

Company Registration No. 6428375

**NORTH WEST ELECTRICITY NETWORKS  
LIMITED**

**Half Year Condensed Consolidated  
Financial Statements**

**for the period ended 30 September 2011**

**Contents**

|                                                                 |    |
|-----------------------------------------------------------------|----|
| Interim management report                                       | 1  |
| Condensed consolidated income statement                         | 5  |
| Condensed consolidated statement of other comprehensive income  | 6  |
| Condensed consolidated statement of financial position          | 7  |
| Condensed consolidated statement of changes in equity           | 8  |
| Condensed consolidated statement of cash flows                  | 9  |
| Notes to the condensed set of consolidated financial statements | 10 |

**INTERIM MANAGEMENT REPORT**

**Cautionary Statement**

This interim management report contains certain forward-looking statements with respect to the consolidated financial condition and business of North West Electricity Networks Limited and its subsidiaries (together referred to as the "Group"). Statements or forecasts relating to events in the future necessarily involve risk and uncertainty and are made by the directors in good faith based on the information available at the date of signature of this report. North West Electricity Networks Limited (the "Company") undertakes no obligation to update these forward-looking statements. Nothing in this unaudited interim management report should be construed as a profit forecast nor should past performance be relied upon as a guide to future performance.

**Directors**

The names of the directors who held office during the period are given below:

J Gittins

S Johnson

M McCallion

P White (appointed 18 July 2011)

**Operations**

North West Electricity Networks Limited acts as an intermediary holding company only within the North West Electricity Networks (Jersey) Limited Group (the "NWEN (J) Group") and does not conduct any other trading activities.

The Group's principal activity is the operation of electricity distribution assets owned by Electricity North West Limited ("ENWL"), a subsidiary of the Company. The distribution of electricity is regulated by the terms of ENWL's Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

**Results for six months ended 30 September 2011**

|                                            | <b>6 months ended 30 Sept 2011</b> | <b>6 months ended 30 Sept 2010</b> | <b>Year ended 31 March 2011</b> |
|--------------------------------------------|------------------------------------|------------------------------------|---------------------------------|
| Revenue                                    | <b>£184.5m</b>                     | £174.0m                            | £393.7m                         |
| Operating profit                           | <b>£78.9m</b>                      | £84.2m                             | £200.7m                         |
| Profit before tax and fair value movements | <b>£33.5m</b>                      | £44.7m                             | £112.9m                         |
| (Loss)/profit before tax                   | <b>£(18.7)m</b>                    | £16.8m                             | £83.8m                          |
| RAV Gearing <sup>1</sup>                   | <b>75%</b>                         | 81%                                | 81%                             |
| Interest cover <sup>2</sup>                | <b>2.25</b>                        | 1.48                               | 1.90                            |

(1) 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 £1,468m (September 2010: £1,344m March 2011: £1,403m) based on September closing prices.

(2) Interest cover is the number of times the adjusted net interest expense is covered by adjusted operating profit, both being calculated in accordance with the defined terms of the financing agreement.

The Company operates solely as an investment company and therefore it has no non-financial key performance indicators.

**Revenue**

Total revenue has increased as result of an increase in allowed DUoS revenue and rising RPI, partially offset by the return of prior year over recovery which is being passed back to customers through reduced pricing. Revenue from customer driven work such as diversions has also increased year on year. However, this increase in revenue is offset by a corresponding increase in costs as under the licence conditions the Group is not expected to generate any significant margin on these activities.

### Operating profit

Operating profit has reduced as a result of increased operating costs arising from:

- increases in certain costs which, under regulatory rules, are allowed to be passed through to customers. This increase in costs will be recovered through additional revenue to be collected in the year ending 31 March 2013;
- an increase in the planned level of network maintenance activities, and
- increasing frequency of metal theft.

### Profit before tax and fair value movements

Profit before tax and fair value movements has decreased as a result of an increase in interest payable costs in line with increased borrowings.

### Loss before tax

Profit before tax has been further impacted by adverse fair value movements which have resulted in an overall loss before tax for the period.

### Net Debt

Total borrowings increased and at 30 September 2011 were £1,988.5m (30 September 2010: £1,910.7m) an increase of £77.8m. At 30 September 2011 cash totalled £78.5m (30 September 2010: £110.4m). Consequently, net debt increased by £109.7m to £1,910.0m at 30 September 2011 (30 September 2010: £1,800.3m) which is largely due to the transfer of £75.5m to money market deposits.

