

ELECTRICITY NORTH WEST LIMITED

Regulatory Financial Statements

31 March 2010

REPORT AND FINANCIAL STATEMENTS 2010

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Chief Executive Officer's Statement

Key Events

At 31 March 2010, Electricity North West Limited ("ENW") completed its second full year as the sole operating company within a group of companies (the "NWEN J Group") of which the ultimate parent is North West Electricity Networks (Jersey) Limited ("NWEN J"). The past year has seen the completion of a number of significant challenges which have laid the foundation for the company and the Group for the next 5 years and beyond. The following key events and activities have occurred in the financial year ended 31 March 2010:

- A significant amount of time and resource has been spent, negotiating and concluding the fifth Distribution Price Control Review ("DPCR5"), which took effect from 1 April 2010. Ofgem's final proposals were published in December 2009 and accepted by ENW on 6 January 2010. DPCR5 envisages an expenditure programme between 1 April 2010 and 31 March 2015 of £1.1bn¹ funded by year-on-year price increases throughout the period of 8.5% above underlying increases in the Retail Price Index (RPI). Ofgem proposals were enacted through changes to ENW's Electricity Distribution Licence (the "Licence").
- The Group completed a significant refinancing process on 21 July 2009. The transaction centred around the need to refinance a £465m bridging loan (the "bridge") held at North West Electricity Networks Limited ("NWEN"), ENW's parent. The bridge was due for repayment in December 2010. During the year, the Group has refinanced the bridge through the issuance of Notes and listed them on the London Stock Exchange.
- The business has been affected by the impact of reduced consumption levels, pressures of falling RPI, adverse pension scheme valuations and adverse fair value movements of financial instruments.
- The Executive team have also continued to invest efforts in defining ENW's corporate strategy, vision, values and goals.

The financial year ended 31 March 2010 has been another year of challenge for the company. We remain absolutely focused on delivering for our customers with what is now a clear roadmap and firm foundation for the future.

Operations

ENW owns the Electricity distribution network in the North West of England and is accountable for the obligations contained in the Licence.

Under the Asset Services Agreement (ASA), ENW engage United Utilities Electricity Services Limited ("UUES"), a subsidiary of United Utilities plc, to manage delivery of all operations and maintenance, capital investments, connections and customer service. ENW is responsible for the strategic management of the distribution network.

ENW work with UUES to ensure:

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

The ASA commenced on 7 April 2007 and is an 8 year contract for the provision of electricity distribution network services. The ASA effectively includes a break clause at 31 March 2010 due to the necessity to agree a revised structure of charges as a result of the DPCR5 settlement. Negotiations are currently ongoing with UUES to reach an agreed outcome. This matter has been further disclosed on page 11 of the Business Review under principal risks and uncertainties.

¹ Electricity Distribution Price Control Review Final Proposals – Allowed revenue financial issues (Red: 147/09) published by Ofgem 7 December 2009

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Chief Executive Officer's Statement *(Continued)*

Performance

Revenue has declined by 5.4 per cent to £323.4m (31 March 2009: £341.8m), reflecting a significant decline in unit sales during the year in both industrial and domestic consumption. Operating profit also decreased by 14.1 per cent to £155.9m in 2010 (31 March 2009: £181.5m), primarily reflecting the decrease in revenue and an increased depreciation charge in the year due to the commissioning of a number of significant projects in line with the five year delivery plan.

The financial year ended 31 March 2010 signalled the completion of the Fourth Distribution Price Control Review (DPCR4) period within which, ENW has focused on maintaining the integrity, security and safety of its electricity distribution network. During the year the business replaced or refurbished 159 (31 March 2009: 128) kilometres of overhead lines and replaced or installed 253 (31 March 2009: 378) kilometres of underground cables. It also replaced or refurbished 495 (31 March 2009: 472) switchgear units and replaced or installed 475 (31 March 2009: 568) transformers.

Electricity supplies were available for 99.99% (31 March 2009: 99.99%) of the time during the financial year ended 31 March 2010, maintaining the business's high level of performance in managing the network to maintain constant supplies for consumers. Under the regulatory interruptions incentive scheme, ENW has been set network performance targets for the number and duration of customer supply interruptions.

The average number of interruptions per 100 consumers per annum was 50.55* (31 March 2009: 48.40), out-performing the regulatory target for the year of 57.10 (31 March 2009: 57.10). The average number of minutes for which consumers were without supply was 49.87 minutes* (31 March 2009: 50.90), beating the regulatory target for the year of 53.00 minutes (31 March 2009: 54.70). (Figures denoted by * are draft subject to Ofgem audit and exclude severe storms and other exclusions in accordance with Ofgem rules).

Corporate Strategy

ENW continues its strategic focus on enhancing the value of the business through investment, and improving the efficiency and quality of service. We are on track to deliver better performance for our stakeholders during the year to 31 March 2011.

Commercial strategy is discussed in more detail in the Business Review on page 8.

Stakeholders

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

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

The Future

The ENW Senior Leadership team are committed to building on the foundations of what has been a challenging financial year and continuing to lead the strategy for the long term development of the asset base.

Steve Johnson
Chief Executive Officer

The Chief Executive Officers Statement and other sections of Annual Report and Consolidated Financial Statements contain 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

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Business Review

Nature of the Business

Business overview

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

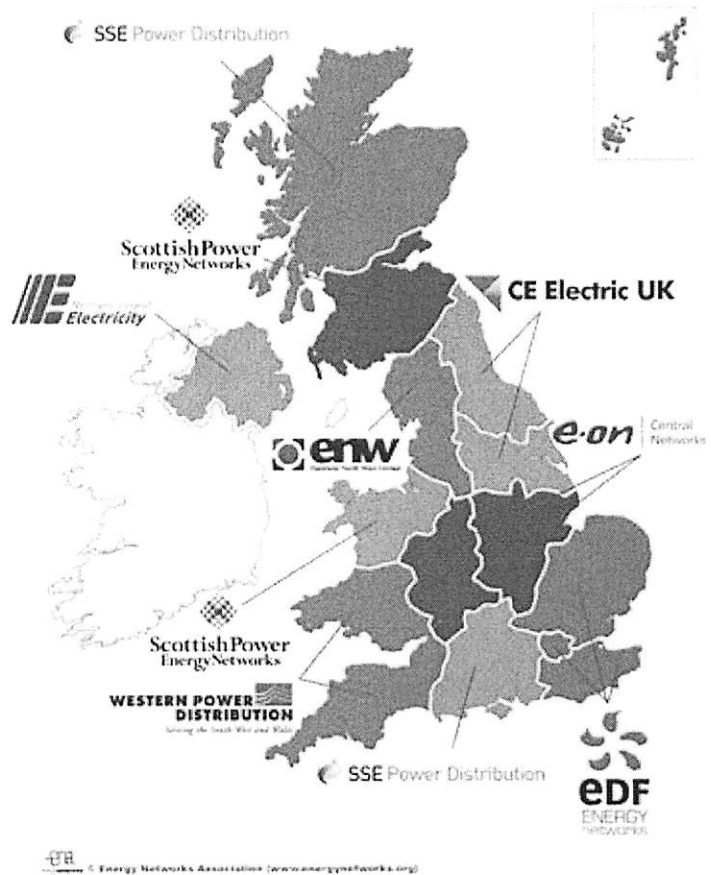
Business description

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

Figure 1 UK electricity market components



Figure 2 UK electricity distribution companies



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Business Review *(continued)*

Electricity Distribution Summary

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

Key non-financial performance measures for the business relate to quality of supply. Electricity supplies were available for 99.99% (31 March 2009: 99.99%) of the time during the financial year ended 31 March 2010, sustaining the business's high level of performance in managing the network to maintain constant supplies for consumers. Under the regulatory Interruptions Incentive Scheme, ENW has been set network performance targets for the number and duration of customer supply interruptions. Although we have still outperformed regulatory targets, performance in the past year has been adversely affected by a few high impact events on the 132kV and 33kV networks. The average number of interruptions per 100 consumers per annum was 50.55* (31 March 2009: 48.40), out-performing the regulatory target for the year of 57.10 (31 March 2009: 57.10). The average number of minutes for which consumers were without supply was 49.87 minutes* (31 March 2009: 50.90), beating the regulatory target for the year of 53.00 minutes (31 March 2009: 54.70). (Figures denoted by * are draft subject to Ofgem audit and exclude severe storms and other exclusions in accordance with Ofgem rules).

Regulation

Economic Regulation

The electricity industry in Great Britain is regulated under the Electricity Act 1989 (the 'Electricity Act'), the Utilities Act 2000 (the 'Utilities Act'), the Energy Act 2004, the Energy Act 2008 and the Energy Act 2010 ('the Energy Acts'). The Electricity Act, as amended, requires all companies distributing electricity to be licensed unless they are covered by an exemption. Economic regulation pursuant to these licences is the responsibility of the Gas and Electricity Markets Authority (GEMA) who act through an executive office, Ofgem. Ofgem also exercises powers on behalf of GEMA under UK competition legislation, most significantly the Competition Act 1998 and the Enterprise Act 2002.

In 2001, in accordance with the requirements of the Utilities Act 2000, the licence for the distribution and supply of electricity which was granted in 1989 was modified to exclude the supply of electricity. The licences continue in force for an indefinite period, subject to potential termination rights as set out below. ENW holds an electricity distribution licence that authorises it to distribute electricity anywhere in Great Britain. Under that licence, ENW distributes electricity across its distribution system covering an area in North West England comprising around 2.4million (31 March 2009: 2.4million) consumer premises. Restrictions included within the electricity distribution licence include:

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

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Business Review *(continued)*

Economic Regulation (continued)

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

Ofgem regulates electricity distribution charges by capping the average charges that a company can impose in any year. Ofgem conducts a periodic review and sets price caps every five years. This price cap is set by reference to inflation as measured by the retail price index in the UK plus an adjustment factor known as 'X' which is specific to each company. The size of a company's X factor (which can be positive, negative or zero) and the change at the start of a price control period to the opening revenue value (defined as P_0 change) reflect the scale of its capital investment programme, its cost of capital and its operational and environmental obligations, together with scope for it to improve its efficiency. The most recent periodic review was completed at the end of 2009 and covers the period from 1 April 2010 to 31 March 2015. For the 2010-15 review period, ENW has been allowed a real (excluding inflation) P_0 price increase of 8.5 per cent in 2010/11 followed by consistent 8.5% increase in real prices each year thereafter (i.e. the X factor = 8.5%).

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

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

Electricity metering services

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

Environmental regulation

Under grounding of overhead lines

All electricity companies have a general duty under the Electricity Act to have regard to the desirability of environmental preservation and conservation and the protection of Sites of Special Scientific Interest when they formulate proposals for development. ENW may be required to carry out an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities. In response to discussions with environmental organisations in ENW's operating area, and with the backing of Ofgem, the Company has embarked on a programme of replacing overhead lines with underground cables at selected sites in Designated Areas (National Parks and Areas of Outstanding Natural Beauty) based on visual amenity considerations.

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Business Review *(continued)*

Under grounding of overhead lines (continued)

For the fourth Distribution Price Control Review (DPCR4) period (2005-2010), Ofgem has allowed companies to 'log-up' the efficiently incurred costs of undertaking this work, in ENW's case to a maximum of £5m over the period. The first of these schemes was completed in October 2006 and ENW have undertaken schemes in six of the seven eligible areas with a total of £4m invested. Ofgem have agreed to the continuation of the scheme into DPCR5 (2010-2015) at a similar level.

High voltage assisted cables

ENW, in common with all other UK electricity companies, owns and operates pressure assisted high voltage cables. These operate at voltages of 33kV and 132kV. These cables are either filled with nitrogen gas or a light oil. ENW operates both types, having 543 kilometres (31 March 2009: 553 kilometres) of the latter type of cable. In the main, the oil is biodegradable, although some older cables are pressurised with a variety of oil that is not. The potential for loss into the environment of the oil, due to leaks or third party damage, is recognised nationally by all electricity companies and the Environment Agency (EA) and is an issue concerning waste disposal and pollution law. In order to mitigate the effects of any losses, ENW is party to a national code of practice agreement with the EA participating in regular meetings to discuss matters of mutual interest on fluid loss mitigation. Over the last seven years, the company has worked to minimise losses into the environment and has reduced annual loss to around 16.0 m³ (31 March 2009: 24.5 m³) in 2010 from a high of 74 m³ in the year ended 31 March 2002.

