 April 2007	33.5	0.9	34.4
Transfers	0.6	(0.6)	-
Disposals	(0.5)	-	(0.5)
	<hr/>	<hr/>	<hr/>
At 31 March 2008	33.6	0.3	33.9
	<hr/>	<hr/>	<hr/>
Additions	-	1.9	1.9
Transfers	0.9	(0.9)	-
	<hr/>	<hr/>	<hr/>
At 31 March 2009	34.5	1.3	35.8
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amortisation			
At 1 April 2007	10.2	-	10.2
Charge for the year	3.1	-	3.1
Disposals			
	<hr/>	<hr/>	<hr/>
At 31 March 2008	13.3	-	13.3
Charge for the year	3.3	-	3.3
	<hr/>	<hr/>	<hr/>
At 31 March 2009	16.6	-	16.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 31 March 2009	17.9	1.3	19.2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2008	20.3	0.3	20.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At 31 March 2009, the company had entered into contractual commitments for the acquisition of other intangibles amounting to £nil (2008: £0.1m).

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

11. PROPERTY, PLANT AND EQUIPMENT

	Operational structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets in course of construction £m	Total £m
Cost or valuation					
At 1 April 2007	2,432.3	23.4	53.3	140.4	2,649.4
Additions	171.1	0.2	0.7	45.3	217.3
Transfers	13.3	0.1	(13.4)	-	-
Disposals	(7.1)	(11.2)	(31.4)	(3.0)	(52.7)
At 31 March 2008	<u>2,609.6</u>	<u>12.5</u>	<u>9.2</u>	<u>182.7</u>	<u>2,814.0</u>
Additions	87.1	0.2	1.5	93.5	182.3
Transfers	83.6	(0.2)	2.4	(85.8)	-
Disposals	(9.2)	(1.3)	(1.4)	-	(11.9)
At 31 March 2009	<u>2,771.1</u>	<u>11.2</u>	<u>11.7</u>	<u>190.4</u>	<u>2,984.4</u>
Depreciation and impairment					
At 1 April 2007	772.5	4.0	41.3	-	817.8
Charge for the year	57.6	0.9	0.9	-	59.4
Transfers	9.5	1.4	(10.9)	-	-
Disposals	(6.9)	(2.4)	(24.1)	-	(33.4)
At 31 March 2008	<u>832.7</u>	<u>3.9</u>	<u>7.2</u>	<u>-</u>	<u>843.8</u>
Charge for the year	61.7	0.9	0.9	-	63.5
Disposals	(9.3)	(1.3)	(1.4)	-	(12.0)
At 31 March 2009	<u>885.1</u>	<u>3.5</u>	<u>6.7</u>	<u>-</u>	<u>895.3</u>
Net book value at					
31 March 2009	<u>1,886.0</u>	<u>7.7</u>	<u>5.0</u>	<u>190.4</u>	<u>2,089.1</u>
31 March 2008	<u>1,776.9</u>	<u>8.6</u>	<u>2.0</u>	<u>182.7</u>	<u>1,970.2</u>

At 31 March 2009, had the property, plant and equipment of the Group has been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been approximately £1,924.5m (2008: £1,800.0m).

The revaluation surplus is disclosed in note 24 net of deferred tax. The revaluation surplus arose following a directors' revaluation of operational assets and non operational land and buildings in 1997.

At 31 March 2009, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £47.5m (2008: £35.2m).