### Dividends

At the date of these financial statements no interim dividends have been paid (September 2010: £9.0m).

### Principal risks and uncertainties

The principal risks identified in respect of the Company in the Annual Report and Consolidated Financial Statements for the year ended 31 March 2011 were:

- failure to comply with investor and banking covenants; and
- the ability to refinance.

In addition, further risks in relation to the Group were identified in the 2011 Annual Report and Consolidated Financial Statements of Electricity North West Limited, the principal trading subsidiary, as follows:

- Retail Price Index ('RPI') fluctuations result in volatility in key metrics;
- the changing Regulatory Framework may adversely affect ENWL or the Group;
- the ability to finance the investment needs of ENWL;
- the ENWL charging policies may be judged to be anti-competitive;
- there is a risk that ENWL is in breach of its Licence obligations or other statutory or regulatory obligations;
- the losses incentive mechanism may result in revenue reduction;
- the ability to deliver network investment plans and outputs;
- a major event causing significant service interruptions could adversely affect profitability; and
- the ability to meet pension scheme obligations.

It is the Board's view that the principal risks and uncertainties affecting the Group in the six months ending 31 March 2012 will continue to be those set out above, as updated for the following developments:

#### *The ability to refinance*

On 9 August 2011, the Group signed new facility agreements, replacing a £130m capex facility in the Company and a £75m revolving credit facility in ENWL, which were due to mature in June 2012. The new facilities include a £150m capex facility in the Company and a £50m revolving credit facility ("RCF") in ENWL, both maturing in August 2016.

*The ENWL charging policies may be judged to be anti-competitive*

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

In respect of the specific allegations against ENWL, we submitted to Ofgem on 18 March 2009 a detailed response to the complaint which concluded that, in ENWL'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 ENWL provided a comprehensive response that demonstrated there was no substantial case for us to answer.

Since the Annual Report and Consolidated Financial Statements for Electricity North West Limited for the year ended 31 March 2011 was issued, ENWL has had further discussions with Ofgem and expects that the case will be concluded within the next six months.

*The losses incentive mechanism may result in revenue reduction*

In July 2011, Ofgem agreed to the restatement of the ENWL losses position for 2009/10. This resulted from the use of a revised methodology in assessing settlement data used to determine losses. The methodology adopted had already been used by another DNO group and been approved by Ofgem in late 2010. The revised calculations have resulted in an improved losses incentive position, uplifting the incentive revenue by £21m for the 2009/10 year which will be recovered through additional revenue in the year ended 31 March 2013.

Although ENWL has been allowed to re-state the 2009/10 losses position, an overall close-out calculation for the full DPCR4 period will take place. The outcome of the close out calculation remains uncertain and may reverse the benefit realised in the 2009/10 restatement.

The correction methodology applied for DPCR4 may also impact on the calculation of DPCR5 losses targets as these will be set at the average of the overall DPCR4 performance. These targets will drive the incentives/penalties earned in the DPCR5 period subject to a maximum cap and collar of + or - £4.5m per annum set for ENWL.

All of the Reports and Consolidated Financial Statements referred to above can be found at [www.enwl.co.uk](http://www.enwl.co.uk).

**Going concern**

After making enquiries as discussed in the accounting policies on pages 10 and 11, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half year condensed consolidated financial statements.

### **Responsibility statement**

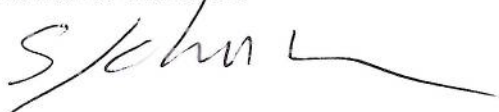
We confirm that to the best of our knowledge:

- a. the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- b. the interim management report includes a fair review of the information required by DTR 4.2.7R; and
- c. the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

Registered address:

304 Bridgewater Place  
Birchwood Park, Birchwood  
Warrington WA3 6XG

On behalf of the Board:



