

Electricity North West Limited (the “Company”) is pleased to announce its Annual Financial Report for the year ended 31 March 2011.

The Annual Financial Report is available to view on the Company’s website: [www.enwl.co.uk](http://www.enwl.co.uk).

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

For further information please contact Electricity North West’s press office on 0844 209 1957 or email [jonathan.morgan@enwl.co.uk](mailto:jonathan.morgan@enwl.co.uk).

## **Electricity North West Limited**

**Registered number 2366949**

### **Annual Report and Consolidated Financial Statements**

**for the year ended 31 March 2011**

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

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

We are pleased to present our Annual Report to shareholders for the year ended 31 March 2011. Further information on our Company can also be found by visiting our website: [www.enwl.co.uk](http://www.enwl.co.uk).

#### **Notice regarding limitations on Director Liability under English Law**

The information supplied in the Chief Executive Officer's Statement, the Business Review and the Corporate Governance statement in the following pages form part of the Directors' Report as incorporated by reference and have been drawn up and presented in accordance with English company law. The liabilities of the Directors in connection with that Report shall be subject to the limitations and restrictions provided by such law.

#### **Business Review**

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

#### **Cautionary statement regarding forward-looking statements**

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

#### **Regulatory reporting and regulatory audits of 2010/11 year end**

Certain regulatory performance data contained in this Annual Report remains subject to regulatory audit by Ofgem. The final regulatory reporting pack and regulatory financial statements for the year ended 31 March 2011 are not due for submission to Ofgem until September 2011, and will be reviewed by Ofgem thereafter.

#### **Website and Investor Relations**

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

## Chairman's Statement

### *Dear Shareholders*

I am delighted to have joined Electricity North West in May 2010, and I am pleased to introduce our Annual Report for 2010/11.

2010/11 has been a hugely significant year for Electricity North West. The completion of the purchase of United Utilities Electricity Services ('UUES') on 30 June 2010 transformed the business into an integrated distribution network operator which owns, operates, manages and maintains the electricity network for the North West region - an area of over 12,500 square kilometres and with more than 2.4 million householders. My congratulations go to everyone involved in this achievement and in implementing the business integration plans which are continuing to deliver a smooth transition into a single more efficient business.

Revenue has increased to £394 million as a consequence of the latest prices agreed with Ofgem to fund our investment plans operate the network and as a result of the timing of revenue, an element of which will reverse in the current year. The acquisition and integration of UUES has brought with it financial efficiencies and, coupled with the increase in revenues, operating profit has increased by 35% over prior year to £210 million.

These considerable business and financial achievements have been set against an industry background which continues to face more public scrutiny and media attention than ever before – a sector dominated by significant challenges both now and in the years ahead. The energy sector will go through significant change as it responds to the challenge of a low carbon economy, issues relating to security of supply, and the imperative to deliver efficiently to customers. As a business which constantly demonstrates innovation, drive and total professionalism, I am confident that the Electricity North West is well placed to meet these challenges and to exceed the expectations of our stakeholders.

We are a company that constantly looks ahead and I am pleased to report that excellent progress is expected in terms of our network investment programme. Between 2010 and 2015 the Company plans to invest over £1.4bn in the region's infrastructure and, combined with a substantial research and development spend, the Company is playing a key role in the economy of the North West. We are also aware of the vital role we play within the community and we are committed to sustainability and to being a 'good' corporate citizen in all aspects of our operations and activities.

The Company is currently working on its first Environment, Social & Governance Report, which will be published later in 2011, further evidence of our commitment to corporate and social responsibility.

The change in business structure has necessitated a change in the Board during the year. I am pleased to welcome Michael McCallion, who was appointed to the position of Chief Financial Officer with effect from 2 September 2010.

The many achievements of the past year would not have been possible without the commitment and hard work of Steve Johnson and his team of people and my thanks and congratulations go out to them all. Without their dedication, commitment and support our achievements would not have been possible.

Next year, and indeed the years beyond, will not be without their challenges. However, I am confident that our people are ready to meet these challenges and I greatly look forward to the continuing success of the Group.

**Phil White**

Chairman

26 May 2011

## **Chief Executive Officer's Statement**

Our vision to be the leading energy delivery business is deliberately stretching, and making progress both in that respect and towards our strategic objectives should ensure we are well placed to meet the needs of our customers both now and in the future. The society in which we live is growing ever more dependent on electricity. It provides the power for both the basics we rely on and the luxuries that make our lives easier. Put simply, we can't do without it. Our customers constantly tell us that what they expect of us is a reliable and constant source of electricity – and that is exactly what we aim to provide, 24 hours a day, 365 days a year.

Yet ensuring this reliability is only one part of our business. We are also committed to being as innovative as possible and we strive to push the boundaries to find simpler and more effective solutions to problems. With the challenges of security of supply and the move to a low carbon economy facing the energy sector, it is essential that we are able to meet and solve such complex issues.

### **Health and Safety**

Health and Safety remains our first priority. The Group is committed to achieving the highest standards of health and safety for all our customers, employees and contractors. Underpinning the business' drive for achieving the highest standards of health and safety is our health and safety management system, which was certified to the OHSAS 18001 standard in the year.

### **Customers**

Investment on our network is designed to ensure that our customers continue to receive the levels of service that they expect from us. We have a comprehensive customer service strategy in place and in 2010/11 we have achieved our best ever results in both our customer satisfaction measure and in quality of telephony response.

### **Network Availability and Reliability**

The major area of investment for at least the next twenty years is likely to remain the replacement of the existing legacy network. Electricity North West continues to invest in repairing and upgrading our network and continues the installation of automated technology that reduces the number of customers affected by faults and which restores the supply more quickly by fixing problems remotely.

I am pleased to report that our key measures of quality of supply: Customer Interruptions and Customer Minutes Lost, have improved year on year and are out-performing our regulatory targets.

### **Connections**

As well as maintaining the current performance of our network we also have to plan for changes in the use of our network. Whilst energy efficiency measures will act to reduce the amount of energy used, other pressures will act to increase electricity demand, such as population and economic growth, and the move to a low carbon economy which will see the increased use of electric vehicles displacing petrol and diesel. We will have to develop our network to meet this expected growth through a mix of 'business-as-usual' practices and new commercial approaches.

### **Social Obligations**

Electricity North West is fully committed to sustainability in all aspects of its operations and activities. Understanding the impact from an economic, environmental and social perspective is extremely important and we constantly strive to improve the important role we play in the community. We continue to support local charities throughout the region not only with financial support, but through a sponsorship and donation policy that also considers donating the time of our employees, and the support of our business.

### **Chairman's appointment**

The Board is delighted to welcome Phil White CBE as Independent Non-Executive Chairman, appointed to the Board on 3 May 2010.

## **Business outlook**

2011 marks the first year of the current regulatory period, which runs for five years from 1 April 2010. Our business strategy and plan has been developed against the requirements of our vision 'to be the Leading Energy Delivery Business' and is expected to safely and sustainably deliver significantly improved customer service; network investment of over £1.4bn to secure the required outputs and to enhance network reliability; and a stable financial structure that provides the necessary financing to secure the required investment in our network.

The Board and management are committed to building on the success of the current year and in implementing a challenging strategy to ensure we deliver for our customers, for our people and for our investors.

**Steve Johnson**

Chief Executive Officer

## Business Review

### Business Overview

Electricity North West Limited ('ENWL', the 'Company') is a private limited company registered in England and Wales. The Company is ultimately owned by long-term infrastructure funds managed by Colonial First State Global Asset Management (a member of the Commonwealth Bank of Australia Group) and by JP Morgan Investment Management Inc.

The principal activity of the Company and of its subsidiaries ('the Group') is the distribution of electricity in the North West of England.

On the 30 June 2010 the company completed the purchase of United Utilities Electricity Services Limited ('UUES') from United Utilities Group PLC ('UU'). The purchase of UUES, which had previously been contracted to operate and maintain our network, has enabled the Company to establish one Group which owns, operates, manages and maintains its network. UUES was subsequently renamed Electricity North West Services Limited ('ENWSL'). On 31 March 2011, the trade and assets of ENWSL were transferred to ENWL at book value. ENWL and ENWSL were the principal operating companies within the Group and, as such, references to 'the Group' and to 'Electricity North West' in the following Business review and Directors' Report are referring to the operational activity of the ENWL Group.

### Industry structure

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

- **Generators** own the large power stations and smaller renewable generators. The generators produce electricity from a variety of fuel sources;
- **Transmission companies** own and operate the 400kV and 275kV transmission network ('national grid') that links the major power stations and transports electricity in bulk across the country. National Grid Electricity Transmission is responsible for the transmission network in England and Wales;
- **Distribution companies** own and operate the lower voltage electricity network, connecting the smaller power stations and the national grid to every electricity customer in England and Wales; and
- **Electricity suppliers** buy the electricity produced by the generators, sell that electricity to their customers and pay the network operators and distribution companies for the transportation of that electricity across their networks.

Electricity North West owns and operates the main electricity distribution network in North West England.

The principal direct financial relationship with customers connected to our network is via charges for new connections. We charge electricity suppliers for the use of our network and the suppliers pass these costs on to customers. Typically we account for around 15% of the electricity bill for domestic consumers.

### New Connections

New buildings require new electricity connections and, where appropriate, enhancements to our network. Customer connections is a competitive market with a number of different organisations providing alternative quotations for new connections to our network. Competitive activity from Independent Connections Providers ('ICPs') in the North West continues to be very effective. During the year ended 31 March 2011, assets were adopted from a total of 17 different companies.

The significant decline in the new housing construction market has resulted in a significant reduction in low voltage connections made in the last three years. This has resulted in a slight increase in the percentage market share completed by Electricity North West, but a

decrease in our market share of the higher voltage connections as more of our competitors focus their attention on this market.

### Our assets and key facts

Our network is made up of overhead lines, underground cables and items of plant, such as switchgear and transformers, which are used to distribute electricity to customers' premises. Our network would cost approximately £9bn to replace. It comprises the following key assets:

- ▣ around 13,000 km of overhead lines
- ▣ almost 44,000 km of underground cables
- ▣ almost 84,000 items of switchgear
- ▣ more than 34,000 transformers

We deliver over 25 terawatt hours of electricity each year to more than 2.4 million customers' premises across an area of 12,500 square kilometres.

### Economic regulation

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

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

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

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

We also have a responsibility to look after our network in the long term. From 2010/11, we will report on the condition of our network (using Health Indices – HI) and its loading (using Load Indices – LI). Through the monitoring of these indices we will ensure that the overall condition of our network continues to provide a high quality service to our customers.

### Future economic regulation

Following privatisation in 1990, electricity distribution companies have been subject to an 'RPI-X' form of regulation, which is designed to encourage efficiency. In March 2008, Ofgem launched a comprehensive review of the 20-year-old DPC framework and made its recommendations in July 2010, proposing a new approach for sustainable network regulation, which will be delivered by their 'RIIO' model where:

$$\text{Revenue} = \text{Incentives} + \text{Innovation} + \text{Outputs}$$

Under the RIIO model there is a much greater emphasis on companies undertaking a full role in developing a more sustainable energy sector and delivering value for money network services for customers today and in the future.

The fundamental principles of the 'RPI-X' based regulatory regime of creating powerful efficiency incentives by setting ex-ante revenue allowances for a number of years are retained, but there are a number of evolutionary developments.

The RIIO framework provides financial support for the development of innovative solutions to network management. In future, electricity networks will be expected to meet the growing needs of the UK low carbon economy including the transition to electric vehicles and electric heating. With an ever growing dependence on electricity, distribution network operators will have growing businesses and an ever more central role in the UK energy industry.

Our next price review, starting in 2015, will embody these principles. We will continue to develop our investment plans and work with Ofgem to develop the RIIO framework, ensuring it provides an appropriate return for our equity and debt investors to attract the finance required to support the required investment for our customers.

## Key Performance Indicators

	2011	2010
<b>Non-Financial</b>		
Safety: RIDDOR <sup>(1)</sup>	5	6
Customer minutes lost ('CML') <sup>(2)</sup>	47.4	49.9
Customer interruptions per 100 customers ('CI') <sup>(3)</sup>	49.2	50.6
Overall customer satisfaction <sup>(4)</sup>	89%	87%
Quality of Response (mean score) <sup>(5)</sup>	91%	91%
<b>Financial (Group)</b>		
Revenue	£394m	£324m
Operating profit	£210m	£156m
Profit before tax	£139m	£17m
Operating cash flow	£246m	£218m
RAV Gearing <sup>(6)</sup>	56%	57%
Interest cover <sup>(7)</sup>	5.7 times	4.2 times
Capital expenditure on tangible and intangible assets (cash flow)	£177m	£174m

- ✔ Continued excellent safety performance.
- ✔ Customer satisfaction and network reliability continue to improve year on year and to out-perform regulatory targets, earning additional incentive revenue.
- ✔ Revenue has increased to £394m as a result of the increase in DPC5 allowed revenues, rising RPI and the timing of the recovery of revenues. An over-recovery of revenue has arisen due to a combination of price mix and volume changes.
- ✔ Operating profit has increased by 35% over the prior year to £210m as a result of the increased revenue and the delivery of efficiencies arising from the acquisition and integration of ENWSL and from the Group's transformation programme.
- ✔ The pension valuation as at 31 March 2010 has been agreed with the Pension Scheme Trustee and a deficit repair schedule agreed over 15 years, which is aligned to Ofgem's funding assumptions.
- ✔ The integration of ENWSL is progressing to plan. We have successfully in-sourced back-office services previously managed by UU and the IT Refresh Programme is on track to complete the separation of Information Technology services from UU by the end of September 2011.

### Notes:

(1) Accidents reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ('RIDDOR').



- (2) Customer minutes lost is calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents and dividing by the number of connected customers as at 30 September each year. The 2011 figure is yet to be audited by Ofgem.
- (3) Customer interruptions per 100 customers is calculated as: (total customers affected/total customers connected to the network) x 100. The 2011 figure is yet to be audited by Ofgem.
- (4) Overall customer satisfaction in relation to the response received from a fault enquiry is measured by an internal overall customer experience assessment mechanism. It involves a series of interviews with customers. Sample interviews are conducted monthly.
- (5) Quality of response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of one to five.
- (6) RAV Gearing is measured as borrowings at nominal value net of cash and short-term deposits divided by the allowed Regulatory Asset Value ('RAV') of £1,403m (2010: £1,344m) based on March closing prices.
- (7) Interest cover is the number of times the net underlying finance expense is covered by operating profit from continuing operations. Net underlying interest expense is calculated as the underlying cost of borrowings excluding any pension adjustment and unrealised movements in the fair value of debt and derivatives.

## Strategy and objectives

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

- Understanding and Influencing the Market
- Understanding and Delivering for our Customers and Stakeholders
- Developing a High Performance Organisation
- Delivering Sustainable Growth with Robust Financial Performance

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

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

## Operational performance

As noted, Ofgem has recently introduced a new approach to network regulation. The 'RIIO' model (revenue = incentives + innovation + outputs) has been designed to promote smarter electricity and gas networks for a low carbon future. This new framework emphasises stakeholder input into the price control process and into the Distribution Network Operator's ('DNO') own business plans and on-going business decisions. Access to good information on how we are performing is critical if stakeholders are to play this role. For this reason we have expanded our 31 March 2011 Annual Report considerably.

Non-financial performance is measured against the six primary output categories which Ofgem intend to apply for their annual comparative reporting in DPC5 and in RIIO price reviews: health and safety; customer satisfaction; network reliability and availability; connections; environment; and social obligations.

Electricity North West is closely engaged with Ofgem and the industry in developing the final reporting framework and guidelines for 31 March 2011 regulatory reporting and we will submit the regulatory reporting pack ('RRP') and publish our regulatory financial statements for 31 March 2011, along with other distribution companies, in September 2011.

## Health and safety

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

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

Electricity North West continues to support both the Health and Safety Executive's UK five year strategy and the Energy Network Association's ('ENA') 'Powering Improvement' health and safety strategy.

As a clear demonstration of the Group's commitment to health and safety, a Board sub-committee for health and safety exists with the remit of setting our health and safety strategy, objectives and targets; reviewing and monitoring performance; and reporting to the main Board.