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

12. OTHER INVESTMENTS

Cost	£m
At 31 March 2007, 2008 and 2009	-

Details of the other investments at 31 March 2009 are as follows:

Subsidiary undertaking	Description of holding	Proportion held	Nature of business
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	Description of holding	Proportion held	Nature of business
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	Description of holding	Proportion held	Nature of business
Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant

13. TRADE AND OTHER RECEIVABLES

	2009	2008
	£m	£m
Trade receivables	1.6	1.4
Prepayments and accrued income	42.4	32.5
	44.0	33.9

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.6m (2008: £nil) 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 (2008: 14.0 days).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The majority of balances are less than 45 days past due; a balance of £882,000 is greater than 45 days past due at 31 March 2009 (2008: £30,000), against which an allowance for doubtful debt of £596,000 (2008: £nil) has been made.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

13. TRADE AND OTHER RECEIVABLES *(continued)*

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

	Group	Company	Group	Company
	2009	2009	2008	2008
	£m	£m	£m	£m
Balance at beginning of year	-	-	0.8	0.8
Charged to profit and loss account	0.6	0.6	-	-
Disposal of subsidiaries	-	-	(0.8)	(0.8)
Utilised	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at end of year	0.6	0.6	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Trade receivables comprise 30 (2008: 28) individual customers and 56% (2008: 41%) 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 £2.9m (2008: £2.8m) 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 £1,263m for the year ended 31 March 2009 (2008: £1,242m).

At the year end £70.4m (2008: £64.6m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £9.5m (2008: £8.7m). 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, 17.2% (2008: 0%) are past due but not impaired.

14. CASH AND CASH EQUIVALENTS NET OF BANK OVERDRAFTS

	2009	2008
	£m	£m
Short term bank deposits	36.7	100.3
	<hr/>	<hr/>
Bank overdrafts (note 15)	-	(0.2)
	<hr/>	<hr/>
	36.7	100.1
	<hr/> <hr/>	<hr/> <hr/>

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, net of bank overdrafts which are payable on demand.

The effective interest rate on short term deposits was 4.05% (2008: 5.81%) and these deposits had an average maturity of 8.2 days (2008: 8.5 days).

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

15. BORROWINGS

This note provides information about the contractual terms of the Company's loans and borrowings. For more information about the Company's exposure to interest rate risk and liquidity risk see note 18.

	2009	2008
Company	£m	£m
Non-current liabilities		
Bonds	611.3	617.7
	<u>611.3</u>	<u>617.7</u>
Current liabilities		
Bank overdrafts	-	0.2
Borrowings from parent undertaking	10.0	-
	<u>10.0</u>	<u>0.2</u>
	<u>621.3</u>	<u>617.9</u>
	<u><u>621.3</u></u>	<u><u>617.9</u></u>

Carrying value by category

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

		2009	2008
Company	Year of maturity	Carrying value	Carrying value
		£m	£m
Borrowings designated at fair value through profit and loss			
8.875% £250m bond	2026	302.1	315.7
Borrowings measured at amortised cost			
8.875% £200m bond	2026	196.8	195.0
1.4746%+RPI ¹ 100m index-linked bond	2046	112.4	107.0
Bank overdrafts		-	0.2
Borrowings from parent undertaking	2009	10.0	-
		<u>621.3</u>	<u>617.9</u>
Other financial liabilities held at amortised cost			
Trade payables		32.2	26.4
Amounts owed to parent undertaking at LIBOR plus 1.5%		35.9	5.2
		<u>689.4</u>	<u>649.5</u>
		<u><u>689.4</u></u>	<u><u>649.5</u></u>

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

All loans and borrowings are unsecured. There is no formal Bank Overdraft facility in place at 31 March 2009. Intercompany borrowings are also repayable on demand. All amounts are in sterling. The fair values of the Group's financial instruments are shown in note 16.

Borrowing facilities

The Company had £30.0m in unutilised committed bank facilities at 31 March 2009 (2008: £30.0m). Of the amounts unutilised, £nil expires within one year (2008: £nil), £25.0m expires after one year but less than two years (2008: £nil) and £5.0m expires in more than two years (2008: £30.0m).

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009**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 Company uses financial instruments to invest liquid asset balances, raise funding and manage the risks arising from its operations.

The principal risks which the Company is exposed to and which arise in the normal course of business include credit, liquidity and market risk, in particular interest rate 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 Company 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 Company 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.