S Johnson  
Chief Executive Officer  
24 November 2011



M McCallion  
Chief Financial Officer  
24 November 2011

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
for the period ended 30 September 2011

|                                             | Note     | Unaudited<br>Six months<br>ended<br>30 September<br>2011<br>£m | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|---------------------------------------------|----------|----------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| <b>Revenue</b>                              | <b>3</b> | <b>184.5</b>                                                   | 174.0                                                          | 393.7                                           |
| Employee benefits expense                   |          | (21.7)                                                         | (8.5)                                                          | (33.9)                                          |
| Depreciation and amortisation expense (net) |          | (39.9)                                                         | (36.7)                                                         | (77.8)                                          |
| Other operating costs                       |          | (44.0)                                                         | (44.6)                                                         | (81.3)                                          |
| <b>Total operating expenses</b>             |          | <b>(105.6)</b>                                                 | (89.8)                                                         | (193.0)                                         |
| <b>Operating profit</b>                     |          | <b>78.9</b>                                                    | 84.2                                                           | 200.7                                           |
| Investment income                           | <b>4</b> | <b>2.3</b>                                                     | 1.0                                                            | 2.2                                             |
| Finance expense                             | <b>5</b> | <b>(99.9)</b>                                                  | (68.4)                                                         | (119.1)                                         |
| <b>(Loss)/profit before taxation</b>        |          | <b>(18.7)</b>                                                  | 16.8                                                           | 83.8                                            |
| Taxation                                    | <b>6</b> | <b>20.1</b>                                                    | 1.9                                                            | 8.8                                             |
| <b>Profit for the period/year</b>           |          | <b>1.4</b>                                                     | 18.7                                                           | 92.6                                            |

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

The notes on pages 10 to 16 form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

For the period ended 30 September 2011

|                                                                                                    | <b>Unaudited<br/>Six months<br/>ended<br/>30 September<br/>2011<br/>£m</b> | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| Profit for the financial period/year                                                               | <b>1.4</b>                                                                 | 18.7                                                           | 92.6                                            |
| <b>Other comprehensive (expense)/income:</b>                                                       |                                                                            |                                                                |                                                 |
| Actuarial (losses)/gains on defined benefit pension scheme                                         | <b>(47.5)</b>                                                              | 40.5                                                           | 84.4                                            |
| Deferred tax on actuarial (gains)/losses on defined benefit pension scheme                         | <b>11.8</b>                                                                | (12.4)                                                         | (24.9)                                          |
| Deferred tax as a result of future rate changes                                                    | <b>(0.6)</b>                                                               | -                                                              | -                                               |
| <b>Other comprehensive (expenses)/income for the period/year</b>                                   | <b>(36.3)</b>                                                              | 28.1                                                           | 59.5                                            |
| <b>Total comprehensive (expense)/income for the period/year and attributable to equity holders</b> | <b>(34.9)</b>                                                              | 46.8                                                           | 152.1                                           |

The notes on pages 10 to 16 form part of the financial statements.