With the acquisition of ENWSL, the health and safety risk of the Group is now managed directly. The Group is building on the continuous improvement culture that was already embedded within ENWSL under the Asset Services Agreement ('ASA').

This improvement has been demonstrated through a further significant reduction in the number of Lost Time Accidents (LTAs) recorded, with five LTAs reported in the year to 31 March 2011 (2010: 10); this includes our sub-contractor organisations. All of the current year LTAs were reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ('RIDDOR').

### **Customer satisfaction**

An independent surveying specialist measures the satisfaction of customers contacting our call centre to report interruptions to supply on our behalf. This survey has enabled us to target continual improvements in the service we provide for our customers resulting in year-on-year improvements. Since the introduction of a High Volume Call Answering system, our telephony performance has significantly improved during the last three years.

This year we took a number of steps to improve first contact resolution of customer queries including providing our call agents with increased information about work that might be affecting customers and enhanced training. Customer Satisfaction has reached its highest ever level this year at an average of 89% satisfied for the year, with one month in the year failing to achieve our internal 85% target.

Ofgem also measures Customer Satisfaction via a telephony survey. Performance in this scheme mirrors the high level of customer satisfaction measured by our own survey (above) and clearly demonstrates the consistent level of service delivered by all staff involved in the supply restoration process. February 2011's score of 4.59 placed Electricity North West second amongst the 14 DNOs and took us to fourth overall on a rolling 12-month average.

From 1 April 2012 Ofgem will introduce a new 'Broad Measure of Customer Satisfaction'. Its three key elements will be:

- an independent customer satisfaction survey of all types of customers
- a complaints metric
- a comparative assessment of distribution company stakeholder engagement

### **Customer complaints**

We continually focus on the small number of written complaints we receive from our customers to understand their root causes and determine how we can improve the service for our customers. This year we have received 829 complaints covering both operational activities and new connections. The biggest cause of complaints in recent months has been a high level of very short duration but high frequency interruptions on the network. These occur when our protection systems operate to automatically restore the network and prevent

longer duration interruptions. We recognise that customers are becoming increasingly sensitive to even the shortest, sub-three minute interruptions to their essential electricity supply.

A number of actions and initiatives have either been recently completed or are ongoing to improve Electricity North West's performance in complaint handling. Processes have been implemented aimed at resolving more complaints within 24 hours. Weekly monitoring of cases over six days and ten days has been introduced to ensure they are resolved as quickly as possible.

We have invested in a new business-wide complaint handling system. This will enable tracking of each customer's full history from any team across the business. We have also recently joined the Institute of Customer Service, giving access to their benchmarking data and customer service training facilities.

#### *Stakeholder engagement*

Electricity North West is committed to a programme of regular stakeholder engagement. We hold regular meetings with stakeholders such as local authorities and regional government agencies, and we have hosted a number of very successful stakeholder events throughout the year.

In April 2011, we published our consultation on 'How our network will develop in the period to 2050'. This consultation document is available on the Company's website ([www.enwl.co.uk](http://www.enwl.co.uk)).

### **Network reliability and availability**

#### *Quality of Service*

On average, our network performs such that a customer experiences a power cut every two years and is without electricity for less than two hours every two years (99.99% reliability).

Electricity North West continues to invest in repairing and upgrading our network and continues the installation of automated technology that reduces the number of customers affected by faults and which restores the supply more quickly by fixing problems remotely.

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

The average number of interruptions per 100 customers per annum was 49.2\* (2010: 50.6), out-performing the regulatory target for the year of 52.9 (2010: 57.1).

The average number of minutes for which customers were without supply was 47.4 minutes\* (2010: 49.9), beating the regulatory target for the year of 55.6 minutes (2010: 53.0).

\* 2011 figures are draft subject to Ofgem audit and are stated after allowed exclusions, including severe weather events, as per 2010.

#### *Worst served customers*

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

Worst served customers are defined as those who experience 15 or more higher voltage interruptions over a three-year period and a minimum of three higher voltage interruptions in each year.

884 of our customers meet the qualifying criteria to be classed as among the 'Worst Served' in the country in 2009 and 2010 (720 in 2009 and 164 in 2010) with 118 of these affected in both years. We worked closely with Ofgem and other industry members throughout the recent price review to develop a new incentive mechanism which encourages investment to improve the service afforded to the community of these 'Worst Served' Customers. This mechanism has facilitated additional work programmes which would previously have been considered inefficient. This year we have developed, designed and approved an innovative approach to improve the performance for these customers that is now being implemented on the circuits serving all 884.

## Connections

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

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

Electricity North West has already successfully applied to be able to charge a regulated margin of 4% on all allowed sole use connection segments. We have met with Ofgem to discuss the process for applying for an unregulated margin and we are on track to submit an application in early 2011/12 to earn an unregulated margin.

## Environment, Social and Governance

Electricity North West delivers an essential service to our customers. Our overall Environment, Social & Governance ('ESG') strategy is to grow our business both profitably and sustainably by providing services and products that benefit customers, society and the environment. Our ESG strategy co-ordinates all sustainability related work embedded across the business and concentrates monitoring and investment into four broad streams. These streams support the sharing of knowledge and experience, develop innovative solutions, provide the opportunity to demonstrate our contribution to our local community, safeguard our reputation and build value through good corporate governance. Each stream has a key theme for the year. The four streams and themes for 31 March 2011 were:

- Environment: Facilitating the move to a Low Carbon Economy
- Community: Building relationships with our local community
- People: Securing the Work Force of the future
- Governance: Ensuring Electricity North West applies best practice corporate governance

Electricity North West is currently involved in projects that are reducing the impact of Group activities on the environment and the following examples are indicative of the diverse range of the sustainability measures being undertaken:

### *Sulphur hexafluoride (SF<sub>6</sub>) management*

Electricity North West is working in conjunction with the electricity industry manufacturers to develop vacuum and solid state insulation for switchgear to eliminate, in the long term, the use of the potent greenhouse gas, sulphur hexafluoride (SF<sub>6</sub>), as an insulator. Wherever practicable, Electricity North West invests in low SF<sub>6</sub> loss distribution equipment.

The total mass of SF<sub>6</sub> controlled by the Group in 2010/11 was 17,667kg (2010: 20,867kg). The annual leakage of SF<sub>6</sub>, as recorded at 1 April 2011 equated to 260kg (2010: 702kg), or 1.47% (2010: 3.36%) of the inventory. The significant reduction is primarily as a result of our investment to replace the ageing Whitegate substation in East Manchester.

To further minimise SF<sub>6</sub> losses due to sampling activities, sampling intervals are restricted to a frequency of once every four years for each respective Gas Insulated Switchgear ('GIS') plant. Additionally, refurbishment operations are not undertaken to prolong the life of the GIS equipment. 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 SF<sub>6</sub> is disposed of correctly by a licensed waste company.

### *Oil reprocessing*

The reprocessing of PCB<sup>1</sup>-free transformer oils at our Whitebirk central oil reprocessing depot facility is a long-established practice, which ensures the efficient reuse of insulating oil that would otherwise require disposal via specialist waste contractors. The recycling of the oil ensures that the need for additional quantities of replacement oil is minimised.

#### *Recycling of waste*

The production of spoil waste at source from street works activities is minimised where economically viable by the use of trenchless cable laying techniques. Where excavation is required spoil is recycled and aggregates from recycled sources are used where possible.

Electricity North West recycles the majority of waste generated from its operations. Waste is returned to operational bases from sites and then transferred for recycling in accordance with the Group's environmental permits.

#### *Distributed Generation ('DG')*

Apart from the very largest offshore projects, low-carbon generation sources from renewables and combined-heat-and power ('CHP') are typically of an appropriate scale to connect to our network. New generators may sometimes require new connections, network reinforcement or changes in the use of our existing network.

Serving generator customers is currently a small business component. However it is set to grow in the future as the UK invests in a low-carbon sustainable energy supply. We have recently reviewed our strategy to provide smaller generators with information to help them get connected cheaply and efficiently, and as the take up of small renewable generation continues driven by the Feed in Tariff, we will continue to look to improve our service.

Electricity North West annually reviews its forecasts of generator connections at all scales; from large projects through intermediate scale developments to micro-generation.

Forecasting future generation connections is subject to considerable uncertainty, but we are forecasting a further 1 GW of additional generation in the last four years of DPC5, of which around 45% is expected to connect during the next year 2011/12, primarily due to two large offshore DG projects. A significant shift is expected 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.

#### *New technology and innovation*

Electricity North West has been active in investing in research and development, spending over £6m in the last five years to support 60 innovative projects.

An example of innovation has been the work Electricity North West has undertaken with manufacturers Kelvatek to develop a smart fuse. When deployed it will reduce the restoration time for low voltage transient faults to less than three minutes, where previously an engineer would have needed to visit the site.

The Group invested £1.5m in research and development expenditure (Innovation Funding Initiatives) in the year ended 31 March 2011 (2010: £1.3m).

In 2010 the Low Carbon Network Fund ('LCNF') was introduced to promote radical changes in electricity networks. The fund will allow up to £500m to be spent nationally to try out new technology, operating and commercial arrangements, with the objective of helping all DNOs to understand what they need to do to provide security of supply at value for money as Great Britain moves to a low-carbon economy.

We have expanded our research activities particularly in relation to smart grids and the challenges of future networks. We are collaborating with a range of local stakeholders to develop bids for LCNF funding.

Through continuing investment in innovation Electricity North West will work with our partners in industry and academia to continue to seek new solutions to network challenges.

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<sup>1</sup> Polychlorinated biphenyls

**Case study: facilitating the move  
to a low Carbon economy**

Having established a Demand Side Response roadmap in 2009/10 we have been working on the next steps and we have successfully completed a demonstration of Generation Response contracts. Electricity North West has signed a contract with EnerNOC, an international leader in the electricity market, to bring technology used in America, to the local North West network. Customers that have high electricity demand, such as big businesses, will be offered incentives to become part of the scheme. State-of-the-art technology will allow us to request that these businesses reduce their demand at certain times, to help balance capacity and demand, while minimising disruption to their businesses.

**Network Investment**

Between 2010 and 2015 the Group plans to invest over £1.4bn in the region's infrastructure, including £200m for new connections, £120m to reinforce the network and £420m to replace assets at the end of their operational lives.

Our DPC5 Network Investment Plan 2010-2015 is available on our website ([www.enwl.co.uk](http://www.enwl.co.uk)).

A number of large projects and programmes of work have been successfully completed within the year, including:

- The asset replacement of 132kV switchgear at Whitegate substation near Manchester where the existing 13 circuit breakers and associated plant were replaced for condition and environmental reasons.
- A major 132kV cable replacement has been completed on the Rochdale to Belfield circuit which was replaced because of its poor condition.
- A major 132kV overhead tower line refurbishment scheme has been carried out on the Bold, Parkside Golborne circuit, where the line was refurbished with sections being removed and replaced with underground cable.

Electricity North West has made good progress on flood protection of critical substation sites by completing the protection of nine sites and has had a significant programme of substation security improvements, which has included the installation of electric fences at six sites based on risk assessments and the growing impact of metal theft.

*IT Refresh Programme*

In September 2010, the company signed a contract with Wipro Technologies for delivery of our IT Refresh Programme ('ITRP') and to provide ongoing IT support services for the organisation. The key objectives of the ITRP are to separate the hosting and operation of IT systems from UU, transition them into our own estate and to provide a platform for future transformation aligned to our business plan and IT strategy.

The ITRP has made good progress to date and key milestones achieved include the successful implementation of our own IS Service Desk, the migration of the SAP system (supporting key Finance, HR and Procurement processes) and the commencement of

desktop refresh and user migration. The programme is on track to complete the separation of services from UU by September 2011.

#### *Electricity North West 21 Century Network*

BT Group PLC is changing its existing network to a system known as 21<sup>st</sup> Century Network. This new network will be unable to offer guaranteed times for the transfer of data signals. Our control and protection systems require a level of certainty in the time taken for a signal to transfer between our substations so that we can continue to safely and securely operate our network.

In order to maintain the required signal transmission times we are constructing our own data network of fibre over which we have total control.

## **Employees**

Our people are key to achieving our business strategy, delivering high levels of customer service and enhancing shareholder value. Electricity North West is committed to developing an engaged, motivated and high performing workforce to enable the Group to achieve its vision and goals, whilst putting safety at the core of how we operate.

### **Workforce renewal**

As an organisation we are very conscious that we have an age profile that means we have a significant number of experienced staff eligible to retire over the next eight to fifteen years in particular. In order to address this issue, and with the aid of a specific DPC5 allowance, we are engaged in a programme of apprentice and graduate recruitment at levels that have not been seen in the Company in many years. We are also retraining and up-skilling staff where appropriate. To support the increased level of training this will require we are planning to invest in a new fully equipped training centre that can deliver both classroom based and practical learning.

### **Learning and development**

Electricity North West is committed to enhancing its employees skills as well as providing equality of opportunity in learning and development. We are committed to developing a nurturing culture in which employees feel valued to reach their full potential and to understand how their own contribution adds value to the Company.

### **Employee engagement**

Employee engagement is a key measure for the Group and its leaders. In 2011 Electricity North West completed its first, independently facilitated, Employee Opinion Survey since the acquisition of ENWSL. Based on an excellent response rate of 86%, the survey indicated an overall positive employment engagement score of 67%, a baseline against which we will measure future improvement.

### **Equality and diversity**

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

### **Employees with disability**

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

## **Financial Performance**

<b>Group</b>	<b>2011</b>	<b>2010</b>
Revenue	<b>£394m</b>	£324m
Operating profit	<b>£210m</b>	£156m
Profit before tax	<b>£139m</b>	£17m
Operating cash flow	<b>£246m</b>	£218m
RAV Gearing	<b>56%</b>	57%
Interest cover	<b>5.7 times</b>	4.2 times
Capital expenditure on tangible and intangible assets (cash flow)	<b>£177m</b>	£174m

## Revenue

Revenue has increased to £394m as a result of the increase in DPC5 allowed revenues, rising RPI and the timing of the recovery of allowed revenue. An over-recovery of revenue has arisen due to a combination of price mix and volume changes and, under regulatory rules, will be passed back to customers through reduced pricing in the year ending 31 March 2012.

As discussed in more detail under 'Principal risks and uncertainties', the Company has submitted a request to restate its losses position for the year ended 31 March 2010. If agreed by Ofgem, this restatement will reduce the total revenue over-recovery.

## Operating profit

Operating profit has increased by 35% over the prior year to £210m as a result of increased revenue and the delivery of efficiencies arising from the acquisition and integration of UUES and from the Company's DPC5 transformation programme. The cost savings have been offset by non-recurring costs associated with the acquisition and integration activities and increased depreciation.

## Business transformation and efficiencies

The acquisition and integration of UUES provides an efficient business structure to deliver investment in the North West's electricity network. The integration of UUES is progressing to plan. We have successfully in-sourced back-office services previously managed by UU and the ITRP is on track to complete the separation of IT services from UU by September 2011.

Targeted efficiency initiatives are being successfully realised through a business wide transformation programme. The Company has a target of a minimum of £150m of efficiency savings over the DPC5 period (total expenditure net of costs of implementation in 2007/08 prices).

Against this target, the Company has realised efficiencies of approximately £50m in 2010/11 (out-turn prices).

## Profit before tax

The increase in operating profit coupled with reduced finance expense causes the increase in profit before tax.

Net finance expense for the year was £71m (2010: £139m). The 31 March 2011 position reflects adverse fair value movements of £30m on financial instruments (2010: £79m).

## Taxation

The Government announced on 23 March 2011 that the UK corporation tax rate will reduce from 28% to 26%, effective from 1 April 2011. The reduction in corporation tax rate contributes to a deferred tax credit to the Group's income statement of £20m. The deferred tax provision has remained broadly unchanged year on year given offsetting taxation on the IAS 19 (Pensions) credit in the year.