Market risk management

The primary financial risk faced by the Company is interest rate risk. The Board is required to review and approve policies for managing this risk on an annual basis. The Electricity North West Limited's treasury function, which is authorised to conduct the day-to-day treasury activities of the Company, reports on a regular basis to the Board. The Board approves all new interest rate swaps entered into.

All of the Company'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 Company has no exposure to foreign exchange risk and limited exposure to inflation (RPI).

The Company'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 Company 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 Company risk management.

Credit risk

The Company 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 lending, trade finance, and treasury activities. The Company has dedicated standards, policies and procedures to control and monitor all such risks.

The counterparties under these activities consist of financial institutions. Although the Company is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through 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 (2009: 30, 2008: 28) the creditworthiness of each of these is closely monitored. Whilst the loss of one customer could have a significant impact on the Company 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 Company's management therefore closely monitor adherence to this process.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2009

16. FINANCIAL INSTRUMENTS (continued)

Credit Risk (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 Company, 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 2009 there was £0.9m receivables past due (2008: £nil) against which an allowance for doubtful debts of £0.6m has been made (2008: £nil).

b) Treasury investments

The directors do not believe that the Company 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 2009 none (2008:none) of the Company's treasury portfolio exposure was either past due or impaired, and no terms had been renegotiated with any counterparty. The Company 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 Company's treasury portfolio:

Credit Rating	2009		2008	
	£m	%	£m	%
A	19.0	23.8	-	-
A+	59.7	74.7	-	-
AA	1.2	1.5	104.2	99.0
AA+	-	-	1.2	1.0
	<u>79.9</u>	<u>100.0</u>	<u>105.4</u>	<u>100.0</u>

No collateral is held in relation to Treasury assets.

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the balance sheet. For trade receivables, the value is net of any collateral held in cash deposits (please refer to note 13 for further details).

Credit Risk by Class	2009	2008
	£m	£m
Trade Receivables	1.6	1.4
Derivative Financial Instruments (Assets)	43.2	5.1
Cash and Cash Equivalents	36.7	100.3
Total	<u>81.5</u>	<u>106.8</u>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

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 15 for further details).

Credit risk by class	2009	2008
	£m	£m
Trade receivables	1.6	1.4
Interest rate swaps (Assets)	43.2	5.1
Cash and cash Equivalents	36.7	100.3
Total	81.5	106.8

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet the obligations or commitments associated with its financial instruments, as they fall due. The Company 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 at least quarterly. The board approves a liquidity framework within which the business operates.

The Company largely manages all of its financing cashflows over the observed five-year regulatory period; whilst the Company uses economic hedges to ensure that certain cash flows can be matched, management is using hedge accounting to account for these, instead taking the fair value movements to the income statement.

The following is an analysis of gross contractual cash flows payable under financial liabilities and derivative financial instruments.

As at 31 March 2009	On demand	<1 year	1-2 years	2-3 years	3-4 years	>4 years
	£m	£m	£m	£m	£m	£m
Trade and other payables	(32.2)	-	-	-	-	-
Amounts owed to parent undertaking	(35.8)	-	-	-	-	-
Derivative financial instruments (net)	-	3.4	10.3	(25.7)	9.1	128.9
Borrowings and overdrafts	-	(41.5)	(41.5)	(41.5)	(41.5)	(1,120.8)
	<u>(68.0)</u>	<u>(38.1)</u>	<u>(31.2)</u>	<u>(67.2)</u>	<u>(32.4)</u>	<u>(991.9)</u>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

16. FINANCIAL INSTRUMENTS *(continued)*

As at 31 March 2008	On demand	<1 year	1-2 years	2-3 years	3-4 years	>4 years
	£m	£m	£m	£m	£m	£m
Trade and other payables	(26.4)	-	-	-	-	-
Amounts owed to parent undertaking	(5.2)	-	-	-	-	-
Interest rate swaps	(0.5)	-	-	-	-	-
Borrowings and overdrafts	(0.2)	(41.6)	(41.6)	(41.6)	(41.6)	(1,142.2)
	<u>(32.3)</u>	<u>(41.6)</u>	<u>(41.6)</u>	<u>(41.6)</u>	<u>(41.6)</u>	<u>(1,142.2)</u>

Market risk

Market risk is the risk that the fair value of 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 type of market risk to which the Company is exposed is interest rate risk. The Company has very little foreign exchange and equity exposure. The management of market risk is undertaken using risk limits approved by the finance director under delegated authority.