Sulphur hexafluoride (SF₆) management

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

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

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

The total mass of SF₆ controlled by ENW in 2009/10 was 20,867kg (31 March 2009: 19,089kg), the annual leakage of SF₆, as recorded at 1 April 2010 and reported to the EA, equated to 702kg (31 March 2009: 585kg), or 3.36% (31 March 2009: 3.06%) of the inventory of which 526kg were actual losses and around 91% of this loss was attributable to the ageing Whitegate Substation in East Manchester which has now been replaced.

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

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Business Review *(continued)*

Distributed generation and demand patterns

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 distribution networks. New generators may sometimes require new connections, network reinforcement or changes in the use of existing network.

Serving generator customers is currently a small business component. However it is set to grow in the future. In July 2009, the Department of Energy and Climate Change published its Low Carbon Transition Plan and Renewable Energy Strategy. A key consequence for distribution networks is the introduction by the Department of Energy and Climate Change from 1st April 2010 of a framework of feed-in tariffs for renewable electricity generators < 5 MW and for small CHP. Other parallel developments include amendments to the Renewables Obligations for generators not supported by feed-in tariffs, easing of planning restrictions for small generators, amendments to building regulations, and the continuation of on-site renewables targets set by local planning authorities for new developments.

Since 2003, ENW has been annually reviewing its forecasts of generator connections at all scales – from large projects through intermediate scale developments to micro-generation.

In the period from 1 April 2005 to 31 March 2010, 476 MW of generation was connected in parallel to the ENW distribution network (to 31 March 2009: 271 MW). 205 MW of generation has connected in parallel to the network in the year 1 April 2009 to 31 March 2010, including 180 MW associated with the Robin Rigg (Solway Firth) offshore wind project. At 31 March 2010, total generation connected to date to the network was nearly 1.2 GW after known disconnections. Forecasting future generation connections is subject to considerable uncertainty, but a further 1 GW of generation is expected to connect in the next five years. 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.

The growth in distributed generation consists of a mixture of export-led projects (large wind and biomass) for which new network is generally required and demand-offset projects at locations of new and existing electricity demand. In recent years, rising electricity prices and then declining economic activity have led to a reduction in electricity demand. Together with schemes to encourage carbon emissions reduction related to energy use, such as CERT (Carbon Emissions Reduction Target – on energy suppliers to reduce domestic emissions) and the CRC beginning in April 2010 (Carbon Reduction Commitment – on larger energy users), there could be a reduction of units distributed in the medium-term. However the financial risk to ENW is reduced as from 1st April 2010, price-control allowed revenue is no longer directly linked to units distributed.

Despite reductions in energy distributed over recent years, peak electricity demand has not fallen in the same way. Peak demand is the driver of network capacity and costs. Local demand growth is likely to continue in areas of development e.g. housing growth and urban centres as suggested by the North West Regional Spatial Strategy and the forthcoming integrated North West Regional Strategy. In the longer term, other factors such as growth in the use of electric vehicles and connection of heat pumps are likely to contribute significantly to demand.

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Business Review *(continued)*

Commercial

Operating Model

ENW engage UUES to manage delivery of all operations and maintenance, capital investments, connections and customer service. All such activities are implemented through United Utilities Electricity Services (UUES) under the Asset Services Agreement (ASA). UUES is a subsidiary of United Utilities Plc (UU Plc).

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

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

Under the ASA, UUES provides all services necessary to:

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

Asset Services Agreement (ASA)

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

The ASA sets out “Target Costs” for the operations and maintenance services that UUES will provide. For capital delivery, the ASA allows that Target Costs will be set according to the programme of work and projects agreed between ENW and UUES. UUES earns a management fee based on the target costs.

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

The ASA effectively includes a break clause at 31 March 2010 due to the necessity to agree a revised structure of charges as a result of the DPCR5 settlement. Negotiations continue with UUES to reach an agreed outcome. The risk associated with the ASA renegotiation is discussed further in the principal risks and uncertainties section on page 11.

Resources

Employee Engagement

Good employee engagement remains a priority for ENW as does the need to attract and retain high quality, experienced staff. The focus for ENW continues to be maintaining a culture which encourages all employees to assist in shaping the organisational strategy by involving participant employees in its development. There has been work completed on role evaluation, reward strategy and career development, paving the way for investment in our people.

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Business Review *(continued)*

Health and safety

ENW remains committed to maintaining high standards of health and safety in every area of the business and is in full alignment with the themes articulated in the HSE's new 5 year health and safety strategy "Powering Improvement". Since the establishment of the Asset Services Agreement, ENW is no longer directly responsible for the health and safety of UUES's employees, which now resides entirely with UUES. Key performance indicators are in place within the ENW business and through the Asset Services Agreement and progress is monitored regularly at all levels throughout the business. As a utility business, the risk profile remains broad with major and minor construction projects and contractor management playing a key part. ENW works closely with both UUES and the electricity industry through the Energy Networks Association Health and Safety Groups to ensure focus and priority is maintained in this vital area. ENW as the Asset Owner has a mainly office based organisation and is appropriately considered a low risk environment, as there have been no reportable accidents. The reporting uses the accident figures for UUES who had 10 Lost Time accidents (31 March 2009: 11) in the year to 31 March 2010; 6 (31 March 2009: 5) of which were reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"), which is broadly consistent with the previous year.

Training and development

ENW encourages employees to work to their full potential and is committed to improving its employees' skills through training and development and nurturing a culture in which employees feel valued. There has been a particular focus for the business going forward coupled with a strong focus on a high performing organisation culture and career development, supported by the recent provision of Career Development Workshops for managers and employees and the implementation of succession planning on an organisation-wide basis.

Dignity and equality

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

Employees with disabilities

ENW is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, ENW gives equal consideration to applicants with disabilities in its employment criteria and will modify equipment and working practices wherever it is safe and practical to do so, both for new employees and for those employees that are disabled during the course of their employment. Additionally, ENW is committed to providing full support and appropriate training for employees who become disabled during the course of their employment so that they can continue to work in a position appropriate to their experience and abilities.

Operational assets

As at 31 March 2010, ENW's facilities included 12,990 kilometres (31 March 2009: 13,038 kilometres) of overhead lines, 43,944 kilometres (31 March 2009: 43,794 kilometres) of underground cables (operating at 132 kilovolts, 33 kilovolts, 25 kilovolts, 11 kilovolts, 6.6 kilovolts and 400/230 volts), 18,465 (31 March 2009: 18,242) ground mounted substations and 16,943 (31 March 2009: 16,283) pole mounted transformers (Asset counts subject to confirmation as part of Regulatory Reporting process). ENW holds wayleaves which entitle it to run lines and cables through and across private land and in some circumstances these can be terminated by the landowner or occupier upon notice pursuant to the Electricity Act. However, ENW has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner/occupier. ENW does not anticipate that any significant relocation of these facilities will be required, although any relocation of a major portion of these facilities would have a material adverse effect on its business and financial position. Ground mounted substations are situated on properties either owned by ENW or held under lease. Pole mounted transformers are generally held under wayleave agreements. ENW anticipates that it will be able to negotiate lease renewals on satisfactory terms or relocate equipment so that the non-renewal of any such leases would not have a material adverse effect upon ENW.

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Business Review *(continued)*

Non-operating assets and facilities

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

Principal Risks and Uncertainties

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

Internal control

The Group's Boards and Audit Risk and Treasury Committees ("AR&TC") are responsible for the Company's system of internal controls and for reviewing its effectiveness. At NWEN J an AR&TC operates for the Group. Furthermore ENW, ENW Capital Finance plc ("ENW CF") and ENW Finance plc ("ENW F") also operate an AR&TC which are independent of the Group committee. Each year management reviews all controls including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the Company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The key features of the internal control system are:

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

In addition, ENW undertakes financial, process and quality audits of both its own and UUES's internal control systems.

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Business Review *(continued)*

Principal Risks and Uncertainties *(continued)*

Potential disruption to IT and Telecommunication Services

ENW has established an IT Refresh Programme (ITRP) to engage a new supplier to design, build and operate a refreshed IT estate and provide enhanced ongoing service provision to facilitate full separation from United Utilities. There is a potential risk of disruption to normal business activities whilst this programme is executed.

The ITRP is currently running an OJEU (Official Journal of the European Union) compliant procurement process to select and engage a supplier with relevant industry knowledge and experience to deliver the transition project and ongoing support and maintenance services. The risk to business activity during this significant programme of work will be controlled by taking the following actions:

- Build a new ENW CIO (Chief Information Officer) function with experienced managers that can define and deliver the programmes of work to time, cost and specification.
- Establish an experienced team comprising current suppliers, new suppliers and in-house resources to develop and execute detailed transition plans, effective design reviews and robust testing regimes.
- Develop and execute inclusive communications plans to ensure a high level of engagement with the business community.
- Implement an efficient and effective ongoing support and maintenance facility with the new supplier that is compliant with the industry standard methodology, ITIL version 3 (Information Technology Information Library).

Refinancing

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

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

Capital, operations and maintenance services

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

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

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

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

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Principal Risks and Uncertainties *(continued)*

Reductions in Retail Price Index (RPI) will reduce revenues and RAV, adversely impacting profitability and Regulatory Asset Value (RAV)

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

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

The impact of RPI on revenues in 2011 is known as the revenue inflation factor and is now fixed and will not change regardless of further movements in RPI. Future reductions in RPI may result in revenue growth being restricted beyond 2011.

Target costs in the ASA are agreed based on the difference in the average RPI for the year from the assumed ASA RPI level of 2.75%. Reductions in RPI below 2.75% will reduce target costs, which in 2011 as the revenue inflation factor is fixed, will be reflected in profitability in the annual ASA 'true up' adjustment.

Financial covenant tests embedded in the Company's borrowings are dependent upon the Company's RAV, which is indexed using the movement in the average of March 2009 and April 2010 RPI.

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

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

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

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

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

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

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Principal Risks and Uncertainties *(continued)*

Risk that ENW is found to be 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 licensed company's annual turnover 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.

ENW 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 ENW 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 responsible Board member and senior managers 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 this year to reflect the changes arising out of DPCR5 and organisation and personnel changes within ENW since the Table was last revised. Compliance with the Table of Accountabilities is an integral part of the annual ENW Audit plan.

On 28 January 2010, Ofgem instigated an investigation of potential breaches of Standard Licence Condition 4D, Standard Licence Condition 12,² and Standard Licence Condition 30 of the electricity distribution licence, specifically the obligation to provide connection quotations within 3 months of a request for a quotation and requested information from ENW to assist with the investigation via a notice pursuant to Section 28 of the Electricity Act 1989.

Ofgem acknowledge that ENW had already provided information on this matter on an informal basis, and asked for further information in order to obtain greater clarity on the issues involved.

ENW recognise that there were a number of breaches and potential breaches over the period between 1 April 2007 and February 2009. The majority of the breaches/potential breaches took place in 2007/08 and were identified as part of internal reviews. The breaches/potential breaches were not the result of resource constraints and improvements to the delivery of quotations have been implemented over the period covered by Ofgem's Section 28 notice. These have been introduced as part of an overarching approach to improve processes to deliver enhanced customer service and to reduce operating costs. As a result of these steps, ENW are confident that the risk of future breaches has been fully addressed. There have been no breaches of the three month absolute deadline provided for by SLC12 since February 2009.

In ENW's opinion the specific breaches of the licence alleged are at worst extremely minor infringements representing only twenty failures in 2007/08 (out of 7,091 quotations); seven failures in 2008/09 (out of 7,836 quotations); and zero in 2009/10 (from 6,162 connections until 31 January 2010). Only two of these instances fall within the period covered by Ofgem's power to levy fines for breaches of the Licence and given Ofgem's policy of proportionality in respect of fines for Licence breach and the mitigating circumstances surrounding this case, ENW do not believe any sanction is warranted and as such no provision has been made in the financial statements at 31 March 2010.