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
At 30 September 2011

|                                  | Note | Unaudited<br>30 September<br>2011<br>£m | Re-presented*<br>Unaudited<br>30 September<br>2010<br>£m | Audited<br>31 March<br>2011<br>£m |
|----------------------------------|------|-----------------------------------------|----------------------------------------------------------|-----------------------------------|
| <b>ASSETS</b>                    |      |                                         |                                                          |                                   |
| <b>Non-current assets</b>        |      |                                         |                                                          |                                   |
| Intangible assets                |      | 205.6                                   | 208.4                                                    | 206.5                             |
| Goodwill                         | 12   | 10.1                                    | 9.6                                                      | 10.1                              |
| Property, plant and equipment    | 8    | 2,380.8                                 | 2,255.6                                                  | 2,325.0                           |
|                                  |      | <u>2,596.5</u>                          | <u>2,473.6</u>                                           | <u>2,541.6</u>                    |
| <b>Current assets</b>            |      |                                         |                                                          |                                   |
| Inventories                      |      | 6.2                                     | 5.2                                                      | 5.6                               |
| Trade and other receivables      |      | 50.1                                    | 48.6                                                     | 78.5                              |
| Derivative financial instruments |      | -                                       | 1.6                                                      | 1.0                               |
| Money market deposits            |      | 75.5                                    | -                                                        | 76.2                              |
| Cash and cash equivalents        |      | 78.5                                    | 110.4                                                    | 127.8                             |
|                                  |      | <u>210.3</u>                            | <u>165.8</u>                                             | <u>289.1</u>                      |
| <b>Total assets</b>              |      | <u><b>2,806.8</b></u>                   | <u>2,639.4</u>                                           | <u>2,830.7</u>                    |
| <b>LIABILITIES</b>               |      |                                         |                                                          |                                   |
| <b>Current liabilities</b>       |      |                                         |                                                          |                                   |
| Borrowings                       | 9    | (658.0)                                 | (658.0)                                                  | (658.0)                           |
| Trade and other payables         |      | (128.5)                                 | (129.8)                                                  | (146.8)                           |
| Current income tax liabilities   |      | (4.5)                                   | (3.5)                                                    | (9.9)                             |
|                                  |      | <u>(791.0)</u>                          | <u>(791.3)</u>                                           | <u>(814.7)</u>                    |
| <b>Net current liabilities</b>   |      | <u><b>(580.7)</b></u>                   | <u>(625.5)</u>                                           | <u>(525.6)</u>                    |
| <b>Non-current liabilities</b>   |      |                                         |                                                          |                                   |
| Borrowings                       | 9    | (1,330.5)                               | (1,252.7)                                                | (1,350.8)                         |
| Deferred tax liabilities         |      | (370.6)                                 | (416.9)                                                  | (403.8)                           |
| Customer contributions           |      | (148.9)                                 | (107.5)                                                  | (126.5)                           |
| Refundable customer deposits     |      | (1.3)                                   | (2.1)                                                    | (1.6)                             |
| Retirement benefit obligations   | 11   | (78.5)                                  | (93.9)                                                   | (41.3)                            |
| Derivative financial instruments |      | (121.7)                                 | (76.1)                                                   | (92.8)                            |
|                                  |      | <u>(2,051.5)</u>                        | <u>(1,949.2)</u>                                         | <u>(2,016.8)</u>                  |
| <b>Total liabilities</b>         |      | <u><b>(2,842.5)</b></u>                 | <u>(2,740.5)</u>                                         | <u>(2,831.5)</u>                  |
| <b>Net liabilities</b>           |      | <u><b>(35.7)</b></u>                    | <u>(101.1)</u>                                           | <u>(0.8)</u>                      |
| <b>EQUITY</b>                    |      |                                         |                                                          |                                   |
| Share capital                    |      | 3.0                                     | 3.0                                                      | 3.0                               |
| Retained earnings                |      | (38.7)                                  | (104.1)                                                  | (3.8)                             |
| <b>Total equity</b>              |      | <u><b>(35.7)</b></u>                    | <u>(101.1)</u>                                           | <u>(0.8)</u>                      |

\*See note 2 for details of the re-presentation.

Approved by the board of directors on 24 November 2011 signed on its behalf by:



M McCallion  
Director

The notes on pages 10 to 16 form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the period ended 30 September 2011

|                                                                 | Called up<br>share<br>capital | Retained<br>(deficit)/<br>earnings | Total<br>Equity |
|-----------------------------------------------------------------|-------------------------------|------------------------------------|-----------------|
|                                                                 | £m                            | £m                                 | £m              |
| <b>Period 1 April 2010 to 30 September 2010 (Unaudited)</b>     |                               |                                    |                 |
| At 31 March 2010                                                | 3.0                           | (141.9)                            | (138.9)         |
| Profit for the period                                           | -                             | 18.7                               | 18.7            |
| Actuarial losses on defined benefit schemes                     | -                             | 40.5                               | 40.5            |
| Tax on components of comprehensive income                       | -                             | (12.4)                             | (12.4)          |
|                                                                 | <hr/>                         | <hr/>                              | <hr/>           |
| Total comprehensive income for the period to 30 September 2010  | -                             | 46.8                               | 46.8            |
| Transactions with owners recorded directly in equity:           |                               |                                    |                 |
| Equity dividends                                                | -                             | (9.0)                              | (9.0)           |
|                                                                 | <hr/>                         | <hr/>                              | <hr/>           |
| <b>At 30 September 2010</b>                                     | <b>3.0</b>                    | <b>(104.1)</b>                     | <b>(101.1)</b>  |
| <b>Period 1 April 2010 to 31 March 2011 (Audited)</b>           |                               |                                    |                 |
| At 31 March 2010                                                | 3.0                           | (141.9)                            | (138.9)         |
| Profit for the year                                             | -                             | 92.6                               | 92.6            |
| Actuarial losses on defined benefit schemes                     | -                             | 84.4                               | 84.4            |
| Tax on components of comprehensive income                       | -                             | (24.9)                             | (24.9)          |
|                                                                 | <hr/>                         | <hr/>                              | <hr/>           |
| Total comprehensive income for the period to 31 March 2011      | -                             | <b>152.1</b>                       | <b>152.1</b>    |
| Transactions with owners recorded directly in equity:           |                               |                                    |                 |
| Equity dividends                                                | -                             | (14.0)                             | (14.0)          |
|                                                                 | <hr/>                         | <hr/>                              | <hr/>           |
| <b>At 31 March 2011</b>                                         | <b>3.0</b>                    | <b>(3.8)</b>                       | <b>(0.8)</b>    |
| <b>Period 1 April 2011 to 30 September 2011 (Unaudited)</b>     |                               |                                    |                 |
| At 31 March 2011                                                | 3.0                           | (3.8)                              | (0.8)           |
| Profit for the period                                           | -                             | 1.4                                | 1.4             |
| Actuarial losses on defined benefit schemes                     | -                             | (47.5)                             | (47.5)          |
| Tax on components of comprehensive income                       | -                             | 11.2                               | 11.2            |
|                                                                 | <hr/>                         | <hr/>                              | <hr/>           |
| Total comprehensive expense for the period to 30 September 2011 | -                             | (34.9)                             | (34.9)          |
|                                                                 | <hr/>                         | <hr/>                              | <hr/>           |
| <b>At 30 September 2011</b>                                     | <b>3.0</b>                    | <b>(38.7)</b>                      | <b>(35.7)</b>   |
|                                                                 | <hr/> <hr/>                   | <hr/> <hr/>                        | <hr/> <hr/>     |