## Dividends and dividend policy

In the year ended 31 March 2011, the Company paid dividends of £62m (2010: £218m). This figure represents an interim payment of £15m paid in June 2010 and a further interim



payment of £47m paid in December 2010. The Directors do not propose a final dividend for the year ended 31 March 2011 (2010: none).

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

## Financial Position

### *Property, plant and equipment*

The Company's business is asset-intensive and highly regulated both operationally (e.g. Electricity Safety & Quality Continuity (Amendment) Regulations, 'ESQCR', legislation) and economically. The Group allocates significant financial resources to the renewal of its network to maintain services, improve network reliability and customer service and to invest to meet the changing demands of the UK energy sector. The total cost of the Group's property, plant and equipment at 31 March 2011 was £3,337m, with a net book value of £2,310m. In 2011, the Group invested £188m in capital expenditure. This is mainly related to a large number of projects for the renewal and improvement of the network as described above. New investment is financed through a combination of operating cash flows and increased leverage capacity from a growing RAV.

### *Goodwill*

Goodwill has increased in the year as a result of the £10m goodwill arising on the acquisition of UUES.

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

As a result of the acquisition of UUES, the Group holds inventories of approximately £5.6m (2010: £nil).

Group 'Trade and other receivables' have increased to £78m (2010: £35m) primarily as a result of delays in revenue receipts.

Group 'Trade and other payables' have increased to £152m (2010: £96m) mainly as a result of working capital timing differences arising following the acquisition of UUES; previously the credit period with UUES was 10 days from receipt of invoice and now the Group has direct management of all its trade creditors and accruals. UUES creditor days were 24 as disclosed in their March 2010 financial statements.

### *Net debt*

	<b>2011</b>	<b>2010</b>
	<b>£'m</b>	<b>£'m</b>
Cash and deposits	<b>167</b>	<b>72</b>
Borrowings repayable:		
- within one year	-	-
- after one year	<b>(1,044)</b>	<b>(899)</b>
<b>Net debt</b>	<b>(877)</b>	<b>(827)</b>

Net debt has increased by £50m due to the UUES acquisition, capital investment and dividends paid exceeding the net operating cash flows generated by the Company.

Borrowings repayable after one year include bonds with long term maturities of £647m (2010: £635m). These bonds have nominal value of £450m at 8.875% maturing in 2026 and £100m of 1.4746% index linked bonds maturing in 2046. On 1 March 2011, ENWL borrowed £135m under a new long term loan from the European Investment Bank. This 1.5911% index linked loan matures in 2024. Also included in long-term borrowings are inter-company loans at 31 March 2011 of £263m (2010: £265m).

### *Pension obligations*

The valuation of the Company's pension scheme under IAS 19 results in a net pension deficit at 31 March 2011 of £41m (31 March 2010: £143m). As described under 'Principal risks and uncertainties', the pension scheme valuation as at 31 March 2010 (using assumptions agreed by the Trustee, in consultation with the Scheme Actuary) has been agreed with the scheme's Trustee and a deficit repair schedule agreed over 15 years, which aligns to Ofgem's funding assumptions.

#### *Commitments*

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

#### **Cash flow**

The Group's net cash generated from operating activities after taxation paid was £215m, an increase of £28m from 2010, reflecting favourable operational performance partially offset by adverse working capital movements. The Group net cash outflow from investing activities was £153m, an increase of £23m. Net cash generated from financing activities was £30m (2010: £37m) as a result of the draw down of a £135m loan from the European Investment Bank, offset by equity dividends payable of £62m and transfers to money market deposits of £40m.

#### **Liquidity**

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

#### *Short-term liquidity*

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

In total at 31 March 2011, unutilised committed facilities of £80m (31 March 2010: £224m), together with £167m (31 March 2010: £72m) of cash and short-term deposits provide substantial short-term liquidity for the Group and Company.

Utilisation of undrawn facilities will be with reference to RAV gearing restrictions for the North West Electricity Networks (Jersey) Group.

#### *Long-term liquidity*

The Group's term debt was £1,044m at 31 March 2011, compared with £899m at 31 March 2010. Amounts repayable after more than five years comprise bank and other loans.

The Group's long-term borrowings mature at dates between 2012 and 2046. Our long-term debt ratings have remained stable since July 2009. Currently ENWL and ENW Finance plc are rated BBB+ with stable outlook by Standard and Poor's, Baa1 with stable outlook by Moody's Investors Service and A- with stable outlook by Fitch Ratings. Our short-term debt ratings are A-2 and F2 with Standard and Poor's and Fitch Ratings respectively.

#### *Summary*

The Board has reviewed the 31 March 2012 Budget, the Company's DPC5 business plan and the requirements of the Company's licence Condition 30 ('availability of resources') and considers that the Company has sufficient liquidity to meet its anticipated financial and operating commitments for the next 12 months.

#### **Treasury Policy**

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

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

## Treasury operations

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

### *Credit (counterparty) risk management*

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

### *Market risk management*

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

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

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

Other than purchases of plant and machinery denominated in foreign currencies, the Company's cash flows are in sterling and the Group has no material exposure to foreign currency exchange rate movements.

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

During the year, the Company entered into interest rate swaps to amend the interest rate profile on a nominal £250m of the Company's fixed rate bond, maturing in 2026. The swaps mature in 2013 and have the effect of better aligning the Company's interest rate costs with the profile of revenue set by Ofgem over the DPC5 period to 2015.

These derivatives do not qualify for hedge accounting and all movements in fair value are reflected in the income statement. At 31 March 2011 the fair value of these new instruments was £16m (liability) (31 March 2010: £nil).

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

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

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

This has led to fair value losses of £30m being recognised in the income statement for the year (2010: £97m fair value loss). As noted above, these movements have no cash flow impact in this year or the prior year.

### **Critical accounting policies**

The Group and Company prepares its consolidated financial statements 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'). Therefore the Group and Company financial statements comply with Article 4 of the EU IAS Regulations. As such, the Directors are required to make certain estimates, judgements and assumptions that they believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years presented.

On an ongoing basis, the Group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the year in which the facts that give rise to the revision become known.

### **Principal risks and uncertainties**

The Group operates a Risk Management and Control Framework to evaluate and manage identified risks as described below.

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

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

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

#### **The changing Regulatory Framework may adversely affect the Company**

There is a risk that Ofgem's revised ('RIIO') framework for future price controls may adversely affect the cash flow, financeability and/or valuation of the Company, if implemented in an unfavourable manner. Ofgem's RIIO objectives set out the principles that the regulator will employ in agreeing future price controls with distribution companies. These include a number of significant changes from the principles employed in previous price controls. In the main they represent an opportunity to grow the Company by demonstrating the key role that networks have to undertake in the transition to a low carbon economy.

Electricity North West is actively engaged in the consultations on the gas and transmission price controls to influence Ofgem's implementation of its new principles in a manner that would be beneficial to our customers and the Company if these principles were replicated in our next price control ('RIIO ED1').

#### **Financing our investment needs**

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

### **The Company's charging policies may be 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 the Company'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.

The Company has worked with the industry and Ofgem on the development of a common distribution charging methodology for use of system charges which will reflect the requirements on DNOs under a licence not to restrict, distort or prevent competition. Ofgem made a collective licence modification on 1 July 2009, which requires DNOs to implement the common charging methodology with effect from 1 April 2010.

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 the Company's revenue 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 the Company. The allegations relate to the terms imposed by the Company on independent distribution network operators ('IDNOs') connecting to the Company's pre-existing network, and whether these terms foreclose the market to competitors in the area in which the Company is the incumbent DNO.

In respect of the specific allegations against the Company, we submitted to Ofgem on 18 March 2009 a detailed response to the complaint which concluded that, in the Company's opinion, there were insufficient grounds for Ofgem to continue with its investigation. In July 2010 Ofgem presented an outline of its findings and in November 2010 the Company provided a comprehensive response that demonstrated there was no substantial case for us to answer. There has been no dialogue or correspondence on this investigation since that submission.

### **There is a risk that the Company is in breach of its Licence obligations or other statutory or regulatory obligations**

Breach of a licence condition can attract fines of up to ten percent of the Company's annual revenue in the year preceding the date on which Ofgem gives notice of its proposal to impose a penalty. Ofgem has published a statement of the policy that it intends to apply to the imposition of any penalty and the determination of its amount. Any such penalty can be appealed, on procedural grounds only, to the High Court. In practice, many regulatory issues arising between licensees and Ofgem are settled without the need to resort to formal proceedings. However, where Ofgem is satisfied that a licensee is in breach of the terms of its licence, it has powers to secure compliance by means of an enforcement order. If a licensee does not comply with the order, as well as potentially giving rise to third party action, compliance can be enforced by the courts and Ofgem may revoke the licence.

The Company has a well established procedure for ensuring licence compliance. All business processes are designed to be inherently compliant with all relevant licence obligations. In addition the Company has established a Table of Accountabilities for licence compliance. The Table details the obligations under the standard licence conditions that we must adhere to, the Executive Team member responsible for the relevant strategy and implementation and the specific processes for monitoring the licence conditions. The Table is updated annually and has been streamlined to reflect the changes arising out of DPC5 and organisation changes within the Company since the Table was last revised. Compliance with the Table of Accountabilities is an integral part of the annual Group Internal Audit plan.

### **The losses incentive mechanism may result in revenue reduction**

There is a risk that DPC5 revenues will be adjusted downwards in 2012/13 as a result of the Losses Rolling Retention Mechanism ('LRRM'). This mechanism (part of the previous price control, DPC4) allows for losses benefits to be retained for a period of five years, providing the benefits are sustained, i.e. losses are lower at the end of DPC4 than they were at the start.

Fluctuations in settlement data used to determine losses can have a major impact on performance, though Ofgem have stated that they will take steps to ensure there are no windfall gains or losses arising from settlement data corrections.

The final year of DPC4, which is key to the calculation of the LRRM, saw major fluctuations in settlement data due to corrections being applied by electricity suppliers.

This has been recognised at industry level as it could potentially distort the LRRM calculation. Ofgem has already allowed one DNO group to restate their losses position with regard to the final year of DPC4. Electricity North West has submitted a similar request. Detailed analysis of settlement data continues to ensure the Company achieves the optimal outcome from the LRRM.

### **Delivery of network investment plans and outputs**

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

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

### **A major event causing significant service interruptions could adversely affect profitability**

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

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

### **Pension scheme obligations**

The Company participates in both defined benefit (closed to new members since 2005) and defined contribution pension schemes. The principal scheme is a defined benefit scheme and the assets of the scheme are held in Trust, independent of Company finances.

There is a risk that under performance of the pension scheme investments and/or an increase in the scheme's pension liabilities will give rise to a higher scheme deficit which requires increased Company contributions. Currently efficient pension contributions and the scheme deficit as at 31 March 2010 are recoverable through the price controls set by Ofgem.

Active monitoring of the performance of the scheme's investments is carried out formally on a quarterly basis by the pension Trustee. The Trustee engages external professional legal, actuarial and investment advice for all decisions taken and regularly consults with the Company.

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

## **Our Board**

### **Phil White FCA, CBE, Independent Non-Executive Chairman**

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

### *EXECUTIVE DIRECTORS*

#### **Stephen Johnson, Chief Executive**

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

#### **Michael McCallion FCA, Chief Financial Officer**

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

### *NON-EXECUTIVE DIRECTORS*

#### **John Gittins, Independent Non-Executive**

John is an Independent Non-Executive Director. He has been Finance Director of NCC Group plc until February 2011. Prior to that, John was Chief Financial Officer of Begbies Traynor Group plc, Finance Director at Vertex Data Science and Group Finance Director of Spring Group plc. John is a graduate of the London School of Economics and qualified as a Chartered Accountant with Arthur Andersen.

#### **Niall Mills**

Niall is Head of Infrastructure Asset Management, Europe for Colonial First State Global Asset Management. Niall is also a director of Anglian Water Group and has more than 20 years of infrastructure experience.

Niall was previously Asset Director for Southern Water in the UK. Prior to this, he held senior roles with Novar Projects, Bechtel and North West Water Engineering. Niall has a Masters of Business Administration from the London Business School, a Bachelor of Engineering (Hons) and is a Chartered Member of the Institution of Civil Engineers.

#### **Mike Nagle**

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

#### **Christine O'Reilly**

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

### **Surinder Toor**

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

## **Corporate Governance Statement**

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

In line with the key Governance theme in our ESG strategy, 'ensuring Electricity North West applies best practice corporate governance', the Company has committed to provide a sustainability report at the end of each financial year using the Global Reporting Initiative ('GRI') sustainability reporting guidelines.

### **The Combined Code**

As a private Company, having listed bonds and not listed equity, the Company has not been bound to report on 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 include a corporate governance statement in its regulatory financial statements that has the coverage and content of the corporate governance statement that a quoted company is required to prepare under the Combined Code on Corporate Governance issued under the Financial Services Authority's Listing Rules and interpretations on corporate governance. In the interests of transparency for our stakeholders, the Board has decided to include this same statement in our statutory financial statements, in addition to our regulatory financial statements.

### **Compliance statement**

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

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

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

### **Board effectiveness**



An effective Board is in place, whose major role is to promote the success of the Company by creating value for the Company's shareholders and providing an efficient, sustainable service to our customers and stakeholders. In order to achieve this, the Board meets regularly to provide leadership, set strategic direction and objectives and ensure that appropriate financial and other resources are made available to enable the Company to meet those objectives.

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

The names of the current Directors, who served during the year, and their biographical details, are set out on page 20.

Since 1 April 2010, the Board has formally met eight times with seven supplementary meetings (primarily associated with the acquisition of ENWSL). Attendance by individual Directors at meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 March 2011 was as follows:

#### *Board*

	Scheduled/ Supplementary during appointment	<b>Scheduled/ Supplementary meetings attendance</b>
P White (Chair)	7/5	<b>7/5</b>
S Johnson	8/7	<b>8/5</b>
M McCallion	4/1	<b>4/1</b>
J Gittins	8/7	<b>6/4</b>
N Mills	8/7	<b>7/5</b>
M Nagle	1/1	<b>1/0</b>
C O'Reilly	1/1	<b>1/0</b>
C Thompson	4/6	<b>2/4</b>
S Toor	8/7	<b>5/5</b>

#### *Audit Committee (Non-Executive)*

	Committee meetings during appointment	<b>Committee meetings attendance</b>
J Gittins	2	<b>1</b>
N Mills	2	<b>2</b>
M Nagle	1	<b>1</b>
C O'Reilly	1	<b>1</b>
S Toor (Chair)	2	<b>1</b>

#### *Remuneration Committee (Non-Executive)*

	Committee meetings during appointment	<b>Committee meetings attendance</b>
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P White (Chair)	1	1
N Mills	1	1
M Nagle	1	1
C O'Reilly	1	1
S Toor	1	1

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The Remuneration Committee was established on 28 January 2011 and has met once in the period under review.

In line with the Company's commitment to achieving the highest standards of health and safety for all our customers, employees and contractors, a Health and Safety Committee was established during the year. Its remit includes: setting the health and safety strategy, objectives and targets; reviewing and monitoring performance; and reporting to the Board.

The Committee first met in January 2011 and has met once in the period under review.

In addition, a Pensions Committee was established during the year. Its duties include monitoring the investment strategy adopted for the defined benefit pension liabilities by the Trustee and to input into the efficient running of the pension scheme to meet regulatory requirements. The Committee has met once in the period under review.

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

As there is no formal nominations committee of the Board, as further discussed below, the number of meetings and attendances as required by the Code has not been presented.

Formal meetings between Non-Executive Directors without Executives being present take place and they provide a forum to raise any issues. Phil White was appointed Chairman of the Company on 3 May 2010 and therefore it was not considered appropriate to review his performance for the period under review.

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. Non-executive Directors are further aware of their right, on resignation, to provide a written statement of any concerns for circulation to the Board.

The Board has ensured that an appropriate level of Directors' and Officers' insurance is in place for Directors and other Officers of the Company.

## **The Chairman and Chief Executive**

Phil White met the criteria of independence set out in the Code on appointment as Chairman and there is a clear division of responsibilities between the Chairman and the Chief Executive. These responsibilities are set out in their respective contracts. Accordingly, the Company is in compliance with the provisions contained in this section of the Code.