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

Operating cost savings to be achieved during the next five-year regulatory period covered by DPCR5 are implicit in the regulatory review. To assist with the achievement of these operating cost savings, a Target Cost based contract is in place with the Asset Service Provider (UUES). If the operating cost savings are not achieved by the Asset Service Provider, then ENW's profitability would suffer. Similarly, if operational performance were to deteriorate, this may be reflected in less favourable outcomes from future price control reviews and ENW's profitability would suffer. In mitigation, ENW has the right to audit UUES' performance and financial systems.

² From 1 June 2008, after a review of the licence, the obligations in Standard Licence Condition 4D were set out in a revised form in Standard Licence Condition 12.

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Principal Risks and Uncertainties *(continued)*

Failure to deliver the capital investment programmes could adversely affect profitability

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

DPCRS increase in workload volumes (particularly with regard to overhead lines)

ENW has agreed its detailed capital investment plans for the period 2010-2015 with the regulator, Ofgem, as part of the current distribution price control review. The 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 ENW policies. ENW is working closely with UUES to develop implementation plans to ensure sufficient contractor resources are procured, work content of projects are designed in a timely manner and IT and governance processes are in place. A project team will be set up to coordinate the necessary preparatory activities and prepare for increased resource requirements.

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

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

Service interruptions could adversely affect profitability

In addition to the capital investment programmes, ENW controls and operates the electricity distribution network and undertakes maintenance of the associated assets with the objective of providing a continuous service. Historically, there have been interruptions to the supply of services owing to the effects of severe weather events, such as the incidents in January 2005 affecting Cumbria and Lancashire, when a storm and severe flood in Carlisle severely damaged the electricity network supply to 250,000 customers, and to a lesser extent the widespread flooding of parts of Cockerthorpe, Cumbria in November 2009. However, the majority of interruptions relate to minor issues that are rectified promptly.

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

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

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

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

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Principal Risks and Uncertainties *(continued)*

Losses Incentive Mechanism may result in revenue reduction

There is a risk that DPCR5 revenues will be adjusted downwards in the third year of DPCR5 as a result of Ofgem's finalisation of the DPCR4 losses rolling retention mechanism. In the DPCR4 Proposals, Ofgem introduced a new mechanism for the retention of benefits for reducing distribution network losses. Such benefits are to be retained for a fixed period of five years regardless of when the benefit (or penalty) is realised. This mechanism requires a true-up calculation if losses performance against target is greater in the early years of DPCR4 than later years as Distribution Network Operators (DNOs) are unable to retain the incentive benefits of reduced losses if they are not sustained. Typical fluctuations in industry billing settlements data influences the calculation of losses and falling volumes of units distributed depress losses performance against target. Currently the predicted adjustment to DPCR5 revenues is a £7m reduction (2007/08 prices) in 2012/13, which has been included within the business forecasts. Losses levels will not be known precisely until data runs from the industry settlements system are available in 2012. ENW have sought to improve losses in the final year of DPCR4 by ensuring that the maximum amount of unrecorded units due to theft and unbilled MPANs are included in settlement data.

Pension scheme obligations may require the Company to make additional contributions to the schemes which would reduce cash flows

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

The Company's proportion of the schemes was estimated to have a combined pre-tax deficit of £142.8m as at 31 March 2010 compared to a pre-tax deficit of £27.5m at 31 March 2009, as disclosed under IAS 19 'Employee Benefits'.

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

On 23 June 2009 it was formally agreed with the Pension Scheme Trustees that ENW will make pension deficit repair payments from the period from 1 July 2009 to 31 March 2020. As noted, efficient pension contributions are recoverable from Ofgem and as such, the DPCR5 settlement included an allowance of £73.6m³ for the period to 31 March 2015 which aligns to the contribution schedule agreed with the Trustees.

³ Electricity Distribution Price Control Review Final Proposals – Allowed revenue financial issues (Red: 147/09) published by Ofgem 7 December 2009

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Treasury policy and financial instruments

There are a number of financing risks facing the company, the most significant of which are liquidity, interest rate risk and financial derivative valuations. These risks facing the company are outlined in the treasury section on page 18 below.

Long Term Strategy, Business objectives and Performance

The long term strategy of ENW is to consistently deliver value over the long term by managing the trade-off between risk, reward and reputation, embracing the final determination of the regulatory outcome for DPCR5 and beyond.

The key objectives of ENW are to:

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

The fifth Distribution Price Control Review (DPCR5), took effect from 1 April 2010. Ofgem's final proposals were published in December 2009 and accepted by ENW on 6 January 2010. DPCR5 envisages an expenditure programme between 1 April 2010 and 31 March 2015 of £1.1bn⁴ funded by year-on-year price increases throughout the period of 8.5% above underlying increases in the Retail Price Index (RPI). Ofgem proposals are enacted through changes to ENW's Electricity Distribution Licence. Long-term value will be secured by ensuring the best, sustainable outcome from the DPCR5 contract and future price reviews in terms of funded Regulatory Asset Value ("RAV") growth and opportunities to out-perform allowed revenues.

Short-term profit maximisation will be achieved by:

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

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

⁴ Electricity Distribution Price Control Review Final Proposals – Allowed revenue financial issues (Red: 147/09) published by Ofgem 7 December 2009

REPORT AND FINANCIAL STATEMENTS 2010

Business Review (continued)

Developing a high performance company

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

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

- Customer minutes lost ('CMLs') – for the five years to 31 March 2015 we are planning to achieve a performance of 52.8 minutes lost per customer per year, outperforming the Ofgem target of 55.6.
- Customer interruptions ('CIs') – for the five years to 31 March 2015 we are planning to achieve 49.4 customer interruptions per 100 customers per year, outperforming the Ofgem targets of 52.9, 52.7, 52.5, 52.4 and 52.2 for each of the five years.
- Overall customer satisfaction – we, in conjunction with our services provider UUES, are targeting 85% customer satisfaction by the end of 2015.

Good progress has already been made in meeting the efficiency challenges set by Ofgem and 87% (31 March 2009: 82%) of ENW's customers (over the year April 2009 – March 2010), who had made an enquiry, were satisfied with the overall service they received. Successful delivery of the capital investment programme is vital and the partnership framework approach that has been developed will help to optimise the Company's performance. The current strategy is to target customer service and operational performance improvement. Overall the Company's progress means that it has a strong platform from which to develop.

Our progress on our strategic objectives is monitored by the board of directors by reference to key performance indicators. Performance in 2010 against these measures is set out in the table below, together with the prior year performance data.

Key performance indicators

	31 March 2010	31 March 2009
<i>Financial</i>		
Revenue (£m)	323.4	341.8
Operating profit (£m), (2009: before restructuring credit of £0.8m)	155.9	180.7
Profit before tax (£m)	17.1	142.3
RAV Gearing (1)	56.49%	46.3%
Interest cover (2)	4.2 times	4 times
Capital expenditure on property, plant and equipment (cashflow) (£m)	173.9	178.7
<i>Non-financial</i>		
Average minutes for which customers were without supply (3)	49.87	50.9
Customer interruptions per 100 customers (4)	50.55	48.39
Overall customer satisfaction (5)	87%	82%
Electricity supply availability	99.99%	99.99%

(1) RAV Gearing is measured as borrowings at amortised cost net of cash and short-term deposits divided by the allowed Regulatory Asset Value (RAV) of £1,343.8m (2009: £1,262.7m) based on March closing prices. The RAV Gearing is on a Company basis which is consistent with Ofgem's reporting requirements.

(2) Interest cover is the number of times the net underlying finance expense is covered by operating profit from continuing operations before restructuring costs. Net underlying interest expense is calculated as the underlying cost of borrowings excluding any pension adjustment and movements in the fair value of debt and derivatives but including the £22.2m (2009: £22.2m) interest on swaps and debt under fair value option.

(3) The minutes of supply lost per customer is an Ofgem measure calculated by taking the sum of the customer minutes lost for all restoration stages for all incidents and dividing by the number of connected customers as at 30 September each year. The 2010 figure is yet to be audited by Ofgem.

(4) Customer interruptions per 100 customers is a standard measure of network reliability used by Ofgem and is calculated as: (total customers affected/total customers connected to the network) x 100. The 2010 figure has not been audited by Ofgem as at the date of this report.

(5) Overall customer satisfaction in relation to the response received from 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.

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Financial Performance

Financial review

Revenue has declined by 5.4 per cent to £323.4m (31 March 2009: £341.8m), reflecting a significant decline in unit sales during the year in both industrial and domestic consumption combined with the impact of customer settlements. Operating profit decreased by 14.1 per cent to £155.9m in 2010 (31 March 2009: £181.5m), primarily reflecting the decrease in revenue and an increased depreciation charge in the year due to the commissioning of a number of significant projects in line with the five year delivery plan. This is within the regulatory assumptions and reflects the re-phasing of expenditure across the 2005-10 regulatory review period.

The net finance expense for the year was £138.8m compared with £39.2m in 2009. The 31 March 2010 position reflects adverse fair value movements of £26.3m on the bond held at fair value, £39.2m on the index-linked swaps and embedded derivatives (refer to page 19) and £23.9m on the close out in the year of the £250m nominal amortising interest rate swaps. The 31 March 2009 amount includes a fair value gain of £13.6m on the bond held at fair value offset by an adverse fair value movement of £35.4m on the index-linked swap.

Dividends and dividend policy

In 2010, ENW's dividends recognised in the year were £218.3m (2009: £69.5m). This figure represents an interim payment of £197.3m paid in July 2009 as part of the refinancing activities 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 2010.

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

Liquidity and Capital Resources

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

During the 2010 financial year, pressures in the money markets and UK economy have put pressure on the availability of funding to many institutions. ENW has limited exposure to such liquidity risk, due to the long-term nature of much of the funding in place. Nonetheless, management continues to monitor liquidity closely.

Treasury policy

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

The principal risks which the Company is exposed to and which arise in the normal course of business include: credit, liquidity and interest rate risks. Derivatives are used to hedge exposure to fluctuations in interest rates 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 predominantly uses interest rate swaps to hedge balance sheet exposures, and no formal hedge accounting is undertaken. During the year the Company restructured the index linked swap which is described further below.

REPORT AND FINANCIAL STATEMENTS 2010**Business Review** *(continued)***Financial Performance** *(continued)***Financial instruments entered in the year**

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

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

The swaps were entered to hedge the £200m 6.125% 2021 bond issue by ENW Finance plc. Back-to-back swaps on exactly matching terms were entered between ENW and ENW Finance plc to move the economic effect of the external swaps to ENW Finance plc, the company issuing the bonds. These back-to-back swaps do not qualify for hedge accounting and all movements in fair value are reflected in the income statement. At 31 March 2010 the fair value of these instruments was £70.6m (asset), exactly offsetting the fair value of the external swaps.

ENW entered an inter-company loan agreement with ENW Finance plc through which the proceeds of the £200m 6.125% 2021 bond issued by ENW Finance plc were on-lent to ENW, on terms matching those of the external bond and any associated hedging, i.e. the back-to-back swaps. This has created an embedded derivative within the inter-company loan. Under IAS 39 'Financial Instruments: Recognition and Measurement' an embedded derivative must be bifurcated from the host contract and accounted for as if it were a standalone derivative and recognised separately on the balance sheet at fair value with movements in that fair value reflected through the income statement. The embedded derivative does not qualify for hedge accounting. At 31 March 2010 the fair value of the embedded derivative was £54.2m (liability).

ENW also entered an inter-company loan agreement with North West Electricity Networks Limited. This is accounted for at amortised cost. At 31 March 2010 the balance owed by ENW to North West Electricity Networks Limited was £70.4m.

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

Debt financing

The Company's borrowings net of cash and short-term deposits of £827.2m at 31 March 2010, compared with £584.6m at 31 March 2009, included bonds with long-term maturities of £633.2m at 31 March 2010, compared with £611.3m at 31 March 2009. These bonds have nominal value of £450m at 8.875 per cent that mature in 2026 and £100m of 1.4746 per cent index linked bonds maturing in 2046. Also included are long-term inter-company loans of £268.7m at 31 March 2010 (2009: £nil). Of these loans, £198.3m matures in 2021 and £70.4m in 2015.