The notes on pages 10 to 16 form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the period ended 30 September 2011

|                                                             | Note | Unaudited<br>Six months<br>ended<br>30 September<br>2011<br>£m | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|-------------------------------------------------------------|------|----------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| <b>Operating activities</b>                                 |      |                                                                |                                                                |                                                 |
| Cash generated from operations                              | 10   | 115.9                                                          | 109.2                                                          | 236.6                                           |
| Interest paid                                               |      | (30.8)                                                         | (27.2)                                                         | (71.7)                                          |
| Tax paid                                                    |      | (7.5)                                                          | (8.7)                                                          | (20.7)                                          |
| <b>Net cash generated from operating activities</b>         |      | <b>77.6</b>                                                    | <b>73.3</b>                                                    | <b>144.2</b>                                    |
| <b>Investing activities</b>                                 |      |                                                                |                                                                |                                                 |
| Interest received and similar income                        |      | 0.6                                                            | 0.5                                                            | 0.6                                             |
| Purchase of property, plant and equipment                   |      | (94.9)                                                         | (74.4)                                                         | (173.9)                                         |
| Purchase of intangible assets                               |      | (0.8)                                                          | (2.2)                                                          | (3.0)                                           |
| Customer contributions received                             |      | 19.5                                                           | 19.6                                                           | 37.1                                            |
| Proceeds from sale of property, plant and equipment         |      | 0.1                                                            | 0.3                                                            | 0.6                                             |
| Acquisition of subsidiary, net of cash received             | 12   | -                                                              | (14.3)                                                         | (14.3)                                          |
| <b>Net cash used in investing activities</b>                |      | <b>(75.5)</b>                                                  | <b>(70.5)</b>                                                  | <b>(152.9)</b>                                  |
| <b>Financing activities</b>                                 |      |                                                                |                                                                |                                                 |
| Dividends paid to equity shareholders of the Company        | 7    | -                                                              | (9.0)                                                          | (14.0)                                          |
| Transfer to money market deposits                           |      | -                                                              | -                                                              | (76.2)                                          |
| Proceeds from borrowings                                    |      | -                                                              | 5.0                                                            | 140.0                                           |
| Repayment of borrowings                                     |      | (51.4)                                                         | (0.1)                                                          | (25.0)                                          |
| <b>Net cash (used in)/from financing activities</b>         |      | <b>(51.4)</b>                                                  | <b>(4.1)</b>                                                   | <b>24.8</b>                                     |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(49.3)</b>                                                  | <b>(1.3)</b>                                                   | <b>16.1</b>                                     |
| <b>Cash and cash equivalents at beginning of the period</b> |      | <b>127.8</b>                                                   | <b>111.7</b>                                                   | <b>111.7</b>                                    |
| <b>Net cash and cash equivalents at end of the period</b>   |      | <b>78.5</b>                                                    | <b>110.4</b>                                                   | <b>127.8</b>                                    |

The notes on pages 10 to 16 form part of the financial statements.

## NOTES TO THE CONDENSED SET OF CONSOLIDATED FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

The financial information for the 6 month period ended 30 September 2011 and similarly the period ended 30 September 2010 has neither been audited nor reviewed by the auditors. The financial information for the year ended 31 March 2011 has been based on information in the audited financial statements for that year.