## **Board balance and independence**

Phil White and John Gittins fulfil the requirements of independence as set out in the Code. There are four additional Non-Executive Directors on the Board, each of whom represents an ultimate shareholder. The Company believes that these Directors together with the CEO and CFO, represent a good balance of Executive and Non-Executive Directors such that no individual or small group of individuals can, or do dominate the Board's decision making.

Since the appointment of Phil White, the Company has had two independent non-executive directors on its Board. The Company is not an equity listed company and therefore the quota of independent directors listed in the Code is not considered appropriate for the Company, having regard to its privately held status.

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

## **Appointments to the Board**

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

There is no formal Nominations Committee for the appointment of Directors and the Company does not comply, therefore, with the sections of the Code which deal with Nomination Committees.

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

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

## **Information and professional development**

All Directors receive comprehensive information on a regular basis. Board papers are distributed via the Company Secretary's office sufficiently well in advance of the relevant meeting to allow time for Directors to be fully briefed. The papers are detailed enough to enable the Directors to obtain a thorough understanding of the management and financial performance of the Company and its business. In addition, workshops are held throughout the year to enable Directors to better understand major projects or processes in more depth.

During the year under review, the minutes of Board meetings and of any Committee meetings were circulated to all members as soon as practicable. The Company Secretary assists with professional development when required and advises on governance matters both on an individual basis and in the form of papers to the Board.

Directors receive an induction on joining the Board which is tailored to enable them to discharge their duties effectively. Shareholders were invited to meet prospective candidates in the recruitment of an independent Non-Executive Director in July 2009 and again in April 2010.

All Directors are aware of their right to have access to independent professional advice at the Company's expense where necessary to fulfil their responsibilities as directors and all Directors have access to the advice and services of the Company Secretary. The removal of the Company Secretary is a matter for the Board as a whole.

## **Performance evaluation**

The Chairman conducted an evaluation of the Board's performance by questionnaire during the period under review. The Chairman has initiated an external Board evaluation in May 2011, the results of which will be reported via Mr J Gittins, an Independent Non-Executive Director, to the Board.

## **Re-election of Directors**

As a private Company, the Company is not required to hold AGMs unless requested by the shareholder. The Articles of the Company do not require that Directors retire by rotation. The Company has strong links, however, with its ultimate shareholders: Board membership includes shareholder representatives and although the Company is not compliant with this section due to its private status, shareholders are involved in Director appointments to at least as great an extent as if re-election took place at an AGM.

## **Level and make-up of remuneration**

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

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

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

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

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

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

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

## **Remuneration policy and procedure**

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

The Board has established a Remuneration Committee, the terms of reference of which are available to shareholders. Membership is solely made up of Non-Executive Directors including one Independent Non-Executive director, Phil White, who chairs the Committee and the Board. The Company does not, therefore, comply with this section of the Code. The Board is confident, however, that Phil White provides independent and objective chairmanship of the Committee.

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

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

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

## **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 in any other report published by it for Ofgem or other stakeholders as necessary.

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

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

## Internal control framework

The Board has accountability for reviewing and approving the adequacy and effectiveness of internal controls operated by the Group, including financial and operational controls; regulatory compliance and reporting controls; and risk management.

As indicated, the Board has delegated responsibility for such review and approval to its Audit Committee. The Company's affiliates, ENW Capital Finance plc and ENW Finance plc also operate Audit Committees.

It is the responsibility of management, through the Executive Team, to implement Board policies on risk and control. The Executive Team is responsible for identifying, approving, monitoring and enforcing key policies. Each year management reviews all controls including financial, operational and compliance controls and risk management procedures.

The internal control framework is designed to identify and manage, rather than to eliminate, the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

- ✔ a control environment with clearly defined organisation structures, operating within a framework of policies and procedures covering every aspect of the business
- ✔ a well established 'Table of Accountabilities' which is updated (as a minimum) annually, detailing the obligations under the standard licence conditions that we must adhere to. It outlines specific responsibility for compliance with each of our licence conditions
- ✔ a Capital Programme Management Group and Project Approvals Group with defined policies and procedures, for planning, approving and monitoring major capital investment projects
- ✔ comprehensive business planning, risk assessment and financial reporting policies and procedures; including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years
- ✔ monthly monitoring of risks and control systems, within a clearly defined risk management framework, with a centralised risk register updated by each of our business directorates
- ✔ a bi-monthly Board review of financial and non-financial performance to assess progress towards objectives
- ✔ a quarterly risk workshop held with the Executive Team where key risks are assessed collectively in terms of impact, likelihood and control strength, with an annual risk review with the Board supporting this process
- ✔ health and safety risk assessment and management processes overseen by a committee of the Board

Formal briefings are provided to our employees on the internal control framework including the requirements of the key policies and internal control framework, as well as regular updates being communicated to all employees as required.

## Internal Audit

Our Risk, Control and Assurance team has responsibility to the Audit Committee for independently assessing the adequacy and effectiveness of the management of significant risk areas and internal control in line with an annually agreed risk-based audit strategy and plan. The internal audit team comprises both financial and operational expertise and works closely with related areas of assurance activity, including legal, health and safety and regulation.

All internal audit activity is conducted by a single team under the leadership of the Head of Enterprise Risk, Control & Assurance. The role has a dual reporting line into the Audit Committee Chairman and the Chief Financial Officer.

To supplement the audit programme, the Group uses external financial and operational professionals, where appropriate, to provide independent assurance of internal control processes in accordance with a pre-defined scope.

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 Audit Committee assists the Board in discharging its review responsibilities.

### **Audit Committee and auditor**

The ENWL Audit Committee membership consists of Non-Executive Directors who have recent and relevant financial experience; John Gittins is considered an Independent Non-Executive Director and therefore the Company complies, as required, with the conditions for audit committees detailed in the Disclosure and Transparency Rules 7.1.1. John Gittins was appointed as Chair of the Committee on 24 May 2011. Phil White's appointment to the Audit Committee on 24 May 2011 meets the requirement for two independent Non-Executive Directors outlined in the Code. The composition of the Committee is considered by the Board to be effective and objective and representative of the shareholdings.

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

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

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

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

The Committee has responsibility to ensure that all commercial issues are fully understood, analysed, reported and effectively managed.

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

The Committee regularly reviews the systems of internal control and the effectiveness of the Internal Audit function. Both of which are discussed in more detail above.

The Committee has primary responsibility for the reappointment of the Company's auditors, Deloitte LLP. Having reviewed the independence and effectiveness of the external auditors, the Committee has not considered it necessary to require them to retender for audit work. The Committee's recommendation for the reappointment of Deloitte LLP as the Company's auditor was approved by the Board.

The Company's auditors do provide non-audit services. Safeguarding the independence of the external auditors is paramount and controls are in place to ensure their continued independence. However, there are occasions where services can be more efficiently undertaken by the external auditor and at no risk of impairment of their independence.

The Audit Committee has put in place a policy on the provision of services by the external auditors and all such services are approved by the Audit Committee prior to commencement.

## **Relationship with shareholders**

As a private Company, the ultimate holding Company of which has just two major shareholders, the Company does not hold an AGM. Board membership includes four Non-Executive Directors taken proportionately from both the Company's ultimate shareholders and the Company's relationship with the shareholders is, therefore, a strong one not requiring a formal AGM.

## **Directors' Report**

The Directors present their annual report and the audited financial statements of Electricity North West Limited (the 'Company') and its subsidiaries (together referred to as the 'Group') for the year ended 31 March 2011.

### **Business review and principal activities**

The Chief Executive Officer's statement on pages 2 and 3 and the Business Review on pages 4 to 20 report on the Group's activities during the year and on likely future developments. In addition the Business Review has been compiled to inform the Company's shareholders and help them assess how the Directors have performed their duty to promote the success of the Company under the Companies Act 2006. A summary of key performance indicators can be found in the Business Review. The Directors, in preparing the Business Review, have not sought to comply with the Accounting Standard Board's 2006 Reporting Statement on operating and financial reviews.

### **Principal risks and uncertainties**

Principal risks and uncertainties are discussed as part of the Business Review.

### **Dividends**

In 2011, the Company paid dividends of £62m (2010: £218m). This figure represents an interim payment of £15m paid in June 2010 and a further interim payment of £47m paid in December 2010. (2010: This figure represented an interim payment of £197m paid in July 2009 and two further interim payments of £11m and £10m paid in December 2009 and January 2010 respectively.) The Directors do not propose a final dividend for the year ended 31 March 2011 (2010: £nil).

### **Directors**

The Directors of the Company during the year ended 31 March 2011 are set out below. Directors were appointed for the whole year except where otherwise indicated.

J A Gittins  
S Johnson  
M G McCallion (appointed 2 September 2010)  
N P Mills

M A Nagle (appointed 28 January 2011)  
C E O'Reilly (appointed 28 January 2011)  
C Thompson (resigned 2 September 2010)  
S S Toor  
P M White (Chair) (appointed 3 May 2010)  
Alternate Directors during the year were:  
S O'Shea (appointed 1 April 2010, resigned 1 April 2011)  
M Ayre (appointed 1 April 2011)  
M Walters  
R O'Malley (resigned 28 January 2011)  
P Taylor (resigned 28 January 2011)

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

### **Going concern**

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

- ▣ Management has prepared, and the Directors have reviewed, updated Group forecasts for the DPC5 period which include projections and cash flow forecasts, including covenant compliance considerations. The forecasts include appropriate assumptions on the efficiencies forecast from business transformation. Inherent in forecasting is an element of uncertainty, our forecasts have been sensitised for possible changes in the key assumptions, including RPI and over recoveries of allowed revenue, and demonstrate that there is sufficient headroom to key covenants and that sufficient resources are available within the forecast period
- ▣ The Company's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating
- ▣ Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance their activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000
- ▣ The Group and Company have considerable financial resources. Short-term liquidity requirements are forecast to be met from the Company's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Furthermore, committed undrawn bank facilities are available from lenders of £80m within ENWL,

£50m in North West Electricity Networks Limited and £20m at North West Electricity Networks (Holdings) Limited which have a maturity of more than one year. Whilst the utilisation of these facilities is subject to gearing covenant restrictions the covenants are not forecast to pose any operational restrictions

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

### **Directors' and Officers' insurance**

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

### **Political and charitable donations**

The Group made no political donations in the year (2010: £nil). Charitable donations by the Group in the year amounted to £11,000 (2010: £2,000) in support of causes in the local communities in which it operates.



## **People**

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

## **Environment, social and community**

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

## **Essential contractual relationships**

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

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

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

As at 31 March 2011, the average credit period taken for trade purchases was 23 days from receipt of invoice. In 2010 trade creditors principally comprised amounts outstanding to UUES for capital and operating services provided under their contract. The credit period with UUES was 10 days from receipt of invoice. UUES creditor days as disclosed in their March 2010 financial statements were 24 days.

## **Research and development**

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

## **Financial instruments**

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

## **Fixed assets**

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

## **Events after the balance sheet date**

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

## **Information given to auditor**

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 within the provisions of s418 of the Companies Act 2006.

### **Independent auditor**

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

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

### **Registered address**

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

Registered number: 2366949

Approved by the Board on 26 May 2011 and signed on its behalf by:

**S Johnson**  
Director

### **Directors' responsibilities statement**

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

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

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

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

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

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.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Business Review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## **Independent auditor's report to the members of Electricity North West Limited**

We have audited the financial statements of Electricity North West Limited for the year ended 31 March 2011 which comprise the Consolidated Income Statement, and the Consolidated and Company Statements of Comprehensive Income, Financial Position, Cash Flows and Changes in Equity, and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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

**Alan Fendall (Senior Statutory Auditor)**

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Manchester, United Kingdom  
26 May 2011

**CONSOLIDATED INCOME STATEMENT**  
for the year ended 31 March 2011

	<i>Note</i>	<b>Group</b> <b>2011</b> <b>£m</b>	Restated* Group 2010 £m
<b>Revenue</b>	2	<b>393.8</b>	323.6
Employee benefits expense	3,4	<b>(33.9)</b>	(6.7)
Depreciation and amortisation expense (net)	3	<b>(68.3)</b>	(60.4)
Other operating costs	3	<b>(81.2)</b>	(100.6)
<b>Total operating expenses</b>		<b>(183.4)</b>	(167.7)
<b>Operating profit</b>	3	<b>210.4</b>	155.9
Investment income	5	<b>1.8</b>	0.4
Finance expense	6	<b>(73.1)</b>	(139.2)
<b>Profit before taxation</b>		<b>139.1</b>	17.1
Taxation	7	<b>(17.9)</b>	(18.2)
<b>Profit/(loss) for the year</b>		<b>121.2</b>	(1.1)

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

\*See notes 1 and 2 for details of the restatement

**CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF FINANCIAL POSITION**  
**at 31 March 2011**

		<b>Group</b>	<b>Company</b>	Re-presented*	Re-presented*
	<i>Note</i>	<b>2011</b>	<b>2011</b>	Group	Company
		<b>£m</b>	<b>£m</b>	2010	2010
				£m	£m
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets and goodwill	9	29.8	29.8	21.0	21.0
Property, plant and equipment	10	2,309.5	2,312.5	2,185.1	2,188.1
Investments	11	-	15.4	-	-
		<b>2,339.3</b>	<b>2,357.7</b>	2,206.1	2,209.1
<b>Current assets</b>					
Inventories	12	5.6	5.6	-	-
Trade and other receivables	13	78.1	78.1	34.9	34.9
Money market deposits	14	40.0	40.0	-	-
Cash and cash equivalents	14	126.9	126.9	72.0	72.0
Derivative financial instruments	16	1.0	1.0	1.1	1.1
		<b>251.6</b>	<b>251.6</b>	108.0	108.0
<b>Total assets</b>		<b>2,590.9</b>	<b>2,609.3</b>	2,314.1	2,317.1
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	17	(151.5)	(166.9)	(95.9)	(95.9)
Current income tax liabilities		(24.1)	(24.1)	(17.7)	(17.7)
		<b>(175.6)</b>	<b>(191.0)</b>	(113.6)	(113.6)
<b>Net current assets/(liabilities)</b>		<b>76.0</b>	<b>60.6</b>	(5.6)	(5.6)
<b>Non-current liabilities</b>					
Borrowings	15	(1,043.9)	(1,043.9)	(899.2)	(899.2)
Derivative financial instruments	16	(76.3)	(76.3)	(52.9)	(52.9)
Deferred tax	20	(258.6)	(259.6)	(253.7)	(254.6)
Customer contributions	21	(448.5)	(448.5)	(422.0)	(422.0)
Refundable customer deposits	22	(1.6)	(1.6)	(3.5)	(3.5)
Retirement benefit obligations	19	(41.3)	(41.3)	(142.8)	(142.8)
		<b>(1,870.2)</b>	<b>(1,871.2)</b>	(1,774.1)	(1,775.0)
<b>Total liabilities</b>		<b>(2,045.8)</b>	<b>(2,062.2)</b>	(1,887.7)	(1,888.7)
<b>Total net assets</b>		<b>545.1</b>	<b>547.1</b>	426.4	428.4
<b>EQUITY</b>					
Called up share capital	23	238.4	238.4	238.4	238.4
Share premium account	24	4.4	4.4	4.4	4.4
Revaluation reserve	24	109.9	109.9	111.6	111.6
Capital redemption reserve	24	8.6	8.6	8.6	8.6
Retained earnings	24	183.8	185.8	63.4	65.4
<b>Total equity</b>		<b>545.1</b>	<b>547.1</b>	426.4	428.4

\*See note 16 for details of the re-presentation.