The Company 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.

The following sensitivity analysis is used by Company 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 2009		Year ended 31 March 2008	
	<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	27.9	73.6	29.8	78.4
Interest rate swaps	(35.9)	(92.7)	(28.5)	(74.1)
Total fair value movement	<u>(8.0)</u>	<u>(19.1)</u>	<u>1.3</u>	<u>4.3</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. However, there would be no direct cashflow impact arising from these adjustments.

Although the above measures provide indication of the Company'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.

The Company has an inflation linked bond held on its balance sheet, as inflation is the key driver of future earnings. Whilst management does not formally monitor the sensitivity to changes in inflation (RPI rates), it is estimated that a 1% increase in inflation would lead to a £1.2m decrease in profits (2008: £1.6m decrease).

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009**16. FINANCIAL INSTRUMENTS** *(continued)***Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's floating rate borrowings are exposed to a risk of change in cashflows due to changes in interest rates. The Company 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 Company 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 Company'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 between 2010 and 2026. Swaps are executed in conjunction with bond issues to ensure that the combined cashflows approximate to floating sterling. In these cases, interest on the swap is received to coincide with bond interest payments which are generally annual or semi-annual on fixed rate bonds. Interest received on these swaps will match the nominal interest paid on the bonds. The floating side payable on these swaps will generally occur semi-annually. Additionally, swaps are executed to fix floating rate cashflows over the regulatory period. Cash flows on these regulatory swaps will coincide with the floating cashflow they are intended to fix.

Currency risk

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

Hedging

The Company 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 2009, the Company'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 Company'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 Company for similar financial instruments as at year end.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

16. FINANCIAL INSTRUMENTS *(continued)*

Fair values (continued)

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

	2009	2009	2008	2008
	Carrying	Fair value	Carrying	Fair value
	value		value	
	£m	£m	£m	£m
Financial assets:				
<i>Current assets:</i>				
Cash and cash equivalents	36.7	36.7	100.3	100.3
Derivative financial instruments – held for trading swaps	43.2	43.2	5.1	5.1
	<u>79.9</u>	<u>79.9</u>	<u>105.4</u>	<u>105.4</u>

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

	2009	2009	2008	2008
	Carrying	Fair value	Carrying	Fair value
	value		value	
	£m	£m	£m	£m
Financial liabilities:				
<i>Non-current liabilities:</i>				
Borrowings designated at fair value through profit and loss	(302.1)	(302.1)	(315.7)	(315.7)
Borrowings measured at amortised cost	(309.2)	(352.1)	(302.0)	(335.7)
	<u>(611.3)</u>	<u>(654.2)</u>	<u>(617.7)</u>	<u>(651.4)</u>
<i>Current liabilities:</i>				
Borrowings - bank overdrafts	-	-	(0.2)	(0.2)
Borrowings - amounts owed to parent	(10.0)	(10.0)	-	-
Derivative financial instruments – held for trading swaps	(45.1)	(45.1)	(0.5)	(0.5)
	<u>(55.1)</u>	<u>(55.1)</u>	<u>(0.7)</u>	<u>(0.7)</u>

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

17. TRADE AND OTHER PAYABLES

	2009	2008
	£m	£m
Trade creditors	32.2	26.4
Amounts owed to company undertakings	25.8	5.2
Amounts owed to subsidiary undertakings	0.1	0.1
Other taxation and social security	2.7	6.6
Consumers' contributions	20.7	33.6
Refundable customer deposits	7.9	7.2
Accruals and deferred income	16.5	15.7
	105.9	94.8

Trade creditors principally comprise amounts outstanding to UUES for capital and operating services provided under the ASA contract. The credit period with UUES is 10 days from receipt of invoice.