The financial information for the year ended 31 March 2011 does not constitute the statutory accounts for that year, but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) Companies Act 2006.

### 2 ACCOUNTING POLICIES

#### Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The half year condensed consolidated financial statements of the Group which are unaudited, have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The results for the period ended 30 September 2011 have been prepared using the same method of computation and on the basis of accounting policies consistent with those set out in the Annual Report and Consolidated Financial Statements of North West Electricity Networks Limited for the year ended 31 March 2011. No further revised standards or interpretations have been issued which impact the accounts since March 2011.

Derivative financial liabilities have been re-presented to non-current in the half year condensed consolidated financial statements at September 2010 in accordance with Improvements to IFRSs which were adopted in the Annual Report and Consolidated Financial Statements of North West Electricity Networks Limited for the year ended 31 March 2011.

Although some of the Group's operations may sometimes be affected by seasonal factors such as general weather conditions, the Directors do not feel that this has a material effect on the performance of the Group when comparing the interim results to those achieved in the second half of the year.

#### Going Concern

When considering continuing to adopt the going concern basis in preparing the half year condensed consolidated financial statements for the six months ended 30 September 2011, the directors have taken into account a number of factors, including the following:

- Electricity North West Limited's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating and this has been maintained through the period under review;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- The Group and Company have considerable financial resources. Short-term liquidity requirements are met from the Group's normal operating cash flow. Further liquidity is provided by cash and short-term deposit balances. Longer-term liquidity is provided by the Group's term loans and bonds and committed undrawn bank facilities, with maturity dates of longer than twelve months. There are no covenant breaches forecast;

## 2 ACCOUNTING POLICIES (CONTINUED)

### Going Concern (*continued*)

- The Group and the Company are financed largely by long term external funding. This together with the present cash position and committed un-drawn facilities provides the appropriate liquidity platform to allow the Group and Company to meet their operational and financial commitments for the foreseeable future;
- The Board have given detailed consideration to the principal risks and uncertainties affecting the Group and Company, as referred to in the interim management report, and all other factors which could impact on the Group and the Company's ability to remain a going concern; and
- The Group Statement of Financial Position shows net current liabilities at 30 September 2011. The net liability position arises due to a number of non-cash items including the defined benefit pension scheme and fair value movement on liabilities.

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

## 3 OPERATING SEGMENTS

Predominately all Group operations arise from electricity distribution in the North West of England and associated activities. Only one significant operating segment is therefore regularly reviewed by the Chief Executive Officer and team.

The geographical origin and destination of revenue is all within the United Kingdom. In addition whilst revenue can fluctuate marginally with weather conditions, revenues are not affected significantly by seasonal trends.

## 4 INVESTMENT INCOME

|                                                                        | <b>Unaudited<br/>Six months<br/>ended<br/>30 September<br/>2011<br/>£m</b> | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| Interest receivable on short-term bank deposits held at amortised cost | <b>1.2</b>                                                                 | 0.5                                                            | 1.0                                             |
| Expected return on pension scheme assets                               | <b>25.8</b>                                                                | 25.8                                                           | 51.7                                            |
| Interest cost on pension plan obligations                              | <b>(24.7)</b>                                                              | (25.3)                                                         | (50.5)                                          |
|                                                                        | <b>2.3</b>                                                                 | 1.0                                                            | 2.2                                             |

Comparative information for the 6 months ended 30 September 2010 has been represented to include the net return on pension scheme assets, previously included in finance expense, as this is considered to be a more appropriate presentation.