The financial statements of Electricity North West Limited (registered number 2366949) were approved by the Board of Directors on 26 May 2011 and signed on its behalf by:

**M McCallion**  
**Director**

**CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF  
COMPREHENSIVE INCOME**

*for the year ended 31 March 2011*

	<i>Note</i>	<b>Group 2011 £m</b>	<b>Company 2011 £m</b>	<b>Group 2010 £m</b>	<b>Company 2010 £m</b>
<b>Profit/(loss) for the financial year</b>		<b>121.2</b>	<b>121.2</b>	<b>(1.1)</b>	<b>(1.1)</b>
<b>Other comprehensive income/(expenses)</b>					
Actuarial gains/(losses) on defined benefit pension schemes	19	<b>84.4</b>	<b>84.4</b>	(119.3)	(119.3)
Deferred tax on items taken directly to equity	20	<b>(24.9)</b>	<b>(24.9)</b>	33.4	33.4
<b>Other comprehensive income/(expense) for the year</b>		<b>59.5</b>	<b>59.5</b>	<b>(85.9)</b>	<b>(85.9)</b>
<b>Total comprehensive income/(expense) for the year and attributable to equity holders</b>		<b>180.7</b>	<b>180.7</b>	<b>(87.0)</b>	<b>(87.0)</b>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 March 2011

**Group**

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total Equity £m
At 1 April 2009	238.4	4.4	116.4	8.6	363.9	731.7
Loss for the year	-	-	-	-	(1.1)	(1.1)
Transfer from						
Revaluation reserve	-	-	(4.8)	-	4.8	-
Actuarial losses on defined benefit schemes	-	-	-	-	(119.3)	(119.3)
Tax on components of comprehensive income	-	-	-	-	33.4	33.4
<b>Total comprehensive expense for the year</b>	-	-	(4.8)	-	(82.2)	(87.0)
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends (note 8)	-	-	-	-	(218.3)	(218.3)
At 31 March 2010	238.4	4.4	111.6	8.6	63.4	426.4
Profit for the year	-	-	-	-	121.2	121.2
Transfer from						
Revaluation reserve	-	-	(1.7)	-	1.7	-
Actuarial gains on defined benefit schemes	-	-	-	-	84.4	84.4
Tax on components of comprehensive income	-	-	-	-	(24.9)	(24.9)
<b>Total comprehensive income for the year</b>	-	-	(1.7)	-	182.4	180.7
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
<b>At 31 March 2011</b>	<b>238.4</b>	<b>4.4</b>	<b>109.9</b>	<b>8.6</b>	<b>183.8</b>	<b>545.1</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 March 2011

**Company**

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total Equity £m
At 1 April 2009	238.4	4.4	116.4	8.6	365.9	733.7
Loss for the year	-	-	-	-	(1.1)	(1.1)
Transfer from Revaluation reserve	-	-	(4.8)	-	4.8	-
Actuarial losses on defined benefit schemes	-	-	-	-	(119.3)	(119.3)
Tax on components of comprehensive income	-	-	-	-	33.4	33.4
<b>Total comprehensive income for the year</b>	-	-	(4.8)	-	(82.2)	(87.0)
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends (note 8)	-	-	-	-	(218.3)	(218.3)
At 31 March 2010	238.4	4.4	111.6	8.6	65.4	428.4
Profit for the year	-	-	-	-	121.2	121.2
Transfer from Revaluation reserve	-	-	(1.7)	-	1.7	-
Actuarial gains on defined benefit schemes	-	-	-	-	84.4	84.4
Tax on components of comprehensive income	-	-	-	-	(24.9)	(24.9)
<b>Total comprehensive income for the year</b>	-	-	(1.7)	-	182.4	180.7
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends (note 8)	-	-	-	-	(62.0)	(62.0)
<b>At 31 March 2011</b>	<b>238.4</b>	<b>4.4</b>	<b>109.9</b>	<b>8.6</b>	<b>185.8</b>	<b>547.1</b>

**CONSOLIDATED STATEMENT AND COMPANY STATEMENT OF CASH FLOWS**  
*for the year ended 31 March 2011*

	<i>Note</i>	<b>Group 2011</b>	<b>Company 2011</b>	Group 2010	Company 2010
<b>Operating activities</b>					
Cash generated from operations	28	245.9	246.8	218.4	218.4
Interest paid		(37.0)	(37.0)	(59.7)	(59.7)
Tax paid		(31.1)	(31.1)	(31.4)	(31.4)
<b>Net cash generated from operating activities</b>		<b>177.8</b>	<b>178.7</b>	127.3	127.3
<b>Investing activities</b>					
Interest received and similar income		0.6	0.6	0.4	0.4
Purchase of property, plant and equipment		(173.9)	(155.2)	(168.9)	(168.9)
Purchase of intangible assets		(3.0)	(2.9)	(5.0)	(5.0)
Acquisition of subsidiary, net of cash acquired	26	(14.3)	(23.5)	-	-
Overdraft acquired on hive-up of subsidiary	26	-	(10.0)	-	-
Customer contributions received		37.1	37.1	43.9	43.9
Proceeds from sale of property, plant and equipment		0.6	0.1	0.2	0.2
<b>Net cash used in investing activities</b>		<b>(152.9)</b>	<b>(153.8)</b>	(129.4)	(129.4)
<b>Financing activities</b>					
Proceeds from borrowings		135.9	135.9	270.4	270.4
Transfer to money market deposits		(40.0)	(40.0)	-	-
Repayment of borrowings		(3.9)	(3.9)	(32.7)	(32.7)
Receipt on close out of swap		-	-	18.0	18.0
Dividends paid to equity shareholders of the Company		(62.0)	(62.0)	(218.3)	(218.3)
<b>Net cash generated from financing activities</b>		<b>30.0</b>	<b>30.0</b>	37.4	37.4
<b>Net increase in cash and cash equivalents</b>		<b>54.9</b>	<b>54.9</b>	35.3	35.3
<b>Cash and cash equivalents at the beginning of the year</b>					
	14	72.0	72.0	36.7	36.7
<b>Cash and cash equivalents at the end of the year</b>					
	14	126.9	126.9	72.0	72.0

## Notes to the financial statements

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

### ACCOUNTING POLICIES

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

#### Basis of preparation – going concern basis

When considering continuing to adopt the going concern basis in preparing the Annual Report and financial statements, the Directors have taken into account a number of factors, including the financial position of the Group, its cash flow forecasts, liquidity position, borrowing facilities and covenant compliance as described in the Directors' Report and Business Review. Consequently, after making the appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and comply with its banking covenants for the foreseeable future. Accordingly, it is appropriate to adopt the going concern basis in preparing the annual report and financial statements.

#### Adoption of new and revised standards

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

##### *IFRIC 18 'Transfers of Assets from Customers'*

In the current financial year, the Group has adopted IFRIC 18 'Transfers of Assets from Customers'. IFRIC 18 is effective for annual periods beginning on or after 31 October 2009, with earlier application permitted. Having been endorsed by the EU on 27 November 2009, this has been applied by Electricity North West Limited ('ENWL') during the year ending 31 March 2011. The standard has been applied to transfers received on or after 1 July 2009. The amortisation of customer contributions received in respect of certain connections assets is now shown as revenue rather than within operating costs. Comparatives have been restated accordingly. This has resulted in a prior year adjustment as outlined in note 2. There has been no statement of financial position adjustment arising from this restatement.

##### *IFRS 3 (2008) - Business combinations*

IFRS 3 (2008) requires some significant changes to the way business combinations are accounted for. All costs associated with business combinations are expensed directly to the Income Statement. Additionally any changes to contingent consideration classified as debt must now be dealt with through the Income Statement subsequent to acquisition. These changes apply to all acquisitions made on or after 1 January 2010. There is no requirement to apply these changes retrospectively to earlier acquisitions.

### *Improvements to IFRSs*

In April 2009 the International Accounting Standards Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Derivative financial liabilities have been re-presented to non-current in the preceding year, in accordance with Improvements to IFRSs. Other than that the adoption of these amendments, which are effective for accounting periods beginning on or after 1 January 2010, did not have any impact on the reporting of the financial position or performance of the Group.

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

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

- IFRS 9: Financial Instruments
- IAS 24 (amended): Related Party Disclosures
- IAS 32 (amended): Classification of Rights Issues
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 (amended): Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs (May 2010)

### **Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries), made up to 31 March each year.

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

### **Subsidiaries**

Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an invested entity so as to obtain benefits from its activities. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired the difference is recognised as negative goodwill and immediately written-off and credited to the income statement in the year of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. All costs associated with business combinations are expensed to the income statement.

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

## **Intangible assets and goodwill**

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

## **Property, plant and equipment**

Property, plant and equipment comprises operational structures and other assets (including properties, overground plant and equipment and electricity operational assets).

### *Operational structures*

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

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

### *Other assets*

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

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

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

Buildings 30-60 years

Fixtures, fittings, tools and equipment and vehicles 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 the income statement.

## **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. An intangible asset with an indefinite life is tested for impairment at least annually and whenever there is an indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

### **Inventories**

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

### **Financial instruments**

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

#### **Trade receivables**

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

#### **Trade payables**

Trade payables are stated at their nominal value.

#### **Cash and cash equivalents**

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

#### **Money market deposits**

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

### **Financial investments**

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

### **Financial liabilities and equity**

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

### **Bank borrowings**

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

The effective interest rate is a method of calculating the amortised cost of a financial liability and of allocating interest expense to the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### ***Borrowing costs and finance income***

All borrowing costs and finance income that are not directly attributable to the acquisition, issue or disposal of a financial asset or financial liability are recognised in the income statement in the year in which they are incurred. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument.

#### ***Derivatives and borrowings***

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

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

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

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

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

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

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

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

#### ***Hedge accounting***

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

#### ***Operating profit***

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

#### ***Taxation***



The tax expense represents the sum of current and deferred tax charges for the financial year, adjusted for prior year items.

### **Current taxation**

Current tax, representing UK corporation tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

### **Deferred taxation**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the statement of financial position date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer more likely than not that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in other comprehensive income.

### **Employee benefits - Retirement benefit obligations**

The Group's defined pension benefit arrangements are provided through a division of the Electricity Supply Pension Scheme (ESPS). The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2010 and actuarial valuations will be carried out thereafter at intervals of not more than three years. The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 19 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the scheme's assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants. Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position.

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

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

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. The Company has taken legal advice on how this change will impact the Scheme. This

change has been reflected in the Company's accounting figures at 31 March 2011 and a reduction in the benefit obligation of £3m has been recognised in equity as a result of this change in assumptions.

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

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

### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation 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 primarily for the distribution of electricity during the year, exclusive of value-added tax. Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year end. Remaining sales relate to the invoice value of other goods and services provided which also relate to the electricity network.

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

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

### **Customer Contributions**

Contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated economic lives of the related assets. Amortisation of contributions received post 1 July 2009 is shown as revenue following the adoption of IFRIC 18.

### **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.

### **Research and development**

Research and development costs are written off to the income statement as incurred.

### **Critical Accounting Policies**

In the process of applying the Group's accounting policies, the Group is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years presented.

On an ongoing basis, the Group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the year in which the facts that give rise to the revision become known.

The following policies are those critical judgements which the Group believes have the most significant impact on the annual results under IFRS.

#### *Carrying value of long-life assets*

The Group's accounting policy for property, plant and equipment ('PPE') is detailed above. The carrying value of PPE under IFRS as at 31 March 2011 was £2,309.5m (2010: £2,185.1m). Additions to PPE, excluding acquisitions, totalled £188.1m (2010: £167.3m) and the depreciation charge was £75.1m (2010: £68.3m) in the year ended 31 March 2011. The estimated useful economic lives of PPE are based on management's judgement and experience. When management identify that the actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

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

In the financial year ended 31 March 2011, the Directors have assessed the carrying value of both tangible and intangible fixed assets in accordance with the principles of IAS37 'Impairment of Assets'. This review was underpinned by the 19 December 2007 professional valuation of tangible and intangible assets completed in accordance with IFRS3 and included a review of the final proposals for the DPC5 period and thus any impact on the recoverable amount of these assets. The results of the 2009 valuation supported a fair value in excess of the book value and in addition the DPC5 final proposals do not indicate a resulting impairment due to favourable future operating cash flows being forecast to the end of 2015 and beyond. Furthermore, management have completed a review of tangible fixed assets for material obsolescence and/or physical damage and no indication of impairment was identified.

#### *Revenue recognition*

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

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

#### *Accounting for provisions and contingencies*

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

#### *Retirement benefits*

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

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

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

The Group designates derivatives into hedging relationships and applies hedge accounting where all the criteria under IAS 39 'Financial Instruments: Recognition and Measurement' are met.

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

#### *Goodwill and intangible assets*

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

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

During the year the Group has acquired the share capital of ENWSL. On acquisition, in line with IFRS 3 requirements, management has performed a review for intangibles as part of the assessment of fair values. For an intangible asset to be recognised it must be possible to separately identify it and also to reliably measure the value. Management did not identify any intangible assets arising as a result of the acquisition of ENWSL, and consequently the

excess of the total consideration over acquired net assets, after fair value adjustments, of £10.1 million has been recognised as goodwill.

## 2 REVENUE

	2011 £m	2010 Restated £m
<b>Revenue</b>	<b>393.8</b>	323.6

Predominantly all Group revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is therefore regularly reviewed by the Chief Executive Officer and Executive Team. Included within the above are revenues of approximately £313.9m (2010: £254.4m) which arose from sales to the Group's five largest customers. Customer 1 represented £98.7m (2010: £78.6m), Customer 2 £79.7m (2010: £64.4m), Customer 3 £55.6m (2010: £43.5m), Customer 4 £40.3m (2010: £32.9m) and Customer 5 £39.6m (2010: £32.9m) of revenues. No other customer represented more than 10 per cent of revenues.

Following the adoption of IFRIC 18 in the year, the amortisation of customer contributions received on or after 1 July 2009 in respect of customer connection assets is now shown as revenue rather than within operating costs. This has resulted in a prior year adjustment to increase revenue by £0.2m.

## OPERATING PROFIT

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

Group	2011 £m	2010 Restated £m
<b>Employee benefits expense</b>		
Employee costs (see note 4)	<b>33.9</b>	6.7
<b>Depreciation and amortisation expense (net)</b>		
Depreciation of property, plant and equipment		
Owned assets (see note 10)	<b>75.1</b>	68.3
Amortisation of intangible assets and customer contributions		
Software (see note 9)	<b>4.3</b>	3.3
Customer contributions (see note 21)	<b>(11.1)<sup>1</sup></b>	(11.2) <sup>1</sup>
	<b>68.3</b>	60.4
<b>Other income</b>		
Profit on disposal of property, plant and equipment	<b>(0.6)</b>	(0.2)
<b>Other operating costs include:</b>		
Research and development	<b>1.5</b>	1.3
Restructuring costs	<b>1.9<sup>2</sup></b>	-
Operating leases:		
- land and buildings	<b>0.6</b>	0.9
- hire of plant and machinery	<b>0.5</b>	1.7

<sup>1</sup> In the current year £1.0m (2010: £0.2m) of customer contributions amortisation has been amortised through revenue as a result of the adoption of IFRIC 18 as detailed in note 1 and 2.

<sup>2</sup> Restructuring costs include severance costs of £1.1m acquisition costs of £0.8m.

During the year, the Group obtained the following services from the Group's auditor, at fees detailed below:

Group	2011 £m	2011 £m	2010 £m	2010 £m
Fees payable to the Group's auditor for the audit of the Group's annual accounts		0.1		0.1
Other non-audit services				
Other services*	-		-	
Tax services	0.1		0.1	
Corporate finance services	0.1		-	
Total non-audit services		0.2		0.1
<b>Total fees</b>		<b>0.3</b>		<b>0.2</b>

\* Fees payable to the auditor in relation to other services totalled £45,000 (2010: £56,000).

Fees payable for the audit of the Company were £0.1m (2010:£0.1m).

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

## EMPLOYEE BENEFIT EXPENSE

	Group 2011 £m	Group 2010 £m
Wages and salaries	51.8	6.4
Social security costs	3.9	0.5
Pension costs (see note 19)	12.6	6.7
Employee costs (including Directors' remuneration)	68.3	13.6
Costs transferred directly to fixed assets	(34.4)	(6.9)
<b>Charged to operating expenses</b>	<b>33.9</b>	<b>6.7</b>

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

	Group 2011 Number	Company 2011 Number	Group 2010 Number	Company 2010 Number
<b>Electricity distribution</b>	<b>1,189</b>	<b>109</b>	94	94

The increase in employee numbers in the current year primarily relates to the acquisition of UUES, see note 26 for further details.