Shorter-term liquidity

Short-term liquidity requirements are met from the Company's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances. Cash and short-term deposit balances were £72.0m at 31 March 2010, compared with £36.7m at 31 March 2009. At the year end the Company had £199.2m (2009: £30m) of undrawn committed bank facilities with maturity dates of longer than twelve months and £25m (2009: £nil) of undrawn committed bank facilities with maturity dates of less than twelve months. Utilisation of undrawn facilities will be with reference of RAV gearing restrictions for the NWEN J Group.

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Financial Performance *(continued)*

Longer-term liquidity

The Company's term debt was £903.2m at 31 March 2010, compared with £611.3m at 31 March 2009. Amounts repayable after more than five years comprise bank and other loans. Fixed interest rates for amounts after more than five years are at 8.875 per cent on £522.4m (2009: £498.9m). £110.8m of index linked debt was held at 31 March 2010 (2009: £112.4m) at an interest rate of 1.4746% plus retail price index (RPI), £198.3m (2009: £nil) at 6.125% plus or minus an adjustment for the impact of any interest rate hedging.

Interest rate management

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

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

The Company's use of derivative instruments relates directly to underlying indebtedness, including pre-hedging future bond issues; no speculative or trading transactions are undertaken. The proportion of borrowings at effective fixed rates of interest for a period greater than one year is set in conjunction with the level of floating rate borrowings and projected regulatory revenues that are exposed to inflationary adjustments (index linked). ENW has no exposure to foreign currency exchange rate movements. Interest rate management and funding policies are set by the Board.

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

During the year volatility to the income statement 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 and on close-out of the amortising swaps. This has led to a fair value losses of £96.7m, excluding cash settlement on close-out of amortising swaps, being recognised in the income statement for the year (31 March 2009: £8.7m fair value gain). Of this, £41.9m relates to the close-out of the amortising swaps and £54.8m to the remaining instruments which will unwind over the remaining life of those instruments. As noted above these movements have no cashflow impact.

Due to the nature of the revenue streams which ENW earns being linked to inflation, management has sought to match a proportion of the cost of funding the business using a combination of an inflation linked bond and fixed rate debt with overlaying index-linked swaps. By seeking to match the cost of funding to revenue streams, the risk of movements in inflation levels is mitigated. Nonetheless, there will inevitably not be a perfect match between the in and out flows. The Company therefore retains some exposure to movements in inflation rates.

Summary

The Board has reviewed the 31 March 2010 Budget and the requirements of licence condition 30 ("availability of resources") and considers that the Company has sufficient liquidity to meet the anticipated financial and operating commitments for the next 12 months. In total at 31 March 2010, unutilised committed facilities of £224.2m (31 March 2010: £30.0m), together with £72.0m (31 March 2009: £36.7m) of cash and short-term deposits provide substantial liquidity for the Company.

REPORT AND FINANCIAL STATEMENTS 2010

Business Review *(continued)*

Critical Accounting Policies

The Company prepares its consolidated financial statements in accordance with accounting principles consistent with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union including International Accounting Standards ('IAS') and interpretations issued by the International Financial Reporting Interpretation Committee ('IFRIC'). As such, the Company is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years presented.

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

The Company's accounting policies are detailed in the notes to the consolidated financial statements.

Research and Development

The Company undertakes research primarily to provide improved standards of service to customers, together with continuing improvements in business efficiency. Research and development within the Company's electricity network aims to deliver financial, supply quality, environmental and safety improvements to customers and is supported under the Innovation Funding Incentive introduced by Ofgem. The Company is a member of a number of collaborative research programmes which addresses common issues that face the electricity industry. The Company also undertakes specific projects with these and other research and development providers, manufacturers and with universities. Research and development expenditure (IFI) by the Company was £1.3m in the year ended 31 March 2010 (2009: £1.4m). Research costs are written off to the income statement as incurred.

Events after the Balance Sheet Date

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

Cautionary Statement Regarding Forward Looking Statements

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

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

The directors of Electricity North West Limited advise that all the information supplied in the Chief Executive Officer's Statement on pages 1 and 2 and the Business Review on pages 3 to 22 form part of the Directors' Report as incorporated by reference. Any liability for the information is restricted to the extent prescribed in the Companies Act 2006.

**REPORT AND FINANCIAL STATEMENTS 2010
CORPORATE GOVERNANCE STATEMENT**

The Combined Code

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

Combined Code

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

Compliance statement

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

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

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

A.1 The Board

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 service to stakeholders and customers. In order to achieve this, the Board meets regularly to provide entrepreneurial leadership, set strategic objectives and ensure that appropriate financial and human resources are made available to enable the Company to meet those objectives.

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

A.1.1 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; financial reporting; internal controls and policies and delegation of authority. Projects and contracts have various limits of approval to Board level.

A.1.2 The names of the persons who are or have been directors of the Company during the period under review are listed below and in the Directors’ Report.

REPORT AND FINANCIAL STATEMENTS 2010
CORPORATE GOVERNANCE STATEMENT (continued)

Since 1 April 2009, the Board has met seven times in the year with eight unscheduled supplementary meetings. Attendance by individual directors at meetings of the Board and Audit Committee during the year ended 31 March 2010 was as follows:

BOARD	Scheduled/Unscheduled Board meetings during appointment	Scheduled Board meeting attendance	Unscheduled Board meeting attendance
Bircham, P R	2/1	2	1
Boxall, M J	6/6	6	4
Gittins, J A	5/5	5	4
Johnson, S	7/8	6	8
Kay, M J	2/1	2	1
McCallion, M G	2/1	2	1
Mills, N P	5/8	4	6
Taylor, P R	2/1	2	1
Thompson, C	7/8	7	6
Toor, S S	5/8	5	7
Sugden, M G	2/1	2	1

AUDIT COMMITTEE	Committee meetings during appointment	Committee meeting attendance
Boxall, M J Non-executive director	4	4
Gittins, J A Independent non-executive director	5	5
Mills, N P Non-executive director	5	4
Toor, S S Chair and non-executive director	5	5

As there are no formal nominations or remuneration committees of the ENW Board, as further discussed below, the number of meetings and attendances as required by the Code have not been presented. However, a formal Remuneration Committee is established and meets on a bi-annual basis at NWEN(J) on behalf of the Group companies.

A.1.3 Formal meetings between non-executive directors without executives being present do not currently take place as it is considered that the mix of directors is sufficient to safeguard independent judgement. As no Chairman was appointed for the period under review, no evaluation took place. However, a second non-executive director, Phil White, has been appointed who has taken the position of Chairman of the Company from 3 May 2010. Evaluations of his performance will take place in future and it is expected that the Company will be in full compliance with this section of the code in future.

A.1.4 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.

A.1.5 The Board has ensured that an appropriate level of directors' and officers' insurance is in place for directors and other officers of the Company.

REPORT AND FINANCIAL STATEMENTS 2010

CORPORATE GOVERNANCE STATEMENT *(continued)*

A.2 Chairman and Chief Executive

The post of chairman was not formally appointed in the period under review and a clear division of responsibilities was therefore, not established as required by A.2 of the code. With the appointment of Phil White as Chairman, however, the Company will be in full compliance with this section in future. The Board composition as described below, together with the Company's oversight by the Group Board, ensured that no one individual had unfettered powers of decision. The Parent Board's remuneration committee is responsible for determining appropriate levels of remuneration for executive directors.

A.2.1 and A.2.2 Since the date of his appointment, Steve Johnson, as Chief Executive Officer, has chaired the Company's Board meetings, when present, during the period under review and therefore the Company did not comply with this provision. There are representatives of each shareholder on the Board, however, and the Board considers that the arrangement was a satisfactory one in fulfilling its duties. The Shareholders and Ultimate Controlling parties are disclosed in note 27 to these financial statements.

A.3 Board balance and independence

The Company believes that the Board represents 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.

A.3.1 John Gittins was appointed to the Board in July 2009 as an independent non-executive director and fulfils the requirements of independence as set out in the Code. As described above, Phil White was appointed to the Board in May 2010 as an independent non-executive director and will take the role of Chairman. There are two additional independent non-executive directors on the Board each of whom represents an ultimate shareholder.

A.3.2 The Company is deemed to be a smaller company by the Code, and as such, the Code would require the Company to have at least two independent non-executive directors on its Board. The Company considers, however, that despite not complying with the provisions of this section of the Code during the period under review, its composition gives the Company an effective balance of skills and experience that are appropriate for ensuring the success of the business.

A.3.3 As there are representatives of the shareholders on the Board, it is not considered necessary to appoint a Senior Independent Director to be available to shareholders as required by this section.

A.4 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 all employees and senior management to ensure the Company has the appropriate mix of skills and experience.

A.4.1 to A.4.3 There is no nomination committee for the appointment of Board directors and the Company does not comply, therefore, with these sections. External recruitment companies are used where appropriate.

A.4.4 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.

A.4.5 Where the directors are non-executive directors on the board of other companies, they are not considered to be significant commitments in either time or remuneration.

A.4.6 An external recruitment company was used in the appointment of John Gittins as independent non-executive director.

A.5 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. During the year under review, the minutes of Board meetings and of any committee meetings were circulated to all Board members as soon as practicable. The company secretary assists with professional development when required and advises on governance matters.

REPORT AND FINANCIAL STATEMENTS 2010
CORPORATE GOVERNANCE STATEMENT *(continued)*

A.5.1 Directors currently receive an informal induction on joining the Board which is considered sufficient to enable a new director to discharge his 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.

A.5.2 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.

A.5.3 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.

A.6 Performance evaluation

Neither the Board nor the audit committee have carried out an evaluation of their own performance during the year under review and therefore the Company does not currently comply with the provisions of A.6. However, the role of the recently appointed Company Chairman, will include board and committee evaluation and it is expected that the Company will comply with the section in future.

A.7 Re-election

The company has elected not to hold AGMs annually and directors, therefore, do not put themselves up for re-election. The company has strong links, however, with its ultimate shareholders: the Company Board membership includes shareholder representatives and the Company follows policy and procedures from the Parent Board which include those on the appointment of directors. It is therefore considered that although the Company is not compliant with this section, shareholders are involved in director appointments to at least as great an extent as if re-election took place at an AGM.

B.1 The Level and Make-up of Remuneration

Levels of remuneration are reviewed in order to attract, retain and motivate directors of sufficient quality to deliver the objectives of the Group.

B.1.1 Performance-related elements of remuneration have formed a significant portion of the total remuneration package of executive directors in the year under review and these are linked to both corporate and individual performance objectives.

B.1.2 Share options are not offered as an incentive to executive or non-executive directors as the company is private and ultimately a wholly owned subsidiary of NWEN(J).

B.1.3 Remuneration for non-executive and executive directors is reviewed by the Parent's remuneration committee which ensures that this reflects the time commitment and responsibilities of the role.

B.1.4 As a private company, a remuneration report is not required to form part of the Company's report and accounts and therefore the Company does not comply with the section.

B.1.5 The Parent's remuneration committee is careful to ensure that compensation commitments in directors' terms of appointments are appropriate and not designed to reward poor performance.

B.1.6 The directors' service contracts are designed to reward good performance and the notice periods are set at one year or less.

B.2 Procedure

The remuneration committee of the Parent Board sets the policy and procedures for developing policy on executive remuneration and for fixing the remuneration packages of directors. No director is involved in setting his or her own remuneration.

B.2.1 and B.2.2 The Board has established a remuneration committee which consists of shareholder representatives from the Parent Board. The Company's non-executive directors, Surinder Toor and Niall Mills, are members of this committee.

REPORT AND FINANCIAL STATEMENTS 2010
CORPORATE GOVERNANCE STATEMENT *(continued)*

The terms of reference of the remuneration committee are available to shareholders. The committee has responsibility to make recommendations to the Board on the policy and framework for the remuneration of the directors, approve employment related benefits for other Group employees and implement employees' bonus and long term incentive plans. The remuneration committee has responsibility for setting remuneration for all the Company's directors and senior management as appropriate.

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

B.2.3 The remuneration committee determines the remuneration of the non-executive directors.

B.2.4 The remuneration committee, made up of shareholder representatives, approves all long-term incentive schemes and significant changes to existing schemes.

C.1 Financial Reporting

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

C.1.1 Directors' responsibility in relation to accounts preparation and their statement in relation to information given to auditors is given in the directors' report page 31.