18. RETIREMENT BENEFIT SCHEMES

The Company previously participated in two defined benefit schemes, operated by United Utilities PLC. Under the terms of the separation of Electricity North West Limited and United Utilities Electricity Services Limited, and the subsequent acquisition of Electricity North West Limited by North West Electricity Networks Limited, a new division of the Electricity Supply Pension scheme (ESPS) was established.

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 Company 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 ENW and members of the UUES section will TUPE back at the same time under Employment Law. As a result the Company has accounted for both sections of the ESPS in accordance with IAS 19 'Employee benefits'.

The scheme is closed to new entrants and the Company instead provides defined contribution arrangements for new entrants. The total cost charged to the income statement in relation to the defined contribution scheme was £0.5m (2008: £0.1m) 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 2009. 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 Company made contributions of £13.2m (2008: £nil) to the defined benefit sections of the scheme. The Company 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 2010 will amount to £13.9 m.

The total defined benefit pension expense for the year was £12.3m (2008: pension expense £2.8m). A pension deficit of £27.5m is included in the balance sheet at 31 March 2009 (2008: surplus of £45.1m). Information about the pension arrangements for executive directors is contained in note 9.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

18. RETIREMENT BENEFIT SCHEMES (continued)

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

	At 31 March 2009	At 31 March 2008
Discount rate – ENWL	6.50%	6.40%
Discount rate - UUES	6.90%	6.30%
Expected return on assets –ENWL	6.00%	5.70%
Expected return on assets – UUES	7.10%	6.80%
Pensionable salary growth - ENWL	3.80%	4.50%
Pensionable salary growth - UUES	4.30%	4.50%
Pension increases - ENWL	2.90%	3.50%
Pension increases - UUES	3.30%	3.50%
Price inflation – ENWL	2.90%	3.50%
Price inflation - UUES	3.30%	3.50%

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

	At 31 March 2009	At 31 March 2008
Life expectancy at age 60:		
Retired member	25.9	25.7
Non-retired member	27.8	28.3

As at 31 March 2009, the Company'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 2009 %	Value at 31 March 2009 £m	Scheme assets at 31 March 2008 %	Value at 31 March 2008 £m
Equities	37.8	264.8	39.1	328.6
Gilts	21.1	148.0	40.6	341.7
Bonds	40.9	286.3	20.0	168.2
Cash	0.2	1.4	0.3	2.9
Total fair value of assets	100.0	700.5	100.0	841.4
Present value of liabilities		(728.0)		(796.2)
Net retirement benefit (obligation)/surplus		(27.5)		45.1

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

18. RETIREMENT BENEFIT SCHEMES (continued)

To develop the expected long-term rate of return on assets assumption, the Company 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 £104.8 million loss (2008: £36.3 million gain). None of the pension scheme assets are held in the Company's own financial instruments or property occupied by, or other assets used by the Company.

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

	2009	2008
	£m	£m
At 1 April	(796.3)	(826.1)
Current service cost	(8.0)	(8.2)
Interest cost on scheme obligations	(50.0)	(43.8)
Member contributions	(2.1)	(2.0)
Past service cost	(2.0)	-
Actuarial gains	79.0	36.3
Benefits paid	51.4	47.5
	<hr/>	<hr/>
At 31 March	(728.0)	(796.3)
	<hr/> <hr/>	<hr/> <hr/>

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

	2009	2008
	£m	£m
At 1 April	841.4	850.6
Expected return on scheme assets	47.7	49.2
Actuarial losses	(152.5)	(12.9)
Company contributions	13.2	-
Member contributions	2.1	2.0
Benefits paid	(51.4)	(47.5)
	<hr/>	<hr/>
At 31 March	700.5	841.4
	<hr/> <hr/>	<hr/> <hr/>

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

	2009	2008
	£m	£m
Current service cost	(8.0)	(8.2)
Past service cost	(2.0)	-
Expected return on scheme assets	47.7	49.2
Interest on scheme obligations	(50.0)	(43.8)
	<hr/>	<hr/>
Net pension expense before taxation	(12.3)	(2.8)
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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.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