## INVESTMENT INCOME

	2011 £m	2010 £m
Interest receivable on short-term bank deposits held at amortised cost	0.6	0.4
Expected return on pension scheme assets (see note 19)	51.7	-
Interest cost on pension scheme obligations (see note 19)	(50.5)	-
Net pension interest	1.2	-
<b>Total investment income</b>	<b>1.8</b>	<b>0.4</b>

## FINANCE EXPENSE

Group	2011 £m	2011 £m	2010 £m	2010 £m
<b>Interest payable</b>				
Expected return on pension scheme assets (note 19)	-		(41.7)	
Interest cost on pension scheme obligations (note 19)	-		46.6	
Net pension interest expense		-		4.9
Interest payable on bank borrowings	-		0.4	
Interest payable on Group borrowings	16.8		12.1	
Interest payable on borrowings held at amortised cost	21.0		18.7	
Interest payable on borrowings designated at fair value through profit or loss	22.2		22.2	
Net (receipts)/payments on derivatives held for trading	(22.5)		3.8	
Other finance charges/(income) related to index-linked bonds	5.3		(1.6)	
		<b>42.8</b>		<b>55.6</b>
<b>Fair value losses/(gains) on financial instruments</b>				
Borrowings designated at fair value through profit and loss	6.8		26.3	
Derivatives held for trading	23.5		70.4	
Cash settlement on close-out of amortising swaps	-		(18.0)	
		<b>30.3</b>		<b>78.7</b>
<b>Total finance expense</b>		<b>73.1</b>		<b>139.2</b>

In respect of the movement in the fair value of borrowings designated as at fair value through income statement of £6.8m loss (2010: £26.3m loss), £7.5m loss (2010: £32.3m loss) is attributable to changes in credit spread assumptions which is partially offset by changes in interest rates and therefore interest payable.

## TAXATION

	2011 £m	2010 £m
<b>Current tax</b>		
UK corporation tax	38.9	14.5
Prior year	(1.4)	5.4
<b>Deferred tax (see note 20)</b>		
Current year	1.4	(10.3)
Prior year	-	8.6
Impact of change in future tax rates	(21.0)	-
<b>Taxation</b>	<b>17.9</b>	<b>18.2</b>

Corporation tax is calculated at 28% (2010: 28%) of the estimated assessable profit for the year.

The Budget on 23 March 2011 announced new phased reductions in the main UK corporation tax rate. The rate is now proposed to be 23% by 1 April 2014. The first reduction to 26% takes effect from 1 April 2011. Tax rate changes are taken into account if they are substantively enacted at the statement of financial position date. The reduction to 26% was included in a resolution passed under the Provisional Collection of Taxes Act ('PCTA') 1968 on 29 March 2011. Accordingly the tax disclosures reflect deferred tax measured on the new 26% rate. It has not yet been possible to quantify the full anticipated effect of the further 3% rate reduction, although this will further reduce the company's future tax charge and reduce the company's deferred tax liabilities/assets accordingly.

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

	2011 £m	2011 %	2010 £m	2010 %
<b>Profit before tax</b>	<b>139.1</b>		17.1	
Tax at the UK corporation tax rate of 28% (2010: 28%)	39.0	28.0	4.8	28.0
Prior year tax adjustments	(1.4)	(1.0)	14.0	81.9
Impact of withdrawal of IBA allowances	1.3	1.0	0.9	5.3
Impact from change in future tax rates	(21.0)	(15.1)	(1.5)	(8.8)
<b>Tax expense and effective tax rate for the year</b>	<b>17.9</b>	<b>12.9</b>	18.2	106.4

In addition to the amount charged to the Income Statement, deferred tax relating to actuarial gains on defined benefit schemes of £24.9m charge (2010: £33.4m credit) was also taken to the Statement of Comprehensive Income.

## DIVIDENDS

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



	2011 £m	2010 £m
Interim dividends paid during the year ended 31 March 2011 of 13p per share (31 March 2010: 45.8p per share)	<b>62.0</b>	218.3

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, no liability has been included in the financial statements at 31 March 2011 and 31 March 2010 respectively.

## INTANGIBLE ASSETS AND GOODWILL

Group and Company	Goodwill £m	Software £m	Assets under the course of construction £m	Total £m
<b>Cost</b>				
At 1 April 2009	-	34.5	1.3	35.8
Additions	-	-	5.1	5.1
Transfers	-	0.9	(0.9)	-
At 31 March 2010	-	35.4	5.5	40.9
Additions	-	0.4	2.6	3.0
Arising on acquisition of subsidiary	10.1	-	-	10.1
Transfers	-	2.2	(2.2)	-
<b>At 31 March 2011</b>	<b>10.1</b>	<b>38.0</b>	<b>5.9</b>	<b>54.0</b>
<b>Amortisation</b>				
At 1 April 2009	-	16.6	-	16.6
Charge for the year	-	3.3	-	3.3
At 31 March 2010	-	19.9	-	19.9
Charge for the year	-	4.3	-	4.3
<b>At 31 March 2011</b>	<b>-</b>	<b>24.2</b>	<b>-</b>	<b>24.2</b>
<b>Net book value</b>				
<b>At 31 March 2011</b>	<b>10.1</b>	<b>13.8</b>	<b>5.9</b>	<b>29.8</b>
At 31 March 2010	-	15.5	5.5	21.0
At 1 April 2009	-	17.9	1.3	19.2

In the Group goodwill arose on the acquisition of ENWSL in the current year, see note 26 for details.

At 31 March 2011, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to £2.1m (2010: £Nil).

In the Company, Goodwill arose on the transfer of assets and liabilities (the 'hive-up') of ENWSL in the current year. This value reflects the excess of the investment over the book value of the trade and assets at the date of hive-up and reflects the value of the business now

within ENWL. The value of the investment has consequently been reduced by this same amount. See notes 11 and 26 for further details.

### Impairment testing

The Group tests annually for impairment or more frequently if there are indications that intangible assets with indefinite lives might be impaired. The recoverable amounts of the cash generating units ('CGUs') are determined from value in use calculations. For the purposes of impairment testing the Group have determined that there is only one CGU. The key assumptions for the value in use calculations are those regarding discount rates and the outcomes of future Ofgem price control settlements.

The Group has prepared cash flow forecasts for the period up to 31 March 2015 and has extrapolated the cash flows into perpetuity. The rate used to discount cash flows was 7% reflecting an assumed level of risk associated with the cash flows generated from the licence.

## PROPERTY, PLANT AND EQUIPMENT

### Group

	<i>Operational Structures</i> £m	<i>Non operational land and buildings</i> £m	<i>Fixtures, equipment, vehicles and other</i> £m	<i>Assets under the course of construction</i> £m	<i>Total</i> £m
<b>Cost or valuation</b>					
At 1 April 2009	2,768.1	11.2	11.7	190.4	2,981.4
Additions	85.0	-	0.2	82.1	167.3
Transfers	86.6	(0.1)	(0.3)	(86.2)	-
Disposals	(11.0)	-	-	-	(11.0)
At 31 March 2010	2,928.7	11.1	11.6	186.3	3,137.7
Additions	54.2	1.3	4.0	128.6	188.1
Arising on acquisition	-	-	18.3	-	18.3
Transfers	104.5	0.4	1.4	(106.3)	-
Disposals	(7.3)	-	(0.3)	-	(7.6)
<b>At 31 March 2011</b>	<b>3,080.1</b>	<b>12.8</b>	<b>35.0</b>	<b>208.6</b>	<b>3,336.5</b>
<b>Depreciation and impairment</b>					
At 1 April 2009	885.1	3.5	6.7	-	895.3
Charge for the year	66.8	0.2	1.3	-	68.3
Disposals	(11.0)	-	-	-	(11.0)
At 31 March 2010	940.9	3.7	8.0	-	952.6
Arising on acquisition	-	-	6.9	-	6.9
Charge for the year	69.9	0.3	4.9	-	75.1
Disposals	(7.3)	-	(0.3)	-	(7.6)
<b>At 31 March 2011</b>	<b>1,003.5</b>	<b>4.0</b>	<b>19.5</b>	<b>-</b>	<b>1,027.0</b>
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>2,076.6</b>	<b>8.8</b>	<b>15.5</b>	<b>208.6</b>	<b>2,309.5</b>
At 31 March 2010	1,987.8	7.4	3.6	186.3	2,185.1
At 1 April 2009	1,883.0	7.7	5.0	190.4	2,086.1

At 31 March 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £35.7m (2010: £33.4m).

<b>Company</b>	<b>Operational Structures £m</b>	<b>Non operational land and buildings £m</b>	<b>Fixtures and equipment, vehicles and other £m</b>	<b>Assets under the course of construction £m</b>	<b>Total £m</b>
<b>Cost or valuation</b>					
At 1 April 2009	2,771.1	11.2	11.7	190.4	2,984.4
Additions	85.0	-	0.2	82.1	167.3
Transfers	86.6	(0.1)	(0.3)	(86.2)	-
Disposals	(11.0)	-	-	-	(11.0)
At 31 March 2010	2,931.7	11.1	11.6	186.3	3,140.7
Additions	54.2	1.3	1.1	128.6	185.2
Transfers	104.5	0.4	1.4	(106.3)	-
Intra group transfers <sup>1</sup>	-	-	20.9	-	20.9
Disposals	(7.3)	-	-	-	(7.3)
<b>At 31 March 2011</b>	<b>3,083.1</b>	<b>12.8</b>	<b>35.0</b>	<b>208.6</b>	<b>3,339.5</b>
<b>Depreciation and Impairment</b>					
At 1 April 2009	885.1	3.5	6.7	-	895.3
Charge for the year	66.8	0.2	1.3	-	68.3
Disposals	(11.0)	-	-	-	(11.0)
At 31 March 2010	940.9	3.7	8.0	-	952.6
Charge for the year	69.9	0.3	2.3	-	72.5
Disposals	(7.3)	-	-	-	(7.3)
Intra group transfers <sup>1</sup>	-	-	9.2	-	9.2
<b>At 31 March 2011</b>	<b>1,003.5</b>	<b>4.0</b>	<b>19.5</b>	<b>-</b>	<b>1,027.0</b>
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>2,079.6</b>	<b>8.8</b>	<b>15.5</b>	<b>208.6</b>	<b>2,312.5</b>

At 31 March 2010	1,990.8	7.4	3.6	186.3	2,188.1
At 1 April 2009	1,886.0	7.7	5.0	190.4	2,089.1

<sup>1</sup> The intra-group transfer related to the hive-up of net assets from ENWSL see note 26.

At 31 March 2011, had the property, plant and equipment of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been approximately £2,164.1m (2010: £2,033.1m). The revaluation surplus is disclosed in note 24, net of deferred tax. The revaluation surplus arose following a Directors' revaluation of operational assets and non operational land and buildings in 1997.

## INVESTMENTS

	Group £m	Company £m
<b>Cost</b>		
At 1 April 2010	-	-
Additions	-	25.5
Transferred to goodwill (note 9)	-	(10.1)
<b>At 31 March 2011</b>	<b>-</b>	<b>15.4</b>

The addition in the year relates the acquisition of ENWSL as described in note 26. Details of the investments as at 31 March 2011, all of which were incorporated in the UK, are as follows:

### Company

	Description of holding	Proportion held	Nature of business
<i>Subsidiary undertakings</i>			
Electricity North West Services Limited	Ordinary shares of £1 each	100%	Operation and maintenance of electricity network <sup>1</sup>
NB Property and Estate Services No. 1 Limited	Ordinary shares of £1 each	100%	Dormant
NB Leasing Limited	Ordinary shares of £1 each	100%	Dormant
NB (Miles Platting Community Project) Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Non trading

### Group and Company

	Description of holding	Proportion held	Nature of business
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### Associated undertaking

Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant
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<sup>1</sup> As at 31 March 2011 the trade and assets of ENWSL were hived-up to ENWL. Going forward this company is no longer expected to trade.

## INVENTORIES

	Group 2011 £m	Company 2011 £m	Group 2010 £m	Company 2010 £m
<b>Raw materials and consumables</b>	<b>5.6</b>	<b>5.6</b>	-	-

## TRADE AND OTHER RECEIVABLES

	Group 2011 £m	Company 2011 £m	Group 2010 £m	Company 2010 £m
Trade receivables	33.2	33.2	2.0	2.0
Prepayments and accrued income	41.5	41.5	32.9	32.9
Amounts owed by Group undertakings	3.4	3.4	-	-
	<b>78.1</b>	<b>78.1</b>	34.9	34.9

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.1m (2010: £0.3m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment. The average credit period taken on sales is 14 days (2010: 14 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Of the trade receivables, 10% (2010: 2.3%) are past due but not impaired. The majority of balances are less than 45 days past due; a balance of £1.3m is greater than 45 days past due at 31 March 2011 (2010: £0.1m), against which an allowance for doubtful debt of £0.2m (2010: £Nil) has been made.

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

	Group 2011 £m	Company 2011 £m	Group 2010 £m	Company 2010 £m
Balance at 1 April 2010	0.3	0.3	0.6	0.6
Charged to the income statement	-	-	0.3	0.3
Utilised	(0.2)	(0.2)	(0.6)	(0.6)
<b>Balance at 31 March 2011</b>	<b>0.1</b>	<b>0.1</b>	0.3	0.3

Trade receivables comprise 654 (2010: 32) individual customers and 68.5% (2010: 26.4%) of the trade receivables balance above relates to the regulated provision of infrastructure to electricity retail companies. The Group is required by Ofgem to accept any company that has

obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by Ofgem to sign and adhere to the terms.

Under the terms of the contract, the maximum unsecured credit that the Group may be required to give is 2% of the Regulatory Asset Value ('RAV') of the Company. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level under the contract the customer must provide collateral to mitigate the increased risk posed. As at 31 March 2011 £2.9m (2010: £2.8m) of cash had been received as security.

The allowed RAV is set by Ofgem for each year of DPC5 (1 April 2010 to 31 March 2015) and is £1,403.3m for the year ended 31 March 2011 based on March closing prices (2010: £1,343.8m).

At 31 March 2011 £95.2m (2010: £87.2m) of unsecured credit limits had been granted to customers and the highest unsecured credit limit given to any single customer was £10.3m (2010: £9.7m). All of the customers granted credit of this level must have a credit rating of at least A- from Standard and Poor's and A3 from Moody's Investor Services or a guarantee from a parent company of an equivalent rating. Alternatively, the customer must be able to prove their creditworthiness on an ongoing basis.

## CASH AND MONEY MARKET DEPOSITS

<b>Group and Company</b>	<b>2011 £m</b>	<b>2010 £m</b>
Short-term bank deposits including cash at bank and in hand	<b>126.9</b>	72.0
Cash and Cash Equivalents	<b>126.9</b>	72.0
Short-term money market deposits (maturity over three months)	<b>40.0</b>	-
	<b>166.9</b>	72.0

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

The effective interest rate on all short-term deposits was a weighted average of 0.97% (2010: 0.37%) and these deposits had an average maturity of 164 days (2010: 5 days).

## BORROWINGS

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

<b>Group and Company</b>	<b>2011 £m</b>	<b>2010 £m</b>
<b>Non-current liabilities</b>		
Bonds	<b>646.6</b>	634.6
Bank and other term borrowings	<b>134.7</b>	(0.6)
Amounts owed to parent undertaking	<b>67.4</b>	70.4
Amounts owed to affiliated undertaking	<b>195.2</b>	194.8

**1,043.9**      899.2

### Carrying value by category

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

Group and Company	Year of maturity	2011 Carrying Value £m	2010 Carrying Value £m
<b>Borrowings designated at fair value through income</b>			
8.875% £250m bond	2026	335.2	328.4
<b>Borrowings measured at amortised cost</b>			
8.875% £200m bond	2026	195.3	195.4
1.4746%+RPI <sup>1</sup> £100m index-linked bond	2046	116.1	110.8
1.5911%+RPI <sup>1</sup> £135m index-linked loan	2024	135.0	-
Amortising costs re: Long term loans at LIBOR plus 2.25%	2012	(0.3)	(0.6)
Amounts due to parent undertaking	2015	67.4	70.4
Amounts due to affiliated undertaking	2021	195.2	194.8
<b>Other financial liabilities held at amortised cost</b>		<b>1,043.9</b>	899.2

<sup>1</sup> RPI - Retail Prices Index – a UK general index of retail prices (for all items) as published by the Office for National Statistics (January 1987 = 100).