C.1.2 As discussed in the Directors' report and statement of 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.

C.2 Internal Control

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

The key features of the internal control system are:

- A control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business.
- Designated internal audit resource is in place in order to review areas of key risk for the business.
- Comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years.
- The Board review financial and non-financial performance on a monthly basis to assess progress towards objectives.
- Regular monitoring of risks and control systems takes place throughout the year, supported by a risks and issues central recording mechanism.
- The Executive Management Team perform a quarterly risk assessment exercise of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment. This is supported by an annual risk assessment exercise performed by the Audit Committee.
- Health and safety performance reviews are carried out by safety professionals in addition to the normal health and safety risk assessment and management processes carried out internally within the business.
- The centralised treasury function operates within defined limits set out in the Treasury Policy and is subject to regular reporting requirements and periodic external and internal audit reviews. Any amendments to the Treasury Policy require approval from the Audit Committee.

REPORT AND FINANCIAL STATEMENTS 2010

CORPORATE GOVERNANCE STATEMENT *(continued)*

- There are established procedures, set out in an internal control manual, for planning, approving and monitoring major capital expenditure, major projects which includes short and long-term:
 - project budget, risk evaluation, detailed appraisal and review procedures; and
 - defined authority levels and post-investment performance reviews.
- Formal briefings are provided annually to staff on the contents and requirements of the internal control manual, as well as updates being communicated to staff during the year as they arise.

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

C.2.1 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 assisted the Board in discharging its review responsibilities.

C.3 Audit Committee and Auditors

C.3.1 The ENW audit committee was established on 23 June 2009 in compliance with the requirements of section 7.1 of the Disclosure and Transparency Rules of the FSA. The committee membership consists of non-executive directors who have recent and relevant financial experience; however only J Gittins is considered an independent non-executive director in accordance with the code. Therefore, the Company does not strictly comply with C.3.1. The composition of the committee is considered to be effective and objective, however, by the Board.

C.3.2 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. Nevertheless, shareholder approval is obtained due to the oversight of the Parent Board which is made up of shareholder representatives.

C.3.3 The committee terms of reference are available to shareholders. The work of the committee in discharging their responsibilities is described below:

The committee monitors the integrity of the Group’s financial statements and the effectiveness of the external audit process. The Parent company audit committee provides recommendations to the NWENJ Board in relation to the appointment, reappointment and remuneration of the external auditors. The ENW committee, however, continually assesses the external auditors’ independence and the level of non-audit services provided to the Company.

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

The committee has responsibility to ensure that all commercial and health & safety issues are fully understood, analysed, reported and effectively managed.

C.3.4 The Company has in place guidance on the reporting of incidents of fraud which detail the procedure 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 (Whistleblowing) Policy.

C.3.5 The committee regularly reviews the systems of internal control and the effectiveness of the internal audit function. The internal control function is discussed in more detail above.

REPORT AND FINANCIAL STATEMENTS 2010

CORPORATE GOVERNANCE STATEMENT *(continued)*

C.3.6 The committee had 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 tender for audit work. Their recommendation for the reappointment of Deloitte as the Company's auditor was accepted by the Board.

C.3.7 The Company's auditors 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 detailed policy on the provision of services by the external auditors and all such services are approved by the Audit Committee prior to commencement.

D Relations with Shareholders

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

REPORT AND FINANCIAL STATEMENTS 2010

Directors' Report

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

Profit and dividends

Revenue decreased by 5.4 per cent to £323.4m (31 March 2009: £341.8m), reflecting significantly reduced consumption levels due to the economic downturn and the impact of customer settlements. Operating profit decreased 14.1 per cent to £155.9m at 31 March 2010 (31 March 2009: £181.5m), primarily reflecting the decrease in revenue and increased depreciation cost. Profit before tax decreased by 88 per cent to £17.1m (31 March 2009: £142.3m) primarily due to the impact of debt and financial instruments as disclosed in note 6 to the Financial Statements.

In 2010, ENW's dividends recognised in the year were £218.3m (2009: £69.5m). This figure represents an interim payment of £197.3m paid in July 2009 which was a one off payment, part of the refinancing activities 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 2010.

Business review and principal activities

The chief executive officer's statement on pages 1 and 2 and the Business Review on pages 3 to 22 report on the Company's activities during the year and on likely future developments. 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 ASB's 2006 Reporting Statement on operating and financial reviews. All the information supplied in the Chief Executive officer's statement and the Business Review form part of the Directors' Report as incorporated by reference. Any liability is restricted to the extent prescribed in the Companies Act 2006.

Principal risks and uncertainties

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

Research and development

The Company is committed to developing innovative, cost-effective and practical solutions for providing high quality services and standards to our customers, and for the benefit of the wider community and the development of the business. It seeks to take as part of this process maximum advantage of wide-ranging expertise, abilities and facilities within the Company.

Employees

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

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

The Company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, the Company gives equal consideration to applicants with disabilities in its employment criteria and will modify equipment and working practices wherever it is safe and practical to do so, both for new employees, and for those employees that are disabled during the course of their employment. Additionally, the Company is committed to providing full support and appropriate training for employees who become disabled during the course of their employment, so they can continue to work in a position appropriate to their experience and abilities.

Policy on the payment of suppliers and creditors

The policy is to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Company seeks to adhere to the payment terms, provided the relevant goods and services have been supplied in accordance with the contracts. Trade creditors principally comprise amounts outstanding to UUES for capital and operating services provided under the ASA contract. The credit period with UUES is 10 days from receipt of invoice.

REPORT AND FINANCIAL STATEMENTS 2010

Directors' Report *(continued)*

Directors

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

P R Bircham (resigned 12/6/2009)
M J Boxall (resigned 31/12/2009)
J A Gittins (appointed 16/7/2009)
S Johnson
M J Kay (resigned 12/6/2009)
M G McCallion (resigned 12/6/2009)
N P Mills (appointed 12/6/2009)
P R Taylor (resigned 12/6/2009)
M G Sugden (resigned 12/6/2009)
C Thompson (appointed 24/4/09)
S S Toor (appointed 12/6/2009)
P White (appointed 3/5/2010)

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

Directors' and officers' insurance

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

Going Concern

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

- On 7 January 2010 the Group, on behalf of ENW accepted the final proposals with regard to the fifth Distribution Price Control Review for the period from 1 April 2010 to 31 March 2015. It is the Board's view that despite the perceived challenge over the next 5 years, ENW has secured a sustainable outcome over the next five years.
- The Directors have prepared forecasts for a period to the end of DPCR5 which include projections and cashflow forecasts, including covenant compliance considerations. These forecasts are based on the DPCR5 settlement and include key assumptions around the future of the ASA contract as discussed in the principal risks section of the business review. The forecasts have been sensitised for reasonably possible changes in the key assumptions and demonstrate that no covenant breaches are expected and that sufficient resources are available within the forecast period.
- Under certain circumstances considered in the forecasts the Group may require additional funding to meet capital and business planning initiatives. The Directors have sought and received an expression of the ultimate controlling parties intentions to provide additional funding to meet these circumstances. Whilst the Group projections are not reliant on this support it is indicative of the level of the Shareholder engagement in the business
- The Group's electricity distribution licence includes the obligation in standard condition 40 to maintain an investment grade issuer credit rating;
- Under section 3A of the Electricity Act 1989, the Gas and Electricity Markets Authority has a duty, in carrying out its functions, to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations imposed by or under Part 1 of the Electricity Act 1989 or the Utilities Act 2000;
- During the year, the Group has refinanced a £465m bridging loan, a £95m capex facility and a £75m revolving credit facility held by North West Electricity Networks Limited ("NWEN"), ENW's parent through the issuance of Notes as described on page 11.

REPORT AND FINANCIAL STATEMENTS 2010

Directors' Report *(continued)*

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

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

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

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

Under the terms of its Electricity Distribution Licence, the Company is required to prepare accounts on a consistent basis and in accordance with Licence Condition 44.

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.

REPORT AND FINANCIAL STATEMENTS 2010

Directors' Report *(continued)*

Information given to auditors

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

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditor

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

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

Registered address

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

Registered number: 2366949

By order of the board

S Johnson

Director

8 June 2010

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

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2010 on pages 35 to 74 which comprise the income statement, the statement of recognised income and expense, the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows, the statement of accounting policies and the related notes numbered 1 to 28. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, to the Company and the Regulator in order to meet the requirements of Standard Condition 44 ("Condition 44") of the Electricity Distribution Licence, (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

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

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not necessarily been prepared under the basis of International Financial Reporting Standards ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment. The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition 44 of the Regulatory Licence are set out in the statement of directors' responsibilities on page 31.

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

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 40 to 47, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

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

Basis of opinion

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

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 8 June, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Audit opinion

In our opinion:

- the Regulatory Accounts present fairly in accordance with Condition 44 of the Regulatory Licence and the accounting policies set out in note 1, the financial position of the Company as at 31 March 2010 and of its financial performance and cashflows for the year then ended; and
- have been properly prepared in accordance with Condition 44 and the Company's accounting policies.

Deloitte LLP

Chartered Accountants and Statutory Auditors

Manchester

8 June 2010

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

INCOME STATEMENT

for the year ended 31 March 2010

	<i>Note</i>	2010 £m	2009 £m
Revenue	2	323.4	341.8
Employee benefits expense	4	(6.7)	(6.4)
Depreciation and amortisation expense	3	(60.2)	(56.1)
Other operating costs		(100.6)	(98.6)
Restructuring credit	3	-	0.8
Total operating expenses		(167.5)	(160.3)
Operating profit		155.9	181.5
Investment income	5	0.4	3.3
Finance expense	6	(139.2)	(42.5)
Profit before taxation		17.1	142.3
Taxation	7	(18.2)	(47.1)
(Loss)/Profit for the year	24	(1.1)	95.2

The results shown in the income statement are derived from continuing operations.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

STATEMENTS OF FINANCIAL POSITION
at 31 March 2010

	<i>Note</i>	2010 £m	2009 £m
ASSETS			
Non-current assets			
Intangible assets	<i>10</i>	21.0	19.2
Property, plant and equipment	<i>11</i>	2,188.1	2,089.1
		<u>2,209.1</u>	<u>2,108.3</u>
Current assets			
Trade and other receivables	<i>13</i>	34.9	44.0
Cash and cash equivalents	<i>14</i>	72.0	36.7
Derivative financial instruments	<i>16</i>	1.1	43.2
		<u>108.0</u>	<u>123.9</u>
Total assets		<u>2,317.1</u>	<u>2,232.2</u>
LIABILITIES			
Current liabilities			
Borrowings	<i>15</i>	-	(10.0)
Trade and other payables	<i>17</i>	(95.9)	(106.0)
Derivative financial instruments	<i>16</i>	(52.9)	(45.1)
Current income tax liabilities		(17.7)	(3.3)
		<u>(166.5)</u>	<u>(164.4)</u>
Net current liabilities		<u>(58.5)</u>	<u>(40.5)</u>
Non-current liabilities			
Borrowings	<i>15</i>	(899.2)	(611.3)
Deferred tax	<i>19</i>	(254.6)	(289.7)
Provisions	<i>20</i>	-	-
Consumer contributions	<i>21</i>	(422.0)	(397.4)
Refundable customer deposits	<i>22</i>	(3.5)	(8.2)
Retirement benefit obligations	<i>18</i>	(142.8)	(27.5)
		<u>(1,722.3)</u>	<u>(1,334.1)</u>
Total liabilities		<u>(1,888.7)</u>	<u>(1,498.5)</u>
Total net assets		<u>428.4</u>	<u>733.7</u>
EQUITY			
Called up share capital	<i>23</i>	238.4	238.4
Share premium account	<i>24</i>	4.4	4.4
Revaluation reserve	<i>24</i>	111.6	116.4
Capital redemption reserve	<i>24</i>	8.6	8.6
Retained earnings	<i>24</i>	65.4	365.9
Total equity		<u>428.4</u>	<u>733.7</u>

The Financial Statements of Electricity North West Limited (registered number 2366949) were approved by the board of directors on 8 June 2010 and signed on its behalf by:

C Thompson
Director

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2010

	Note	Company 2010 £m	Company 2009 £m
(Loss)/Profit for the financial year		(1.1)	95.2
Other comprehensive (expenses)/ income:			
Actuarial (losses)/gains on defined benefit pension schemes	18	(119.3)	(73.5)
Deferred tax on items taken directly to equity	19	33.4	23.7
Other comprehensive expense for the year		(85.9)	(49.8)
Total comprehensive (expense)/ income for the year		(87.0)	45.4
Attributable to equity holders		(87.0)	45.4

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2010

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
Total comprehensive income for the year	-	-	(4.8)	-	(82.2)	(87.0)
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(218.3)	(218.3)
At 31 March 2010	238.4	4.4	111.6	8.6	65.4	428.4

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

STATEMENT OF CASH FLOWS
for the year ended 31 March 2010

	<i>Note</i>	Company 2010 £m	Company 2009 £m
Operating activities			
Cash generated from operations	28	218.4	217.4
Interest paid		(59.7)	(35.5)
Tax paid		(31.4)	(39.1)
		<hr/>	<hr/>
Net cash generated from operating activities		127.3	142.8
		<hr/>	<hr/>
Investing activities			
Interest received and similar income		0.4	3.5
Purchase of property, plant and equipment		(168.9)	(176.8)
Purchase of intangible assets		(5.0)	(1.9)
Consumer contributions received		43.9	32.6
Proceeds from sale of property, plant and equipment		0.2	0.3
		<hr/>	<hr/>
Net cash used in investing activities		(129.4)	(142.3)
		<hr/>	<hr/>
Financing activities			
Proceeds from borrowings		270.4	10.0
Repayment of borrowings		(32.7)	(4.4)
Receipt on close out of swap		18.0	-
Dividends paid to equity shareholders of the Company		(218.3)	(69.5)
		<hr/>	<hr/>
Net cash used in financing activities		37.4	(63.9)
		<hr/>	<hr/>
Net increase /(decrease) in cash and cash equivalents		35.3	(63.4)
		<hr/>	<hr/>
Cash and cash equivalents at beginning of the year		36.7	100.1
		<hr/>	<hr/>
Cash and cash equivalents at end of the year	<i>14</i>	72.0	36.7
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010**Notes to the financial statements**
(forming part of 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 accounts, the directors have taken into account a number of factors, including the financial position of the Company, its cash flow forecasts, liquidity position, borrowing facilities and covenant compliance as described in the directors' report. Consequently, after making the appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and comply with its banking covenants for the foreseeable future. The Directors have received confirmation that support would be provided from the ultimate holding company as necessary. Accordingly, it is appropriate to adopt the going concern basis in preparing the annual report and accounts.

Adoption of new and revised standards

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

Presentation of financial statements

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

Segmental Reporting

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

NOTES TO THE ACCOUNTS

For the year ended 31 March 2010

Notes (continued)

1 ACCOUNTING POLICIES (continued)

Capitalisation of Borrowing Costs

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

Recently issued accounting pronouncements - International Financial Reporting Standards

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

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

IFRS 3 (amended); 'Business Combinations'

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

IFRIC 18; 'Transfers of Assets from Customers'

The Company are participating in industry discussions with regard to the adoption of IFRIC18 for the financial year ended 31 March 2011 and thus subject to the conclusions of the these discussions suggest maintaining a status quo with regard accounting policy and the presentation and disclosure of the financial statements.

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

IFRIC 13; 'Customer loyalty Programmes'

Intangible assets

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

Amortisation periods for categories of intangible assets are:

Computer software 3-10 years

Property, plant and equipment

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

Operational structures

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Other assets

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial 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 3-40 years

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

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

Impairment of tangible and intangible assets

Intangible assets with definite useful lives and property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cashflows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Financial instruments

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

Trade receivables

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

NOTES TO THE ACCOUNTS

For the year ended 31 March 2010

Notes (continued)

1 ACCOUNTING POLICIES (continued)

Trade payables

Trade payables are stated at their nominal value.

Cash and cash equivalents

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

Financial investments

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

Bank borrowings

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

Borrowing costs and finance income

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

Derivatives and borrowings

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

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

The Company 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 Company to satisfy the criteria for this designation. Whilst these swaps were closed out during the year, IAS 39 does not permit the reclassification of the bond, which remains designated at fair value through profit or loss.

**NOTES TO THE ACCOUNTS
For the year ended 31 March 2010****Notes (continued)****1 ACCOUNTING POLICIES (continued)*****Derivative financial instruments and hedge accounting***

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

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

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

Hedge accounting

There are two types of hedge accounting strategies that the Company considers; a fair value hedge and a cash flow hedge. Currently the Company 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 the tax currently payable and deferred tax.

Current taxation

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

Deferred taxation

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

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010**Notes (continued)****1 ACCOUNTING POLICIES (continued)****Employee benefits****Retirement benefit obligations**

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

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

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

The most recent actuarial valuation for the scheme for funding purposes was carried out at 31 March 2008 and actuarial valuations will be carried out thereafter at intervals of not more than three years. The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 18 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the scheme's assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for scheme members.

Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the balance sheet.

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

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

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

'IFRIC14: The limit on a defined benefit asset, minimum funding requirements and their interaction' was published by the interpretations committee of the International Accounting Standards Board in July 2007 and was adopted during the year ended 31 March 2008. IFRIC14 provides guidance on the extent to which a pension scheme surplus should be recognized as an asset and may also require additional liabilities to be 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 Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2010

Notes *(continued)*

1 ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for the distribution of electricity during the year, exclusive of value-added tax. The Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred revenue.

Consumer Contributions

Contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated economic lives of the related assets.

Refundable Customer Deposits

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

Leases

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

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

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

Critical accounting judgements

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

Carrying value of long-lived assets

The Company's accounting policy for property, plant and equipment ('PPE') is detailed in the accounting policies section of the consolidated financial statements. The carrying value of PPE under IFRS as at 31 March 2010 was £2,185.1m (2009: £2,086.1m). Additions to PPE totalled £167.3m (2009: £182.3m) and the depreciation charge was £68.3m (2009: £63.5m) in the year ended 31 March 2010. 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 cashflows, growth rates and discount rates of the cash-generating units under review.

In the financial year ended 31 March 2010, 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 DPCR5 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 DPCR5 final proposals do not indicate a resulting impairment due to favourable future operating cashflows 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 was identified.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2010

Notes (continued)

1 ACCOUNTING POLICIES (continued)

Revenue recognition

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

On 29 January 2009 Interpretation 18, 'Transfer of assets from customers' was issued by the International Financial Interpretations Committee (IFRIC) to address divergent practices in the accounting for transfers of plant, property and equipment from 'customers'. IFRIC18 is applicable for the financial year ended 31 March 2011 and the implications are considered below.

Accounting for provisions and contingencies

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

Retirement benefits

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

The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries. The assumptions are disclosed in note 18 of the financial statements. Results are affected by the actuarial assumptions used. These assumptions include those made for investment returns on the schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions, and life expectancy for Scheme members. Actual experience may differ from the assumptions made, for example, due to changing market and economic conditions and longer or shorter lives of participants.

Derivatives and borrowings

The Company's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value. Movements in fair values are reflected through the income statement. This has the potential to introduce considerable volatility to both the income statement and balance sheet. This area is considered to be of significance due to the magnitude of the Company's level of borrowings and the fair value movements which can result. The Company's accounting policies in relation to this area are detailed above.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

2 REVENUE

	2010	2009
	£m	£m
Revenue	323.4	341.8

Predominantly all revenues arise from electricity distribution in the North West of England and associated activities. Only one operating segment is therefore regularly reviewed by the Chief Executive Officer.

Included within the above are revenues of approximately £254.4m (31 March 2009: £266.1m) which arose from sales to the Company's five largest customers. Customer 1 represented £78.6m (2009: 89.7m), Customer 2 £64.4m (2009: £68.8m), Customer 3 £43.5m (2009: £43.7m), Customer 4 £35.1m (2009: £34.7m) and Customer 5 £32.9m (2009: £29.2m) of revenues.

3 OPERATING PROFIT

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

	2010	2009
	£m	£m
Employee benefits expense		
Employee costs (see note 4)	6.7	6.4
Depreciation and amortisation expense		
Depreciation of property, plant and equipment		
Owned assets (see note 11)	68.3	63.5
Amortisation of intangible assets and consumer contributions		
Software (see note 10)	3.3	3.3
Consumer contributions (see note 21)	(11.4)	(10.7)
Other income		
(Profit)/loss on disposal of property, plant and equipment	(0.2)	(0.3)
Other operating costs include:		
Research and development	1.3	1.4
Operating leases:		
- land and buildings	0.9	0.8
- hire of plant and machinery	1.7	1.7
Restructuring credit	-	(0.8)

The restructuring credit in the prior year to 31 March 2009 relates to the difference between the IAS 19 past service cost and the pension cash funding amount as provided in 2008 for Electricity North West Limited's share of the costs of a voluntary redundancy programme implemented by its sub-contractor United Utilities Electricity Services Limited.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

3 OPERATING PROFIT *(continued)*

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

	2010 £m	2009 £m
Fees payable to the company's auditors for the audit of the company's annual accounts	0.1	0.1
Fees payable to the company's auditors and their associates for other services to the group	-	-
	<hr/>	<hr/>
Total audit fees	0.1	0.1
Other services		
- Tax services	0.1	0.5
- Corporate finance services	-	0.1
	<hr/>	<hr/>
	0.2	0.6
	<hr/>	<hr/>
	0.2	0.7
	<hr/> <hr/>	<hr/> <hr/>

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

4 DIRECTORS AND EMPLOYEES

Directors' remuneration

	Company 2010 £m	Company 2009 £m
Salaries	0.6	0.9
Bonus	0.5	0.3
	<hr/>	<hr/>
	1.1	1.2
	<hr/> <hr/>	<hr/> <hr/>

Employee costs

	Company 2010 £m	Company 2009 £m
Wages and salaries	6.4	5.6
Social security costs	0.5	0.5
Pension costs (see note 18)	6.7	8.5
	<hr/>	<hr/>
	13.6	14.6
Capital schemes	(6.9)	(8.2)
	<hr/>	<hr/>
Charged to the income statement	6.7	6.4
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

4 DIRECTORS AND EMPLOYEES *(continued)*

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

	Company 2010 Number	Company 2009 Number
Electricity distribution	94	83

The total expense included within operating profit in respect of share-based payments was £nil (2009:£nil).

5 INVESTMENT INCOME

	2010 £m	2009 £m
Interest receivable on short-term bank deposits held at amortised cost	0.4	3.3
	<u>0.4</u>	<u>3.3</u>

6 FINANCE EXPENSE

	2010 £m	2010 £m	2009 £m	2009 £m
Interest payable				
Expected return on pension scheme assets (see note 18)	(41.7)		(47.7)	
Interest cost on pension scheme obligations (see note 18)	46.6		50.0	
	<u> </u>	4.9	<u> </u>	2.3
Net pension interest expense				
Interest payable on bank borrowings	0.4		0.2	
Interest payable on group borrowings	12.1		-	
Interest payable on borrowings held at amortised cost	18.7		21.1	
Interest payable on borrowings designated at fair value through profit or loss	22.2		22.2	
Net (receipts)/payments on derivatives held for trading	3.8		(6.0)	
Other finance (income)/charges related to index-linked bonds	(1.6)		5.4	
	<u> </u>	55.6	<u> </u>	42.9
Fair value (gains)/losses on financial instruments				
Borrowings designated at fair value through profit and loss	26.3		(13.6)	
Derivatives held for trading	70.4		10.9	
Cash settlement on close-out of amortising swaps	(18.0)		-	
	<u> </u>	78.7	<u> </u>	(2.7)
Total finance expense		<u>139.2</u>		<u>42.5</u>

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

7 TAXATION

	2010 £m	2009 £m
Current tax:		
UK corporation tax	14.5	38.5
Prior year	5.4	-
Deferred tax (note 19):		
Current year	(10.3)	0.3
Impact of withdrawal of IBA allowances	-	8.5
Prior year	8.6	(0.2)
	<u>18.2</u>	<u>47.1</u>

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

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

	2010 £m	2010 %	2009 £m	2009 %
Profit before tax	17.1		142.3	
Tax at the UK corporation tax rate of 28% (2009: 28%)	4.8	28.0	39.8	28.0
Prior years' tax adjustments	14.0	81.9	(0.2)	(0.2)
Impact of withdrawal of IBA allowances	0.9	5.3	8.5	6.0
Non-taxable income	(1.5)	(8.8)	(1.0)	(0.7)
Tax expense and effective tax rate for the year	<u>18.2</u>	<u>106.4</u>	<u>47.1</u>	<u>33.1</u>

In addition to the amount charged to the income statement, deferred tax relating to actuarial gains on defined benefit schemes of £33.4m credit (2009: £23.7m credit) and adjustments under IAS 32 and 39 of £nil (2009: £nil) were also taken to the statement of statement of comprehensive income.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

8 DIVIDENDS

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

	2010	2009
	£m	£m
Interim dividends paid during the year ended 31 March 2010 of 45.8p per share (year ended 31 March 2009: 14.6 p per share)	218.3	69.5
	<hr/>	<hr/>
	218.3	69.5
	<hr/> <hr/>	<hr/> <hr/>

At the current and prior year ends, there were no proposed final dividends subject to approval by equity holders of the Company and, hence, have not been included as a liability in the financial statements at 31 March 2010 and 31 March 2009 respectively.