18. RETIREMENT BENEFIT SCHEMES (continued)

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

	2009	2008
	£m	£m
At 1 April	45.1	24.5
Expense recognised in the income statement	(12.3)	(2.8)
Contributions paid	13.2	-
Net actuarial (losses)/gains gross of taxation	(73.5)	23.4
	<hr/>	<hr/>
At 31 March 2009	(27.5)	45.1
	<hr/> <hr/>	<hr/> <hr/>

Actuarial gains and losses are recognised directly in the statement of recognised income and expense. At 31 March 2009, a cumulative gain of £4.6m (2008: £78.1m) 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:

	2009	2008	2007
	£m	£m	£m
Present value of defined benefit obligation	(728.0)	(796.3)	(826.1)
Fair value of scheme assets	700.5	841.4	850.6
	<hr/>	<hr/>	<hr/>
Net retirement benefit (obligation)/ surplus	(27.5)	45.1	24.5
	<hr/>	<hr/>	<hr/>
Experience adjustments on scheme liabilities	0.8	(18.4)	38.6
Experience adjustments on scheme assets	(152.5)	(12.9)	(25.1)

19. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the company, and the movements thereon, during the current and prior reporting periods.

	Accelerated tax depreciation	Retirement benefit obligations	Other	Total
	£m	£m	£m	£m
At 1 April 2007	331.9	7.2	(14.1)	325.0
(Credited)/charged to the income statement	(44.4)	-	16.2	(28.2)
Charged to equity for the year	-	8.6	(0.6)	8.0
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2008	287.5	15.8	1.5	304.8
Charged/(credited) to the income statement	10.9	0.2	(2.5)	8.6
Credited to equity for the year	-	(23.7)	-	(23.7)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	298.4	(7.7)	(1.0)	289.7
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Changes to the rules to phase out industrial building allowances were enacted in the Finance Act 2008. The impact of this change has resulted in an increase to the deferred tax liability of £8.5m in the year ended 31 March 2009.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

20. PROVISIONS

Restructuring	£m	£m
	2009	2008
At 1 April	2.0	-
Provided in the year (note 3)	0.3	4.8
Utilisation of provision	(2.3)	(2.8)
	<hr/>	<hr/>
At 31 March	-	2.0
	<hr/> <hr/>	<hr/> <hr/>

21. CONSUMER CONTRIBUTIONS

Consumer contributions are those 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.

	£m
At 1 April 2007	314.7
Additions during the year	90.7
Amortisation	(9.2)
	<hr/>
At 31 March 2008	396.2
Additions during the year	32.6
Amortisation	(10.7)
	<hr/>
At 31 March 2009	418.1
	<hr/> <hr/>
Amounts due in less than one year (see note 17)	20.7
Amounts due after more than one year	397.4
	<hr/>
	418.1
	<hr/> <hr/>

22. REFUNDABLE CUSTOMER DEPOSITS

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

	2009	2008
	£m	£m
Amounts due in less than one year (see note 17)	7.9	7.2
Amounts due after more than one year	8.2	10.1
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

23. SHARE CAPITAL

	2009	2008
	£m	£m
Authorised:		
569,999,996 (2008: 569,999,996) ordinary shares of 50 pence each	284,999,998	284,999,998
4 'A' ordinary shares of 50 pence each	2	2
Special rights redeemable preference share of £1	1	1
	<u>285,000,001</u>	<u>285,000,001</u>
Allotted, called up and fully paid:		
476,821,341 (2008: 476,821,341) ordinary shares of 50 pence each	238,410,671	238,410,671
4 'A' ordinary shares of 50 pence each	2	2
	<u>238,410,673</u>	<u>238,410,673</u>