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

Included within the borrowing note are capitalised facility arrangement fees of £0.3m (2010: £0.6m) relating to the undrawn Revolving Credit Facilities. This was part utilised and repaid in the current year and is forecast to be further utilised in the year ended 31 March 2012.

### Borrowing facilities

The Group and Company had £80m (2010: £224.2m) in unutilised committed bank facilities at 31 March 2011 of which £Nil expires within one year (2010: £25m), £75m expires after one year but less than two years (2010: £Nil) and £5m expires in more than two years (2010: £199.2m).

## 16 FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability or equity in another entity. The Group uses financial instruments to invest liquid asset balances, raise funding and manage the risks arising from its operations.

The principal risks which the Group is exposed to and which arise in the normal course of business include credit risk, liquidity risk and market risk, in particular interest rate risk and inflation risk. Derivatives are used to hedge exposure to fluctuations in interest rates. A derivative is a financial instrument, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

The Board has authorised the use of derivatives by the Group to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. The accounting policy for derivatives is provided in note 1.

### Risk management

The Group has a formal risk management structure, which includes the use of risk limits, reporting and monitoring requirements, mandates, and other control procedures. It is currently the responsibility of the Board to set and approve the risk management procedures and controls.

All of the Group's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most important types of financial risk are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate, inflation ('RPI') and equity price risks. The Group has no material exposure to foreign exchange risk or equity price risk.

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

### **Credit risk**

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

The counterparties under treasury activities consist of financial institutions. In accordance with IAS 39, the directors have considered and quantified the exposure of the Group to counterparty credit risk and do not consider there to be a material credit risk adjustment required. The exposure to counterparty credit risk will continue to be monitored.

Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

Significant changes in the economy, or in the utilities sector could result in losses not necessarily provided for at the statement of financial position date. The total number of customers in 2011 was 654 (2010: 32), however there are only five principal customers, see note 2. The creditworthiness of each of these is closely monitored. Whilst the loss of one of the principal customers could have a significant impact on the Group, due to the small number of these, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Group's management therefore closely monitor adherence to this process.

#### **a) Trade receivables**

Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of principal customers, and the fact that each of these customers has a contract in place with the Group, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating. At 31 March 2011 there was £3.5m receivables past due (2010: £0.3m) against which an allowance for doubtful debts of £0.1m has been made (2010: £0.3m).

#### **b) Treasury investments**

The Directors do not believe that the Group is exposed to any material concentrations of credit risk in relation to treasury investments (including both amounts placed on deposit with counterparties and asset interest rate swaps).

As at 31 March 2011 none (2010: none) of the Group's treasury portfolio exposure was either past due or impaired, and no terms had been renegotiated with any counterparty. The Group



has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

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

<b>Credit Rating</b>	<b>2011 £m</b>	<b>2011 %</b>	<b>2010 £m</b>	<b>2010 %</b>
AAA	<b>33.7</b>	<b>18.8</b>	-	-
AA	<b>1.0</b>	<b>0.5</b>	1.1	1.5
AA-	<b>71.0</b>	<b>39.6</b>	22.0	30.1
A+	<b>48.5</b>	<b>27.1</b>	25.0	34.2
A	<b>25.0</b>	<b>14.0</b>	25.0	34.2
	<b>179.2</b>	<b>100.0</b>	73.1	100.0

No collateral is held in relation to Treasury assets.

### **Exposure to credit risk**

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

<b>Credit Risk by Category</b>	<b>2011 Group £m</b>	<b>2011 Company £m</b>	<b>2010 Group £m</b>	<b>2010 Company £m</b>
Trade Receivables	<b>33.2</b>	<b>33.2</b>	2.0	2.0
Derivative Financial Instruments (assets)	<b>1.0</b>	<b>1.0</b>	1.1	1.1
Cash and Cash Equivalents	<b>126.9</b>	<b>126.9</b>	72.0	72.0
Money Market Deposits (original maturity over three months)	<b>40.0</b>	<b>40.0</b>	-	-
	<b>201.1</b>	<b>201.1</b>	75.1	75.1

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

### **Liquidity risk**

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

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

Available liquidity at 31 March was as follows:

<b>Available Liquidity</b>	<b>2011 Group £m</b>	<b>2011 Company £m</b>	2010 Group £m	2010 Company £m
Cash and Cash Equivalents	126.9	126.9	72.0	72.0
Money Market Deposits (original maturity over three months)	40.0	40.0	-	-
Committed Undrawn Bank facilities	80.0	80.0	224.2	224.2
	<b>246.9</b>	<b>246.9</b>	296.2	296.2

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

Committed undrawn bank facilities include £Nil (2010: £25m) of facilities that expire within one year, £75m (2010: £Nil) that expires after one year but less than two years and £5m (2010: £199.2m) that expires in more than two years. The Group uses economic hedges to ensure that certain cash flows can be matched and, where all criteria are met, management uses hedge accounting to account for these.

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

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

<b>Group and Company 31 March 2011</b>	<b>On demand £m</b>	<b>&lt;1 year £m</b>	<b>1 - 2 years £m</b>	<b>2 - 3 years £m</b>	<b>3 - 4 years £m</b>	<b>&gt;4 years £m</b>	<b>Total £m</b>
Trade and other payables	(10.0)	-	-	-	-	-	(10.0)
Amounts owed to parent undertaking	-	(4.4)	(4.4)	(4.4)	(73.0)	-	(86.2)
Amounts owed to affiliated undertaking	-	(12.3)	(12.3)	(12.3)	(12.3)	(279.6)	(328.8)
Bonds	-	(41.7)	(41.7)	(41.7)	(41.7)	(1,062.9)	(1,229.7)
Borrowings and overdrafts	-	(2.1)	(2.1)	(2.1)	(2.1)	(155.3)	(163.7)
Derivative financial instruments (net)	-	15.2	15.2	(22.2)	7.9	10.6	26.7
	<b>(10.0)</b>	<b>(45.3)</b>	<b>(45.3)</b>	<b>(82.7)</b>	<b>(121.2)</b>	<b>(1,487.2)</b>	<b>(1,791.7)</b>

<b>Group and Company 31 March 2010</b>	<b>On demand £m</b>	<b>&lt;1 year £m</b>	<b>1 - 2 years £m</b>	<b>2 - 3 years £m</b>	<b>3 - 4 years £m</b>	<b>&gt;4 years £m</b>	<b>Total £m</b>
Trade and other payables	(33.2)	-	-	-	-	-	(33.2)
Amounts owed to parent undertaking	-	(4.6)	(4.6)	(4.6)	(4.6)	(76.2)	(94.6)
Amounts owed to affiliated undertaking	-	(12.3)	(12.3)	(12.3)	(12.3)	(291.9)	(341.1)
Bonds	-	(41.7)	(41.5)	(41.5)	(41.5)	(1,095.3)	(1,261.5)
Derivative financial instruments (net)	-	7.9	7.9	7.9	7.9	(32.4)	(0.8)

## Market Risk

Market risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices include foreign exchange rates, interest rates, inflation (RPI), equity and commodity prices. The main types of market risk to which the Group is exposed are interest rate risk and inflation risk. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered into. The management of market risk is undertaken by the Chief Financial Officer or Treasurer under delegated authority.

The Group borrows in the major global debt markets at both fixed and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

## Interest rate risk

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

Under an interest rate swap, the Group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

## Sensitivity analysis

The following sensitivity analysis is used by Group management to monitor interest rate risk. The analysis below shows forward-looking projections of market risk assuming certain adverse market conditions occur. The sensitivity figures are calculated based on upward parallel shifts of 1% and 3% in the yield curve.

	2011		2010	
	Change in interest rates		Change in interest rates	
	+1%	+3%	+1%	+3%
	£m	£m	£m	£m
Debt held at fair value	11.4	62.5	30.5	80.8
Interest rate swaps	0.1	(2.2)	(0.7)	(1.2)
<b>Total fair value movement</b>	<b>11.5</b>	<b>60.3</b>	29.8	79.6

The sensitivity analysis above shows the amount by which the fair value of items recorded on the statement of financial position at fair value would be adjusted for a given interest rate movement. As such fair value movements are taken to the income statement, there would be a corresponding adjustment to profit in these scenarios (figures in brackets represent a reduction to profit). However, there would be no direct cash flow impact arising from these adjustments.

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

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

## Inflation risk

The revenues of ENWL are linked to movements in inflation, as measured by the Retail Prices Index ('RPI'). To economically hedge exposure to RPI, ENWL links a portion of its funding costs to RPI by either issuing RPI linked bonds or by using derivative financial instruments. The Group's index-linked borrowings and index-linked swaps are exposed to a risk of change in their fair value arising from a risk of change of future cash flows due to changes in inflation rates.

The carrying value of index-linked debt at 31 March 2011 was £251.1m (2010: £110.8m). Whilst management does not formally monitor the sensitivity to changes in inflation, it is estimated that a 1% increase in inflation would lead to a £1.2m (2010:£1.1m) decrease in profits in relation to this index-linked debt. The Company's revenues are also linked to RPI via returns on the Regulated Asset Value ('RAV').

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

### Currency risk

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

### Hedging

The Group does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. At 31 March 2011, the Group's derivatives are not designated in effective hedging relationships, and instead are measured at fair value through the income statement.

### Fair values

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

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

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

Group and Company	2011		2010	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Current assets</b>				
Cash and cash equivalents	126.9	126.9	72.0	72.0
Money Market Deposits (original maturity over three months)	40.0	40.0	-	-
Derivative financial instruments	1.0	1.0	1.1	1.1
	<b>167.9</b>	<b>167.9</b>	73.1	73.1

Derivative financial assets are due after more than one year (2010: same).

Group and Company	2011		2010 (Re-presented)	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Non-current liabilities</b>				
Borrowings designated at fair value through income statement	(335.2)	(335.2)	(328.4)	(328.4)
Borrowings measured at amortised cost	(708.7)	(804.1)	(570.8)	(646.7)
Derivative financial instruments	(76.3)	(76.3)	(52.9)	(52.9)
	<b>(1,120.2)</b>	<b>(1,215.6)</b>	(952.1)	(1,028.0)

Derivative financial liabilities have been re-presented to non-current in the preceding year in accordance with Improvements to IFRSs.

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

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

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

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>31 March 2011</b>				
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets	-	1.0	-	1.0
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities	-	(76.3)	-	(76.3)
Financial liabilities designated at FVTPL	(335.2)	-	-	(335.2)
	<b>(335.2)</b>	<b>(76.3)</b>	-	<b>(411.5)</b>
<b>31 March 2010</b>				
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets	-	1.1	-	1.1

### Financial liabilities at fair value through profit or loss

Derivative financial liabilities	-	(52.9)	-	(52.9)
Financial liabilities designated at FVTPL	(328.4)	-	-	(328.4)
	(328.4)	(52.9)	-	(381.3)

There were no transfers between levels during the current year.

### TRADE AND OTHER PAYABLES

	Group 2011 £m	Company 2011 £m	Group 2010 £m	Company 2010 £m
Trade payables	10.0	10.0	33.2	33.2
Amounts owed to parent undertaking	-	-	0.2	0.1
Amounts owed to subsidiary undertakings	-	15.4	-	0.1
Other taxation and social security	13.8	13.8	6.2	6.2
Customer contributions (see note 21)	29.0	29.0	28.6	28.6
Refundable customer deposits (see note 22)	6.5	6.5	6.9	6.9
Accruals and deferred income	92.2	92.2	20.8	20.8
	151.5	166.9	95.9	95.9

Trade payables and accruals principally comprise amounts outstanding for capital purchases and ongoing costs. The average credit period in the year was 23 days from receipt of invoice. In 2010 trade creditors principally comprised amounts outstanding to UUES for capital delivery and operating services provided under the out-sourcing ('ASA') contract. The credit period with UUES for the year to 31 March 2010, was 10 days from receipt of invoice. UUES creditor days as disclosed in their March 2010 financial statements were 24 days.

### DIRECTORS' REMUNERATION

	Group 2011 £m	Company 2011 £m	Group 2010 £m	Company 2010 £m
Salaries	1.0	0.8	0.5	0.5
Accrued Bonus	0.6	0.6	0.5	0.5
Pension	0.1	0.1	0.1	0.1
	1.7	1.5	1.1	1.1

The aggregate emoluments of the Directors in 2011 amounted to £1,734,451 (2010: £1,127,063). Emoluments comprise salaries, fees, taxable benefits, compensation for loss of office and the value of short-term and long-term incentive awards. Amounts payable under long-term incentive awards are not payable until June 2015 and are dependent upon a combination of both financial performance and comparative performance, as assessed by Ofgem, over the DPC5 period. The emoluments of the highest paid Director in 2011 in respect of services to the Group amounted to £727,209 (2010: £699,185). Included in the total emoluments shown above for the current year, are amounts payable for compensation for loss of office of £410,000 (2010: £nil) all paid in cash.

Not included in the amounts shown above are further payments made in respect of Directors' services, as detailed in note 27.

Mr M McCallion and Mr P Taylor are former members of the United Utilities Pension Scheme and are members of, and contributed to, a defined benefit section of the ENW Electricity Supply Pension Scheme ('ENW ESPS'), which provides an entitlement, on normal retirement of age 65, equal to 1/60<sup>th</sup> of pensionable earnings for each complete year of service. Early retirement is possible from the age of 50 if the Company agrees. Mr S Johnson is a member of the defined contribution section of the ENW ESPS scheme.

The pension contributions for the highest paid Director for 31 March 2011 were £38,500 (2010: £37,100). The accrued pension at 31 March 2011 for the highest paid Director was £Nil (2010: £Nil).

As at 31 March 2011 the Directors have no interests in the ordinary shares of the Company.

## RETIREMENT BENEFIT SCHEMES

### Group and Company

The Group's defined benefit arrangements, are the ENW Group of the ESPS ('the Scheme') and form part of the Electricity Supply Pension Scheme ('ESPS'). In the year ended 31 March 2011 the scheme was split into two sections, the Electricity North West Limited ('ENW') section and the United Utilities Electricity Services Limited ('UUES') section.

The pension scheme structure as described above was unaffected by the acquisition of ENWSL. However, following the 'hive-up' of the assets and liabilities of ENWSL to ENWL and the termination of the Asset Services Agreement between ENWL and ENWSL on the 31 March 2011, the two sections have been merged as at that date.

The defined benefit section of the Scheme closed to new entrants in 2005 and new employees of the Group are instead provided with access to a defined contribution section of the Scheme. The total cost charged to the income statement in relation to the defined contribution section for the year ended 31 March 2011 was £0.9m (2010: £0.2m) and represents contributions payable to the scheme at rates specified in the rules of the scheme.

During the year the Group made contributions of £27.6m (2010: £15.4m) to the defined benefit sections of the scheme. The Group will continue to make payments into the scheme in accordance with the results of the formal actuarial valuation of the Scheme as at 31 March 2010. The Group estimates that contributions for the year ending 31 March 2012 will amount to £26.5m. The total defined benefit pension expense for the year was £10.5m (2010: pension expense £11.4m). Information about the pension arrangements for the Executive Directors is contained in note 18.

The last actuarial valuation of the Scheme was carried out as at 31 March 2010. The valuation has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position as at 31 March 2011. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method. A pension deficit under IAS 19 of £41.3m is included in the statement of financial position at 31 March 2011 (2010: deficit of £142.8m).