9 DIRECTORS AND THEIR INTERESTS

The aggregate emoluments of the directors in 2010 amounted to £1,127,063 (2009: £1,180,563). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (S Johnson) in 2010 in respect of services to the Company amounted to £699,185 (2009: S Johnson £234,653).

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

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

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

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

10 INTANGIBLE ASSETS

Company	Software £m	Assets under the course of construction £m	Total £m
Cost			
At 1 April 2008	33.6	0.3	33.9
Additions	-	1.9	1.9
Transfers	0.9	(0.9)	-
	<hr/>	<hr/>	<hr/>
At 1 April 2009	34.5	1.3	35.8
Additions	-	5.1	5.1
Transfers	0.9	(0.9)	-
	<hr/>	<hr/>	<hr/>
At 31 March 2010	35.4	5.5	40.9
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amortisation			
At 1 April 2008	13.3	-	13.3
Charge for the year	3.3	-	3.3
	<hr/>	<hr/>	<hr/>
At 1 April 2009	16.6	-	16.6
Charge for the year	3.3	-	3.3
	<hr/>	<hr/>	<hr/>
At 31 March 2010	19.9	-	19.9
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 31 March 2010	15.5	5.5	21.0
	<hr/>	<hr/>	<hr/>
At 31 March 2009	17.9	1.3	19.2
	<hr/>	<hr/>	<hr/>
At 31 March 2008	20.3	0.3	20.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

11 PROPERTY, PLANT AND EQUIPMENT

	Operational structures £m	Non operational land and buildings £m	Fixtures and equipment, vehicles and other £m	Assets under the course of construction £m	Total £m
Cost or valuation					
At 1 April 2008	2,609.6	12.5	9.2	182.7	2,814.0
Additions	87.1	0.2	1.5	93.5	182.3
Transfers	83.6	(0.2)	2.4	(85.8)	-
Disposals	(9.2)	(1.3)	(1.4)	-	(11.9)
At 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
Depreciation and impairment					
At 1 April 2008	832.7	3.9	7.2	-	843.8
Charge for the year	61.7	0.9	0.9	-	63.5
Disposals	(9.3)	(1.3)	(1.4)	-	(12.0)
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
Net book value					
31 March 2010	1,990.8	7.4	3.6	186.3	2,188.1
At 31 March 2009	1,886.0	7.7	5.0	190.4	2,089.1
At 31 March 2008	1,776.9	8.6	2.0	182.7	1,970.2

At 31 March 2010, had the property, plant and equipment of the Company been carried at historical cost less accumulated depreciation and accumulated impairment losses, the carrying amount would have been approximately £1,943.3m (2009: £1,921.5m).

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

12 OTHER INVESTMENTS

	Company £m
Cost	
At 31 March 2008, 2009 and 2010	-
	<hr/> <hr/>

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

Company

Subsidiary undertaking	Description of holding	Proportion held	Nature of business
NB Property and Estate Services No. 1 Limited	Ordinary shares of £1 each	100%	Dormant
NB Leasing Limited	Ordinary shares of £1 each	100%	Dormant
NB (Miles Platting Community Project) Limited	Ordinary shares of £1 each	100%	Dormant
ENW (ESPS) Pensions Trustees Limited	Ordinary shares of £1 each	100%	Non trading
Other investments	Description of holding	Proportion held	Nature of business
ESN Holdings Limited	Ordinary shares of £1 each	6.20%	Investment company
National Grid plc	Ordinary shares of 11.76p each	Negligible	Energy distribution
Associated undertaking	Description of holding	Proportion held	Nature of business
Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

13 TRADE AND OTHER RECEIVABLES

	Company 2010 £m	Company 2009 £m
Trade receivables	2.0	1.6
Prepayments and accrued income	32.9	42.4
	<u>34.9</u>	<u>44.0</u>

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables of £0.3m (2009: £0.6m) estimated by management based on known specific circumstances, past default experience and their assessment of the current economic environment.

The average credit period taken on sales is 14.0 days (2009: 14.0 days).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The majority of balances are less than 45 days past due; a balance of £53,000 is greater than 45 days past due at 31 March 2010 (2009: £882,000), against which an allowance for doubtful debt of £2,000 (2009: £596,000) has been made.

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

	Company 2010 £m	Company 2009 £m
Balance at beginning of year	0.6	-
Charged to profit and loss account	0.3	0.6
Utilised	(0.6)	-
	<u>0.3</u>	<u>0.6</u>

Trade receivables comprise 32 (2009: 30) individual customers and 26.4% (2009: 56%) of the trade receivables balance above relates to the regulated provision of infrastructure to electricity retail companies. The Company is required by the regulator to accept any company that has obtained a trading licence regardless of their credit status. To mitigate the risk posed by this, all transactions with customers are governed by a contract which all customers are required by the regulator to sign and adhere to the terms.

Under the terms of the contract, the maximum unsecured credit that the Company may be required to give is 2% of the Regulatory Asset Value (RAV) of Electricity North West Limited. In addition the contract makes provisions for the credit quality of customers and adjusts the credit value available to them based on credit ratings and payment history. Where a customer exceeds their agreed credit level under the contract the customer must provide collateral to mitigate the increased risk posed. At the year end £2.8m (2009: £2.9m) of cash had been received as security.

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

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

14 CASH AND CASH EQUIVALENTS

	2010	2009
	£m	£m
Short-term bank deposits including cash at bank and in hand	72.0	36.7

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. The effective interest rate on short-term deposits was a weighted average of 0.37% (2009: 4.05%) and these deposits had an average maturity of 5.3 days (2009: 8.2 days).

15 BORROWINGS

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

	2010	2009
	£m	£m
Non-current liabilities		
Bonds	634.6	611.3
Bank and other term borrowings	(0.6)	-
Amounts owed to parent undertaking	70.4	35.9
Amounts owed to affiliated undertaking	194.8	-
	<u>899.2</u>	<u>611.3</u>
Current liabilities		
Amounts owed to parent undertaking	-	10.0
	<u>899.2</u>	<u>621.3</u>

Carrying value by category

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

	Year of maturity	2010 Carrying Value £m	2009 Carrying value £m
Borrowings designated at fair value through profit and loss			
8.875% £250m bond	2026	328.4	302.1
Borrowings measured at amortised cost			
8.875% £200m bond	2026	195.4	196.8
1.4746%+RPI ¹ £100m index-linked bond	2046	110.8	112.4
Long term loans at LIBOR plus 2.25%	2012	(0.6)	-
Amounts due to parent undertaking	2015	70.4	
Amounts due to affiliated undertaking	2021	194.8	10.0
		<u>899.2</u>	<u>621.3</u>
Other financial liabilities held at amortised cost			
Trade payables (note 17)		33.2	32.2
Amounts owed to parent undertaking		-	35.9
		<u>932.4</u>	<u>689.4</u>

¹ RPI - Retail Price Index – the UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987=100).

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010**Notes** *(continued)***15 BORROWINGS** *(continued)*

All loans and borrowings are unsecured. There is no formal bank overdraft facility in place at 31 March 2010. All amounts are in sterling. The fair values of the Company's financial instruments are shown in note 16. Included within the borrowing note are capitalised facility arrangement fees of £0.6m relating to the undrawn EIB and Revolving Capital facilities which are forecast to be utilised in the year ended 31 March 2010.

Borrowing facilities

The Company had £224.2m (2009: £30.0m) in unutilised committed bank facilities at 31 March 2010 of which £25m expires within one year (2009: £nil), £nil expires after one year but less than two years (2009: £25.0) and £199.2m expires in more than two years (2009: £5.0m).

16 FINANCIAL INSTRUMENTS

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

The principal risks which the Company is exposed to and which arise in the normal course of business include credit 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 Company to reduce the risk of loss arising from changes in market risks, and for economic hedging reasons. The accounting policy for derivatives is provided in note 1.

Control over financial instruments

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

Risk management

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

16 FINANCIAL INSTRUMENTS *(continued)*

Credit risk

The Company takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract as they fall due. It arises principally from trade finance, and treasury activities. The Company 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 Company 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 Company is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through regular credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. Management does not anticipate any counterparty will fail to meet its obligations.

Significant changes in the economy, or in the utilities sector could result in losses not necessarily provided for at the balance sheet date. With only a small number of customers in 2010, 32 (2009: 28) the creditworthiness of each of these is closely monitored. Whilst the loss of one customer could have a significant impact on the Company due to the small customer base, the exposure to such credit losses would be mitigated in most cases by the protection the regulator provides to cover such losses. Nonetheless, the credit management process must be closely adhered to, to avoid such circumstances, and the Company's management therefore closely monitor adherence to this process.

a) Trade receivables

Credit risk in relation to trade receivables is considered to be relatively low, due to the small number of customers, and the fact that each customer has a contract in place with the Company, and is required to provide collateral in the form of a cash deposit subject to the amounts due and their credit rating. At 31 March 2010 there was £0.3m receivables past due (2009: £0.9m) against which an allowance for doubtful debts of £0.3m has been made (2009: £0.6m).

b) Treasury investments

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

As at 31 March 2010 none (2009:none) of the Company's treasury portfolio exposure was either past due or impaired, and no terms had been renegotiated with any counterparty. The Company has limits in place to ensure counterparties have a certain minimum credit rating, and individual exposure limits to ensure there is no concentration of credit risk.

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

Credit Rating	2010		2009	
	£m	%	£m	%
AA	1.1	1.5	1.2	1.5
AA-	22.0	30.1	-	-
A+	25.0	34.2	59.7	74.7
A	25.0	34.2	19.0	23.8
	<hr/>	<hr/>	<hr/>	<hr/>
	73.1	100.0	79.9	100.0
	<hr/>	<hr/>	<hr/>	<hr/>

No collateral is held in relation to Treasury assets.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

16 FINANCIAL INSTRUMENTS *(continued)*

Exposure to credit risk

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

	2010	2009
	Company	Company
Credit Risk by Class	£m	£m
Trade Receivables	2.0	1.6
Derivative Financial Instruments (Assets)	1.1	43.2
Cash and Cash Equivalents	72.0	36.7
	<hr/>	<hr/>
Total	75.1	81.5
	<hr/> <hr/>	<hr/> <hr/>

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

Liquidity risk

Liquidity risk is the risk that the Company 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 Company manages the liquidity profile of its assets, liabilities and commitments so that cashflows are appropriately balanced and all funding obligations are met when due. This is achieved through maintaining a prudent level of liquid assets, and arranging funding facilities.

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

Available liquidity at 31 March was as follows;

	2010	2009
	Company	Company
Available Liquidity	£m	£m
Cash and Cash Equivalents	72.0	36.7
Committed Undrawn Bank facilities	224.2	30.0
	<hr/>	<hr/>
Total	296.2	66.7
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

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

Committed undrawn bank facilities include £25.0m (2009: £nil) of facilities that expire within one year, £nil (2009: £25.0m) that expires after one year but less than two years and £199.2m (2009: £5.0m) that expires in more than two years. The Company largely manages all of its financing cashflows over the observed five-year regulatory period; the Company 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 Company gives consideration to the timing of scheduled payments to avoid the risks associated with the concentration of large cashflows within particular time periods. The following is an analysis of the maturity profile of contractual cash flows of principal and interest payable under financial liabilities and derivative financial instruments on an undiscounted basis. Derivative cashflows have been shown net; all other cashflows are shown gross.