**5 FINANCE EXPENSE**

|                                                             | <b>Unaudited<br/>30 September<br/>2011<br/>£000</b> | Unaudited<br>30 September<br>2010<br>£000 | Audited 31<br>March 2011<br>£000 |
|-------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------|----------------------------------|
| <b>Interest payable</b>                                     |                                                     |                                           |                                  |
| Interest payable on bank borrowings                         | <b>0.4</b>                                          | -                                         | 0.4                              |
| Interest payable on group borrowings                        | <b>13.6</b>                                         | 12.7                                      | 26.0                             |
| Interest payable on borrowings held at amortised cost       | <b>30.5</b>                                         | 29.5                                      | 58.8                             |
| Interest payable on borrowings designated at fair value     | -                                                   | -                                         | 22.2                             |
| Net receipts on derivatives held for trading                | <b>(3.5)</b>                                        | (3.9)                                     | (22.4)                           |
| Other finance charges related to index linked bonds         | <b>6.8</b>                                          | 2.3                                       | 5.3                              |
| IAS 23 capitalised interest                                 | <b>(0.1)</b>                                        | (0.1)                                     | (0.3)                            |
|                                                             | <b>47.7</b>                                         | 40.5                                      | 90.0                             |
| <b>Fair value losses/(gains) on financial instruments</b>   |                                                     |                                           |                                  |
| Borrowings designated at fair value through profit and loss | <b>24.2</b>                                         | 22.9                                      | 6.8                              |
| Derivatives held for trading                                | <b>29.8</b>                                         | 5.0                                       | 22.3                             |
| Cash settlement on close-out of amortising swaps            | <b>(1.8)</b>                                        | -                                         | -                                |
|                                                             | <b>52.2</b>                                         | 27.9                                      | 29.1                             |
|                                                             | <b>99.9</b>                                         | 68.4                                      | 119.1                            |

## 6 TAXATION

|                              | <b>Unaudited<br/>Six months<br/>ended<br/>30 September<br/>2011<br/>£m</b> | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| <b>Current tax:</b>          |                                                                            |                                                                |                                                 |
| UK corporation tax:          |                                                                            |                                                                |                                                 |
| Current year                 | 1.7                                                                        | 6.1                                                            | 26.0                                            |
| Prior year                   | -                                                                          | -                                                              | (1.3)                                           |
|                              | <u>1.7</u>                                                                 | <u>6.1</u>                                                     | <u>24.7</u>                                     |
| <b>Deferred tax:</b>         |                                                                            |                                                                |                                                 |
| Current period               | (6.2)                                                                      | (8.0)                                                          | (0.9)                                           |
| Impact from future tax rates | (15.6)                                                                     | -                                                              | (32.5)                                          |
|                              | <u>(21.8)</u>                                                              | <u>(8.0)</u>                                                   | <u>(33.4)</u>                                   |
|                              | <u>(20.1)</u>                                                              | <u>(1.9)</u>                                                   | <u>(8.8)</u>                                    |

Corporation tax is calculated at 26% (period ended 30 September 2010: 28%, year ended 31 March 2011: 28%) being the best estimate of the effective tax rate for the full financial year. Deferred tax is calculated at 25% being the corporation tax rate substantively enacted on 5 July 2011 that will come into effect from 1 April 2012. Deferred tax has been calculated at this rate because the deferred tax is expected to substantially reverse after 1 April 2012.

## 7 DIVIDENDS

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

|                                  | <b>Unaudited<br/>Six months<br/>ended<br/>30 September<br/>2011<br/>£m</b> | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|----------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| Interim dividends for the period | -                                                                          | 9.0                                                            | 14.0                                            |
|                                  | <u>-</u>                                                                   | <u>9.0</u>                                                     | <u>14.0</u>                                     |

At the date of these financial statements no interim dividends have been paid (September 2010: £9.0m).

## 8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent £94.9m (September 2010: £74.4m March 2011: £188.1m) on additions to property, plant and equipment as part of its capital programme for replacing its operating network and capitalised £0.1m (September 2010: £0.1m March 2011: £0.3m) of interest, in accordance with IAS 23.

**9 BORROWINGS**

This note provides information about the Group's loans and borrowings.

|                                    | <b>Unaudited<br/>30 September<br/>2011<br/>£m</b> | Unaudited<br>30 September<br>2010<br>£m | Audited<br>31 March<br>2011<br>£m |
|------------------------------------|---------------------------------------------------|-----------------------------------------|-----------------------------------|
| <b>Non-current liabilities</b>     |                                                   |                                         |                                   |
| Bank and other term borrowings     | <b>166.2</b>                                      | 103.5                                   | 213.5                             |
| Bonds                              | <b>1,164.3</b>                                    | 1,149.2                                 | 1,137.3                           |
|                                    | <b>1,330.5</b>                                    | 1,252.7                                 | 1,350.8                           |
| <b>Current liabilities</b>         |                                                   |                                         |                                   |
| Amounts owed to parent undertaking | <b>658.0</b>                                      | 658.0                                   | 658.0                             |
|                                    | <b>1,988.5</b>                                    | 1,910.7                                 | 2,008.8                           |

As at 30 September 2011 £176.4m of capex bank facility remains undrawn (period ended 30 September 2010: £224.2m, year ended 31 March 2011: £130.0m).