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

24. SHAREHOLDERS' EQUITY

	Called up share capital £m	Share premiu m account £m	Revaluati on reserve £m	Capital redemptio n reserve £m	Retained earnings £m	Total £m
At 1 April 2007	238.4	4.4	122.4	8.6	308.5	682.3
Profit for the year	-	-	-	-	173.1	173.1
Dividends	-	-	-	-	(111.0)	(111.0)
Post tax fair value gain on cashflow hedges	-	-	-	-	(1.4)	(1.4)
Transfer from revaluation Reserve	-	-	(4.6)	-	4.6	-
Post employment benefits: post tax actuarial gains on defined benefit schemes	-	-	-	-	14.8	14.8
At 31 March 2008	<u>238.4</u>	<u>4.4</u>	<u>117.8</u>	<u>8.6</u>	<u>388.6</u>	<u>757.8</u>
Profit for the year	-	-	-	-	95.2	95.2
Dividends	-	-	-	-	(69.5)	(69.5)
Transfer from revaluation Reserve	-	-	(1.4)	-	1.4	-
Post employment benefits: post tax actuarial losses on defined benefit schemes	-	-	-	-	(49.8)	(49.8)
At 31 March 2009	<u>238.4</u>	<u>4.4</u>	<u>116.4</u>	<u>8.6</u>	<u>365.9</u>	<u>733.7</u>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

25. OPERATING LEASES

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

	Land and buildings 2009 £m	Plant and machinery 2009 £m	Land and buildings 2008 £m	Plant and machinery 2008 £m
Within one year	0.7	0.1	1.1	0.1
In the second to fifth years inclusive	2.0	0.4	4.2	0.4
After five years	1.5	2.9	5.5	2.8
	<u>4.2</u>	<u>3.4</u>	<u>10.8</u>	<u>3.3</u>

26. RELATED PARTY TRANSACTIONS

The Company was part of United Utilities PLC Group in the period to 19 December 2007. During this period, the Company received and paid recharges to other businesses in United Utilities PLC, which were related parties, in the normal course of business.

Related party transactions during the year were as follows:

	2009 £m	2008 £m
Loans from parent undertaking	10.0	
Recharges to group companies	-	4.5
Recharges from group companies	-	(21.4)
	<u>10.0</u>	<u>(16.9)</u>

The loan from the parent undertaking was made in March 2009 and accrues interest at LIBOR plus 1.5% p.a. and is repayable on demand.

Related parties include key management personnel who are the directors. Amounts paid to key management were £1.2m (2008:£1.5m) (see note 4).

27. ACQUISITIONS AND DISPOSALS

There were no acquisitions or disposals in the year.

United Utilities Electricity Services Limited (“UUES”)

During the year ended 31 March 2008, the company disposed of the entire share capital of UUES for cash consideration of £45m resulting in a profit on disposal of £15m.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2009

28. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking is North West Electricity Networks (Jersey) Ltd, 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 Int'l Holding GP Limited managed by JP Morgan and Commonwealth Bank of Australia.

29. CASH GENERATED FROM OPERATIONS

	2009	2008
	£m	£m
Cash generated from operations		
Profit before taxation	142.3	191.7
Adjustment for investment income and finance expense	39.2	(15.6)
	<hr/>	<hr/>
Operating profit	181.5	176.1
Adjustments for:		
Depreciation of property, plant and equipment	63.5	59.5
Amortisation of intangible assets	3.3	3.1
Amortisation of customer contributions	(10.7)	(9.2)
(Profit)/loss on disposal of property, plant and equipment	(0.3)	2.3
Movement in restructuring provision	(2.0)	2.0
Other gains and losses – non capitalised pension costs	(8.7)	3.1
	<hr/>	<hr/>
Operating cash flows before movements in working capital	226.6	236.9
Changes in working capital		
Decrease in inventories	-	3.3
(Increase)/decrease in trade and other receivables	(10.4)	12.7
Decrease/(increase) in provisions and payables	1.2	(27.9)
	<hr/>	<hr/>
Cash generated from continuing operations	217.4	225.0
	<hr/> <hr/>	<hr/> <hr/>