As at 31 March 2010	On demand	<1 year	1-2 years	2-3 years	3-4 years	>4 years
	£m	£m	£m	£m	£m	£m
Trade and other payables	(33.2)	-	-	-	-	-
Amounts owed to parent undertaking	-	(4.6)	(4.6)	(4.6)	(4.6)	(76.2)
Amounts owed to affiliated undertaking	-	(12.3)	(12.3)	(12.3)	(12.3)	(291.9)
Bonds	-	(41.7)	(41.5)	(41.5)	(41.5)	(1,095.3)
Derivative financial instruments (net)	-	7.9	7.9	7.9	7.9	(32.4)
	(33.2)	(50.7)	(50.5)	(50.5)	(50.5)	(1,495.8)
As at 31 March 2009	On demand	<1 year	1-2 years	2-3 years	3-4 years	>4 years
	£m	£m	£m	£m	£m	£m
Trade and other payables	(32.2)	-	-	-	-	-
Amounts owed to parent undertaking	(35.9)	-	-	-	-	-
Amounts owed to affiliated undertaking	-	-	-	-	-	-
Bonds	-	(41.5)	(41.5)	(41.5)	(41.5)	(1,120.8)
Derivative financial instruments (net)	-	3.4	10.3	(25.7)	9.1	128.9
	(68.1)	(38.1)	(31.2)	(67.2)	(32.4)	(991.9)

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

16 FINANCIAL INSTRUMENTS *(continued)*

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 Company is exposed are interest rate risk and inflation risk. The Board is required to review and approve policies for managing these risks on an annual basis. The Board approves all new interest rate swaps and index-linked swaps entered into. The management of market risk is undertaken using risk limits approved by the finance director under delegated authority. The Company has no foreign exchange and no equity exposure.

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

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 Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's floating rate borrowings are exposed to a risk of change in cashflows due to changes in interest rates. The Company uses interest rate swap contracts to hedge these exposures. Investments in short-term receivables and payables are not exposed to interest rate risk.

Under an interest rate swap, the Company agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the Company's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value. Interest rate swaps mature in 2026.

Sensitivity analysis

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

Sensitivity Analysis	At 31 March 2010		At 31 March 2009	
	+1% <i>change in interest rates</i>	+3% <i>change in interest rates</i>	+1% <i>change in interest rates</i>	+3% <i>change in interest rates</i>
	£m	£m	£m	£m
Debt held at fair value	30.5	80.8	27.9	73.6
Interest rate swaps	(0.7)	(1.2)	(35.9)	(92.7)
Total fair value movement	29.8	79.6	(8.0)	(19.1)

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

NOTES TO THE ACCOUNTS

For the year ended 31 March 2010

Notes *(continued)*

16 FINANCIAL INSTRUMENTS *(continued)*

Sensitivity analysis *(continued)*

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

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

Inflation risk

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

The carrying value of index-linked debt at 31 March 2010 was £110.8m (2009: £112.4m). Whilst management does not formally monitor the sensitivity to changes in inflation, it is estimated that a 1% increase in inflation would lead to a £1.1m (2009:£1.2m) decrease in profits in relation to this index-linked debt.

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

Hedging

The Company does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments.

At 31 March 2010, the Company's derivatives are not designated in effective hedging relationships, and instead are measured at fair value through profit and loss.

Fair values

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

For cash and cash equivalents, trade and other receivables, trade and other payables and short-term loans and receivables with a maturity of less than one year the book values approximate 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 Company for similar financial instruments as at the year end.

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

16 FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

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

	2010 Carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
	£m	£m	£m	£m
Financial assets:				
<i>Current assets:</i>				
Cash and cash equivalents	72.0	72.0	36.7	36.7
Derivative financial instruments	1.1	1.1	43.2	43.2
	<u>73.1</u>	<u>73.1</u>	<u>79.9</u>	<u>79.9</u>
	<u><u>73.1</u></u>	<u><u>73.1</u></u>	<u><u>79.9</u></u>	<u><u>79.9</u></u>

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

	2010 Carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
	£m	£m	£m	£m
Financial liabilities:				
<i>Non-current liabilities:</i>				
Borrowings designated at fair value through profit and loss	(328.4)	(328.4)	(302.1)	(302.1)
Borrowings measured at amortised cost	(570.8)	(646.7)	(309.2)	(352.1)
	<u>(899.2)</u>	<u>(976.1)</u>	<u>(611.3)</u>	<u>(654.2)</u>
	<u><u>(899.2)</u></u>	<u><u>(976.1)</u></u>	<u><u>(611.3)</u></u>	<u><u>(654.2)</u></u>
<i>Current liabilities:</i>				
Borrowings - amounts owed to parent undertaking	-	-	(10.0)	(10.0)
	<u>-</u>	<u>-</u>	<u>(10.0)</u>	<u>(10.0)</u>
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(10.0)</u></u>	<u><u>(10.0)</u></u>
Derivative financial instruments	(52.9)	(52.9)	(45.1)	(45.1)

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

16 FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements recognised in the statement of financial position

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

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

Fair values *(continued)*

	31 March 2010			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	1.1	-	1.1
Total	-	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)
Total	(328.4)	(52.9)	-	(381.3)
31 March 2009				
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	43.2	-	43.2
Total	-	43.2	-	43.2
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(79.7)	-	(79.7)
Financial liabilities designated at FVTPL	-	(302.1)	-	(302.1)
Total	-	(381.8)	-	(381.8)

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

17 TRADE AND OTHER PAYABLES

	Company	Company
	2010	2009
	£m	£m
Trade creditors	33.2	32.2
Amounts owed to parent undertaking	0.1	25.8
Amounts owed to subsidiary undertakings	0.1	0.1
Other taxation and social security	6.2	2.7
Consumers' contributions	28.6	20.7
Refundable customer deposits	6.9	7.9
Accruals and deferred income	20.8	16.5
	<hr/>	<hr/>
	95.9	105.9
	<hr/> <hr/>	<hr/> <hr/>

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

18 RETIREMENT BENEFIT OBLIGATIONS

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

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

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

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

The last actuarial valuation of the scheme was carried out as at 31 March 2008. This valuation has been projected forward by an independent actuary to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 31 March 2010. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

During the year the Company made contributions of £15.4m (2009: £13.2) to the defined benefit sections of the scheme. The Company will continue to make payments into the scheme in accordance with the results of the formal actuarial valuation of the Scheme as at 31 March 2008. The Company estimates that contributions for the year ending 31 March 2011 will amount to £12.7m.

NOTES TO THE ACCOUNTS

For the year ended 31 March 2010

Notes (continued)

18 Retirement Benefit Schemes (continued)

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

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

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

Recent studies have shown faster rates of life expectancy improvement than had previously been expected. An allowance has been made for these faster rates of improvements. Studies have also illustrated that mortality rates vary significantly with the location of employees and the nature of their work. These factors have been taken into account in the calculation of the defined benefit obligations of the Company. The current life expectancies (in years) underlying the value of the accrued pension scheme liabilities for the Company are:

	At 31 March 2010	At 31 March 2009
Male life expectancy at age 60:		
Retired member	26.0	25.9
Non-retired member	27.9	27.8

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

18 Retirement Benefit Schemes *(continued)*

To develop the expected long-term rate of return on assets assumption, the Company considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset class in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term return on assets assumption for the portfolio. The actual return on Scheme assets was £175.9 million gain (2009: £104.8 million loss). None of the pension scheme assets are held in the Company's own financial instruments or property occupied by, or other assets used by the Company.

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

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

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

18 Retirement Benefit Schemes *(continued)*

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

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

19 DEFERRED TAX

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2008	287.5	15.8	1.5	304.8
Charged/(credited) to the income statement	10.9	0.2	(2.5)	8.6
Credited to equity for the year	-	(23.7)	-	(23.7)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	298.4	(7.7)	(1.0)	289.7
Charged/(credited) to the income statement	9.0	1.1	(11.8)	(1.7)
Credited to equity for the year	-	(33.4)	-	(33.4)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2010	307.4	(40.0)	(12.8)	254.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 PROVISIONS

Restructuring	£m	£m
	2010	2009
At 1 April 2009	-	2.0
Provided in the year (note 3)	-	0.3
Utilisation of provision	-	(2.3)
	<hr/>	<hr/>
At 31 March 2010	-	-
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

21 CUSTOMER CONTRIBUTIONS

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

	£m
At 1 April 2008	396.2
Additions during the year	32.6
Amortisation	(10.7)
	<hr/>
At 31 March 2009	418.1
Additions during the year	43.9
Amortisation	(11.4)
	<hr/>
At 31 March 2010	450.6
	<hr/> <hr/>
Amounts due in less than one year (note 17)	28.6
Amounts due after more than one year	422.0
	<hr/>
	450.6
	<hr/> <hr/>

22 REFUNDABLE CUSTOMER DEPOSITS

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes (continued)

23 SHARE CAPITAL

	2010 £	2009 £
Authorised:		
569,999,996 (2009: 569,999,996) ordinary shares of 50 pence each	284,999,998	284,999,998
4 'A' ordinary shares of 50 pence each	2	2
Special rights redeemable preference share of £1	1	1
	<u>285,000,001</u>	<u>285,000,001</u>
	2010 £	2009 £
Allotted, called up and fully paid:		
476,821,341 (2009: 476,821,341) ordinary shares of 50 pence each	238,410,671	238,410,671
4 'A' ordinary shares of 50 pence each	2	2
	<u>238,410,673</u>	<u>238,410,673</u>

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

24 SHAREHOLDERS EQUITY

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)	(118)
Tax on components of comprehensive income/(expense)	-	-	-	-	33.4	33
	<u>-</u>	<u>-</u>	<u>(4.8)</u>	<u>-</u>	<u>(82.2)</u>	<u>(87.0)</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>(4.8)</u>	<u>-</u>	<u>(82.2)</u>	<u>(87.0)</u>
Transactions with owners recorded directly in equity						
Equity dividends	-	-	-	-	(218.3)	(218.3)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(218.3)</u>	<u>(218.3)</u>
At 31 March 2010	<u>238.4</u>	<u>4.4</u>	<u>111.6</u>	<u>8.6</u>	<u>64.4</u>	<u>428.4</u>

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

25 OPERATING LEASES

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

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

26 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:

	2010 £m	2009 £m
Interest paid	11.8	-
Loans from parent undertaking	265.3	10.0
Recharges to group companies	-	-
Recharges from group companies	-	-
	<hr/> <hr/>	<hr/> <hr/>

The loans from the parent undertaking were made in July 2009. A loan from NWEN of £70.4m accrues interest at LIBOR plus 6.55% p.a. and is repayable in March 2015 and a loan of £194.8m accrues at 6.125% and is repayable July 2021.

Related parties include key management personnel who are the directors. Amounts paid to key management were £1.2m (2009:£1.2m) (see note 4).

27 Ultimate Parent Undertaking And Controlling Party

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

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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2010

Notes *(continued)*

28 CASH GENERATED FROM OPERATIONS

	Company 2010 £m	Company 2009 £m
Cash generated from operations		
Profit before taxation	17.1	142.3
Adjustment for investment income, finance expense and other gains and losses	138.7	39.2
	<hr/>	<hr/>
Operating profit	155.8	181.5
Adjustments for:		
Depreciation of property, plant and equipment	68.3	63.5
Amortisation of intangible assets	3.3	3.3
Amortisation of customer contributions	(11.4)	(10.7)
(Profit)/loss on disposal of property, plant and equipment	(0.2)	(0.3)
Movement in restructuring provision	-	(2.0)
Other gains and losses – non capitalised pension costs	(11.9)	(8.7)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	203.9	226.6
Changes in working capital		
Decrease in inventories	-	-
(Increase)/ decrease in trade and other receivables	9.0	(10.4)
Decrease/(increase) in payables	5.5	1.2
	<hr/>	<hr/>
Cash generated from continuing operations	<u>218.4</u>	<u>217.4</u>