## 10 CASH GENERATED FROM OPERATIONS

|                                                                                 | Unaudited<br>Six months<br>ended<br>30<br>September<br>2011<br>£m | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|
| <b>Cash generated from operations</b>                                           |                                                                   |                                                                |                                                 |
| (Loss)/profit before taxation                                                   | (18.7)                                                            | 16.8                                                           | 83.8                                            |
| Adjustment for investment income, finance<br>expense and other gains and losses | 97.6                                                              | 67.4                                                           | 117.0                                           |
| Operating profit                                                                | <u>78.9</u>                                                       | <u>84.2</u>                                                    | <u>200.8</u>                                    |
| Adjustments for:                                                                |                                                                   |                                                                |                                                 |
| Depreciation of property, plant and equipment                                   | 38.9                                                              | 36.3                                                           | 75.2                                            |
| Amortisation of intangible assets                                               | 1.8                                                               | 1.7                                                            | 4.3                                             |
| Amortisation of customer contributions <sup>1</sup>                             | (1.7)                                                             | (1.3)                                                          | (2.8)                                           |
| Profit on disposal of property, plant and<br>equipment                          | (0.1)                                                             | (0.3)                                                          | (0.6)                                           |
| Cash contributions in excess of pension charge<br>to operating profit           | (9.2)                                                             | (7.8)                                                          | (15.9)                                          |
| Operating cash flows before movement in<br>working capital                      | <u>108.6</u>                                                      | <u>112.8</u>                                                   | <u>261.0</u>                                    |
| Changes in working capital:                                                     |                                                                   |                                                                |                                                 |
| Increase in inventories                                                         | (0.6)                                                             | -                                                              | (0.2)                                           |
| Decrease/(increase) in trade and other<br>receivables                           | 29.0                                                              | 23.5                                                           | (6.2)                                           |
| Decrease in provisions and payables                                             | (21.1)                                                            | (27.1)                                                         | (18.0)                                          |
| Cash generated from continuing operations                                       | <u><u>115.9</u></u>                                               | <u><u>109.2</u></u>                                            | <u><u>236.6</u></u>                             |

<sup>1</sup>In the 6 months ended 30 September 2011 £0.9m (March 2011: £1.1m, September 2010: £nil) of customer contributions amortisation has been amortised through revenue as a result of the adoption of IFRIC 18

## 11 RETIREMENT BENEFIT SCHEMES

### Defined benefit schemes

The defined benefit obligation is calculated using the latest actuarial valuation as at 31 March 2011 and has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 30 September 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. The defined benefit plan assets have been updated to reflect their market value as at 30 September 2011.

Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the Statement of Comprehensive Income in accordance with the Group's accounting policy.

## 12 ACQUISITION OF SUBSIDIARIES

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

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

Deferred consideration of £2.0m will be paid on or before 31 December 2011.

## 13 RELATED PARTIES

Loans are made between companies in the North West Electricity Networks (Jersey) Group on which varying rates of interest are chargeable. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the North West Electricity Networks Limited group companies entered into the following transactions with related parties who are not members of that group:

|                                                                 | <b>Unaudited<br/>Six months<br/>ended<br/>30<br/>September<br/>2011<br/>£m</b> | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year<br>ended 31<br>March<br>2011<br>£m |
|-----------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------|
| Interest paid to North West Electricity Networks (Holdings) Ltd | <b>13.6</b>                                                                    | 11.8                                                           | 25.2                                               |
| Directors' fees to Colonial First State                         | <b>0.1</b>                                                                     | 0.1                                                            | 0.1                                                |

Fees of £60,000 (September 2010: £60,000) 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.

Amounts outstanding at 30 September 2011 between the Group and other companies within the North West Electricity Networks (Jersey) Group

|                            | <b>Unaudited<br/>Six months<br/>ended<br/>30<br/>September<br/>2011<br/>£m</b> | Unaudited<br>Six months<br>ended<br>30 September<br>2010<br>£m | Audited<br>Year<br>ended 31<br>March<br>2011<br>£m |
|----------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------|
| Loans from related parties | <b>658.0</b>                                                                   | 658.0                                                          | 658.0                                              |

The loans from related parties comprise amounts loaned from North West Electricity Networks (Holdings) Limited. £200.0 million carries interest at 10% per annum, £327.0 million is interest free, £121.0 million carries interest at fixed rate 4.97% and £10.0 million carries interest at a floating rate. Amounts are repayable on demand.