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

	<b>2011</b>	2010
	%	%
Discount rate - ENWL	<b>5.40</b>	5.20
Discount rate - UUES	<b>5.60</b>	5.30
Expected return on assets - ENWL	<b>5.70</b>	6.00
Expected return on assets - UUES	<b>6.80</b>	7.20
Pensionable salary growth - ENWL	<b>4.40</b>	4.60
Pensionable salary growth - UUES	<b>4.50</b>	4.70
Pension increases - ENWL	<b>3.40</b>	3.60
Pension increases - UUES	<b>3.50</b>	3.70

Price inflation - ENWL	<b>3.40</b>	3.60
Price inflation - UUES	<b>3.50</b>	3.70

The mortality rates utilised in the valuation are based on the standard actuarial tables S1PMA /S1PFA (birth year) tables with a 105% loading (2010: PNMA00/PNFA00 (birth year) mortality tables with a 120% loading) to allow for differences in mortality between the Scheme population and the population used in the standard tables. A long term improvement rate of 1.0% pa is assumed. These factors have been taken into account in the calculation of the defined benefit obligations of the Scheme.

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

	<b>2011</b>	2010
Male life expectancy at age 60:		
Retired member	<b>25.8</b>	26.0
Non-retired member	<b>27.0</b>	27.9

In valuing the liabilities of the Scheme at 31 March 2011, mortality assumptions have been made as indicated above. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2011 would have increased by approximately £25m before deferred tax.

As at 31 March 2011, the Scheme's assets and liabilities recognised in the statement of financial position were as follows:

	<b>Scheme assets at 31 March 2011</b>	<b>Value at 31 March 2011</b>	Scheme assets at 31 March 2010	Value at 31 March 2010
	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>
Equities	<b>43.7</b>	<b>385.6</b>	40.1	337.6
Gilts	<b>11.8</b>	<b>104.7</b>	18.7	157.6
Bonds	<b>38.3</b>	<b>338.7</b>	38.7	325.2
Property	<b>4.5</b>	<b>39.8</b>	0.6	5.3
Cash	<b>1.0</b>	<b>9.0</b>	1.9	15.6
Assets arising on ENWSL acquisition	<b>0.6</b>	<b>5.4</b>	-	-
Net current assets	<b>0.1</b>	<b>0.6</b>	-	-
Total fair value of assets	<b>100.0</b>	<b>883.8</b>	100.0	841.3
Present value of liabilities		<b>(925.1)</b>		(984.1)
<b>Net retirement benefit obligation</b>		<b>(41.3)</b>		(142.8)

To develop the expected long-term rate of return on assets assumption, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on the Scheme assets was £56.1m gain (2010: £174.6m gain). None of the pension scheme assets are held in the Group's own financial instruments or any other assets used by the Group.

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

	<b>2011</b>	2010
	<b>£m</b>	<b>£m</b>
At 1 April 2010	<b>(984.1)</b>	(728.0)



Current service cost	(11.4)	(6.1)
Interest cost on Scheme obligations	(50.5)	(46.6)
Member contributions	(2.1)	(2.2)
Past service cost	(0.3)	(0.4)
Actuarial gains/(losses) – assumptions	52.9	(252.2)
Actuarial gains – experience items	27.1	-
Benefits paid	48.7	51.4
ENWSL acquisition	(5.4)	-
<b>At 31 March 2011</b>	<b>(925.1)</b>	<b>(984.1)</b>

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

	2011 £m	2010 £m
At 1 April 2010	841.3	700.5
Expected return on Scheme assets	51.7	41.7
Actuarial gains	4.4	132.9
Company contributions	27.6	15.4
Member contributions	2.1	2.2
Benefits paid	(48.7)	(51.4)
ENWSL acquisition	5.4	-
<b>At 31 March 2011</b>	<b>883.8</b>	<b>841.3</b>

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

	2011 £m	2010 £m
Current service cost	(11.4)	(6.1)
Past service cost	(0.3)	(0.4)
Expected return on Scheme assets	51.7	41.7
Interest on Scheme obligations	(50.5)	(46.6)
<b>Net pension expense before taxation</b>	<b>(10.5)</b>	<b>(11.4)</b>

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

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

	2011 £m	2010 £m
At 1 April 2010	(142.8)	(27.5)
Expense recognised in the income statement	(10.5)	(11.4)
Contributions paid	27.6	15.4
Actuarial gains/(losses) gross of taxation	84.4	(119.3)
<b>At 31 March 2011</b>	<b>(41.3)</b>	<b>(142.8)</b>

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2011, a cumulative gain of £199.1m (2010: gain of £114.7m) had been recorded directly in the statement of comprehensive income.

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation	(925.1)	(984.1)	(728.0)	(796.3)	(826.1)
Fair value of Scheme assets	883.8	841.3	700.5	841.4	850.6
Net retirement benefit (obligation)/surplus	(41.3)	(142.8)	(27.5)	45.1	24.5
Experience adjustments on Scheme liabilities	27.1	-	0.8	(18.4)	-
Experience adjustments on Scheme assets	4.4	-	(152.5)	(12.9)	-

## 20 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and Company, and the movements thereon, during the current and prior years.

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2009	297.5	(7.7)	(1.0)	288.8
Charged/(credited) to the income statement	9.0	1.1	(11.8)	(1.7)
Credited to equity for the year	-	(33.4)	-	(33.4)
At 1 April 2010	306.5	(40.0)	(12.8)	253.7
(Credited)/charged to the income statement	(20.8)	4.4	(3.2)	(19.6)
Charged to equity for the year	-	24.9	-	24.9
Arising on acquisition	-	-	(0.4)	(0.4)
<b>At 31 March 2011</b>	<b>285.7</b>	<b>(10.7)</b>	<b>(16.4)</b>	<b>258.6</b>
Company	Accelerated tax depreciation	Retirement benefit obligations	Other £m	Total £m

	£m	£m		
At 1 April 2009	298.4	(7.7)	(1.0)	289.7
Charged/(credited) to the income statement	9.0	1.1	(11.8)	(1.7)
Credited to equity for the year	-	(33.4)	-	(33.4)
At 1 April 2010	307.4	(40.0)	(12.8)	254.6
(Credited)/charged to the income statement	(21.0)	4.4	(3.2)	(19.8)
Charged to equity for the year	-	24.9	-	24.9
Arising on 'hive-up' of ENWSL	-	-	(0.1)	(0.1)
<b>At 31 March 2011</b>	<b>286.4</b>	<b>(10.7)</b>	<b>(16.1)</b>	<b>259.6</b>

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

Other deferred tax relates primarily to derivative instruments.

## CUSTOMER CONTRIBUTIONS

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

Group and Company	£m
At 1 April 2009	418.1
Additions during the year	43.9
Amortisation	(11.4)
At 1 April 2010	450.6
Additions during the year	39.0
Amortisation	(12.1)
<b>At 31 March 2011</b>	<b>477.5</b>
Amounts due in less than one year (see note 17)	29.0
Amounts due after more than one year	448.5
<b>At 31 March 2011</b>	<b>477.5</b>

## REFUNDABLE CUSTOMER DEPOSITS

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

<b>Group and Company</b>	<b>2011 £m</b>	<b>2010 £m</b>
Amounts due in less than one year (see note 17)	<b>6.5</b>	6.9
Amounts due after more than one year	<b>1.6</b>	3.5
	<b>8.1</b>	10.4

## SHARE CAPITAL

	<b>2011 £</b>	<b>2010 £</b>
<b>Authorised:</b>		
569,999,996 (2010: 569,999,996) ordinary shares of 50 pence each	<b>284,999,998</b>	284,999,998
4 'A' ordinary shares of 50 pence each	<b>2</b>	2
Special rights redeemable preference share of £1	<b>1</b>	1
	<b>285,000,001</b>	285,000,001

	<b>2011 £</b>	<b>2010 £</b>
<b>Allotted, called up and fully paid:</b>		
476,821,341 (2010: 476,821,341) ordinary shares of 50 pence each	<b>238,410,671</b>	238,410,671
4 'A' ordinary shares of 50 pence each	<b>2</b>	2
	<b>238,410,673</b>	238,410,673

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

## SHAREHOLDERS' EQUITY

<b>Group</b>	<b>Called up share capital £m</b>	<b>Share premium account £m</b>	<b>Revaluation reserve £m</b>	<b>Capital redemption reserve £m</b>	<b>Retained earnings £m</b>	<b>Total Equity £m</b>
At 1 April 2010	238.4	4.4	111.6	8.6	63.4	426.4
Profit for the year	-	-	-	-	121.2	121.2
Transfer from Revaluation reserve	-	-	(1.7)	-	1.7	-
Actuarial gains on defined benefit Schemes	-	-	-	-	84.4	84.4
Tax on components of	-	-	-	-	(24.9)	(24.9)

comprehensive income

<b>Total comprehensive income for the year</b>	-	-	(1.7)	-	<b>182.4</b>	<b>607.1</b>
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(62.0)	(62.0)
<b>At 31 March 2011</b>	<b>238.4</b>	<b>4.4</b>	<b>109.9</b>	<b>8.6</b>	<b>183.8</b>	<b>545.1</b>

As allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The amount of profit after tax for the financial year dealt with in the Company's income statement is £121.2m (2010: loss £1.1m).

<b>Company</b>	<b>Called up share capital £m</b>	<b>Share premium account £m</b>	<b>Revaluation reserve £m</b>	<b>Capital redemption reserve £m</b>	<b>Retained earnings £m</b>	<b>Total Equity £m</b>
At 1 April 2010	238.4	4.4	111.6	8.6	65.4	428.4
Profit for the year	-	-	-	-	121.2	121.2
Transfer from Revaluation reserve	-	-	(1.7)	-	1.7	-
Actuarial gains on defined benefit Schemes	-	-	-	-	84.4	84.4
Tax on components of comprehensive income	-	-	-	-	(24.9)	(24.9)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(1.7)</b>	<b>-</b>	<b>182.4</b>	<b>609.1</b>
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(62.0)	(62.0)
<b>At 31 March 2011</b>	<b>238.4</b>	<b>4.4</b>	<b>109.9</b>	<b>8.6</b>	<b>185.8</b>	<b>547.1</b>

## OPERATING LEASES

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

	<b>Land and buildings 2011 £m</b>	<b>Plant and machinery 2011 £m</b>	<b>Land and buildings 2010 £m</b>	<b>Plant and machinery 2010 £m</b>
Within one year	<b>0.7</b>	<b>0.1</b>	0.6	0.1
In the second to fifth years inclusive	<b>1.9</b>	<b>0.4</b>	2.1	0.4
After five years	<b>1.4</b>	<b>3.0</b>	1.6	2.9
	<b>4.0</b>	<b>3.5</b>	4.3	3.4

## ACQUISITION OF SUBSIDIARY

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

The net assets acquired in the transaction, and the goodwill arising are as follows:

	ENWSL's carrying amount before combination £m	Provisional fair value adjustments £m	Provisional fair value £m
<b>Net assets acquired</b>			
Property, plant and equipment	12.1	(0.7)	11.4
Inventories	6.2	(1.0)	5.2
Trade receivables	36.8	(0.3)	36.5
Bank and cash balances	9.2	-	9.2
Trade payables	(47.3)	-	(47.3)
Deferred tax asset	-	0.4	0.4
<b>Total identifiable assets</b>	<b>17.0</b>	<b>(1.6)</b>	<b>15.4</b>
Goodwill arising on acquisition (provisional)			10.1
			<b>25.5</b>
Cash consideration paid			23.5
Deferred consideration (payable 31 December 2011)			2.0
<b>Total consideration</b>			<b>25.5</b>
			<b>£m</b>
Cash consideration paid			(23.5)
Cash and cash equivalents acquired			9.2
<b>Net cash outflow arising on acquisition</b>			<b>(14.3)</b>

The fair value of the acquired identifiable intangible assets and net assets are provisional pending completion of final valuations.

The goodwill arising on the acquisition of ENWSL is attributable to the synergies and other benefits arising from controlling all the operations and maintenance of the company's operational assets and capturing the profit earned by the Company. None of the goodwill recognised is expected to be deductible for income tax purposes. In accordance with IFRS 3 revised, £0.8m of acquisition costs have been expensed within the period.

It is impractical to disclose the results contributed by ENWSL in the period between the date of acquisition and the statement of financial position date. This being due to the following reasons:

- between the 1 April 2010 and the acquisition date the ASA pricing had not been finalised between ENWL and ENWSL; and
- following the acquisition, trading between the companies has been conducted on a pass-through basis.

If the acquisition had been completed on 1 April 2010, total Group revenue for the year would have been £393.9m, and profit for the year would have been £121.6m.

#### **Hive up of ENWSL assets and liabilities to ENWL**

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

	<b>ENWSL £m</b>
Plant, property and equipment	11.7
Inventories	5.7
Trade receivables	9.4
Intercompany pool balance	52.3
Trade payables	(53.8)
Overdraft	(10.0)
Deferred tax asset	0.1
<b>Net assets acquired</b>	<b>15.4</b>

## **27 RELATED PARTY TRANSACTIONS**

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

Related party transactions during the year were as follows:

<b>Group and Company</b>	<b>2011 £m</b>	<b>2010 £m</b>
Interest paid	<b>16.8</b>	11.8
Amounts owed to parent undertaking	<b>67.4</b>	70.4
Amounts owed to affiliated undertaking	<b>195.2</b>	194.8
Directors' services	<b>0.1</b>	0.1
Recharges to group companies	<b>0.2</b>	-

The loans from the parent undertaking were made in July 2009. A loan from North West Electricity Networks Limited of £67.4m accrues interest at LIBOR plus 6.55% per annum and is repayable in March 2015 and a loan of £195.2m accrues at 6.125% per annum and is repayable July 2021.

Related parties include key management personnel who are the Directors. Amounts paid to Executive Directors in respect of remuneration (see note 18) totalled £1.7m (2010: £1.1m).

Fees of £0.1m (2010: £0.1m) were payable to Colonial First State in respect of the provision of Directors' services. Colonial First State is part of the Commonwealth Bank of Australia which is identified as a related party as per note 30.

## 28 CASH GENERATED FROM OPERATIONS

	Group 2011 £m	Company 2011 £m	Group 2010 £m	Company 2010 £m
Profit before taxation	139.1	139.1	17.1	17.1
Adjustment for investment income and finance expense	71.3	71.3	138.8	138.8
Operating profit	210.4	210.4	155.9	155.9
<b>Adjustments for:</b>				
Depreciation of property, plant and equipment	75.1	72.5	68.3	68.3
Amortisation of intangible assets	4.3	4.3	3.3	3.3
Amortisation of customer contributions	(12.1)	(12.1)	(11.4)	(11.4)
Profit on disposal of property, plant and equipment	(0.6)	(0.1)	(0.2)	(0.2)
Cash contributions in excess of pension charge to operating profit	(15.9)	(15.9)	(11.9)	(11.9)
Operating cash flows before movements in working capital	261.2	259.1	204.0	204.0
<b>Changes in working capital</b>				
Decrease in inventories	(0.2)	-	-	-
(Increase) / decrease in trade and other receivables	(4.1)	(33.9)	9.0	9.0
(Decrease) / increase in payables	(11.0)	21.6	5.4	5.4
<b>Cash generated from operations</b>	<b>245.9</b>	<b>246.8</b>	<b>218.4</b>	<b>218.4</b>

## 29 CONTINGENT LIABILITY

ENWL holds the leasehold title to a number of retail properties as a result of its legacy retail operations whilst trading as Norweb Plc. The Company assigned the majority of these to Comet Group Plc ('Comet') in 1996. ENWL still has a potential liability for lease obligations under privity of contract rules. In prior years, owing to the protection afforded by Kesa Electricals Plc (the parent company of Comet ('Kesa')), management assessed the risk of exposure to be remote. Although the Company remains shielded from landlord claims by a chain of indemnities, recent press coverage speculates that Kesa may be considering disposing of Comet, which may reduce its financial covenant and increase ENWL's risk exposure.

Management consider the risk of exposure to be low. Owing to lack of visibility over the current holder of the lease and an up to date appraisal of their financial stability and the need for an appraisal of each retail site, management considers it impractical to accurately evaluate the exposure at this time.

## 30 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

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

First State Investments Fund Management Sàrl ('EDIF') and IIF Int'l Holding GP Ltd ('IIF') have been identified as ultimate controlling parties and are advised by Colonial First State



Global Asset Management (a member of the Commonwealth Bank of Australia Group) and JP Morgan Investment Management Inc respectively.